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The Impact of Trade and Investment Policies on Productive and Decent Work

Country Report for Jordan

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Table of Contents

List of figures

List of tables

List of boxes

Executive summary

Prior to the global COVID-19 pandemic, Jordan had experienced several years of economic growth leading to an improvement in the standard of living and a reduction in poverty. The main challenges faced by the country were external shocks, including the global financial crisis, the Arab Spring and an influx of refugees.

Despite socioeconomic progress, Jordan is still confronted with multiple **labour market challenges**. The working-age population is growing, but there are limited job opportunities. Traditional gender roles are prevalent and employment opportunities for highly qualified workers are lacking. This results in a relatively high incidence of unemployment and an underutilization of a large part of the workforce. The education and training system does not equip workers with the skills that are in demand on the labour market and this forces many into the informal or low-wage jobs.

Jordan's nascent entrepreneurial scene is vibrant, but small and male-dominated. High operating costs, complex customs procedures and a generally low innovative capacity hamper entrepreneurship. Political instability, bureaucracy, and the prevalence of a large informal economy make self-employment less attractive. Government measures tend to focus on larger companies.

The **COVID-19 pandemic** led to a drop in both domestic demand and exports, resulting in GDP falling and unemployment rapidly increasing. Women, young people and refugees were hit the hardest. Many SMEs, in particular informal enterprises, ceased operations, releasing thousands of employees.

Trade and investment offer significant opportunities for economic development to support recovery following the COVID-19 pandemic and create more productive and decent jobs. The intensification of Jordan's **trade relationships** over the past two decades has led to a growth in imports and exports. Jordan could further increase exports by diversifying its export basket and widening its range of trading partners.

In order to **better harness the benefits of trade**, Jordan needs to overcome several key obstacles. Non-tariff measures and complicated administrative procedures slow down export companies and transport infrastructure needs to be upgraded. In addition, better integration into the region could help the country to climb up the global value chain and enable SMEs to access a larger market.

Foreign direct investment (FDI) could be leveraged to boost the Jordanian economy and drive structural transformation. In the mid-2000s, Jordan attracted substantial FDI in certain sectors of the economy, but the volume has decreased over time. Today, the service sector faces difficulties in attracting investors despite its large growth potential. Targeted investments could contribute to Jordan's transition to a green economy.

Recognizing the importance of trade, investment and employment for economic growth, the Government has initiated several reforms to harness their potential. However, **institutional challenges** hamper these reforms, such as an absence of a coherent framework aligning trade, investment and employment policies. Moreover, there is a lack of monitoring, which would serve to adapt the measures. The full inclusion of social partners in the policymaking process would increase the legitimacy and ownership of policies, contributing to their sustainability and effective implementation.

Guidance for policymakers

Focusing on policies that could improve the export of tradable sectors would increase their productivity and job creation potential. Effective industrial policies that focus on strategic sectors are therefore key.

The following policy guidance is for the consideration of Jordan's policymakers. The guidance is designed to support the creation of more productive and decent employment through targeted and coordinated employment, trade and investment policies.

Employment

Increasing employment opportunities: The employment potential for women and young people should be a decisive factor when identifying sectors for trade promotion.

Increasing labour force participation: Combating gender stereotypes and enforcing the principle of equal pay for work of equal value, as well as the provision of care facilities could increase the labour market participation rate of women.

Integration of migrant workers: Facilitating the access of migrant workers could ease the burden on social protection systems and foster social cohesion.

Labour market matching: Public employment agencies would benefit from further investment to better anticipate skill demands. This could decrease costs for workers, employers and the Government.

Skilled workforce: The Technical and Vocational Skills Development Commission (TVSD Commission) as well as the Sectoral Skills Councils are important institutions for increasing the workforce's skill level.

Transition to formality: This could include a simplification of the registration process but also an adjustment of tax rates for micro and small-sized enterprises.

Fostering entrepreneurship: This would require the lowering of operating costs but also the removal of institutional barriers such as bureaucracy. Targeted training and support should be provided to female entrepreneurs.

Focus on SMEs: Strategies to improve the competitiveness of SMEs should include a qualification component to equip SMEs for entering export markets. Specific provisions regarding SMEs could be also included in trade agreements.

Compliance with international production standards: Compliance with international due diligence standards for goods and services could increase the attractiveness of Jordanian products on international markets (e.g., ILO's Core Labour Standards, OECD Guidelines for Multinational Enterprises).

Social protection: Considering the potential job destruction as a result of greater trade openness and structural transformation, adequate social protection systems are required to support workers in this transition.

Regional integration: The region's talent pool could be untapped by promoting labour mobility. This would also contribute to a better allocation of resources and knowledge exchange.

Trade

Identifying untapped export potential and diversifying the export basket: Realizing the export potential of Jordanian products could create more and better jobs and support the countries structural transformation.

Compliance with international product standards: To improve product quality.

Compliance with international labour standards: Trade agreements should include labour provisions and have an explicit reference to ILO Core Labour Standards.

Regional integration: Better integration could help the country to climb up the global value chain.

Simplification of regulatory procedures, including through digitalization: This could decrease costs for exporters.

Investment in the transport and logistics network: This includes roads and ports but also access to electricity and the internet.

Training exporters: Particularly in the beneficial provisions of free trade agreements and meeting international quality standards.

Investment

Reassess restrictions on FDI to allow for more competition.

Improve ease of doing business through political and macroeconomic stability, transparency and simplified administrative procedures.

Just transition: Promote green opportunities to international investors.

Regional integration: Building on its already well-developed banking sector, Jordan could increase financial flows within the region.

Investment incentive measures: Align incentives to performance and include, for instance, the training of workers.

Institutions

Alignment of strategies and policies: Use the guidance in Jordan's Vision 2025 and the Economic Growth Plan (2018–22) to develop coherent employment, trade and investment policies.

Coordination across ministries: Increase the coordination among ministries and government entities for better policy alignment. The Investment Council plays a key role for employment, trade and investment policies since it includes representatives from all three areas. Coordination could be improved by inviting representatives of other ministries and government agencies.

Follow-up and monitoring: The Reform Secretariat of the Ministry of Planning and International Cooperation could support the oversight of trade, labour, and investment policies and strategies. The Secretariat could review policy constraints and provide a platform for social dialogue on current and future policies and programmes. Information systems should be strengthened, to provide a basis for evidence-based interventions.

Social dialogue: Given the limited influence of the social partners, civil society and SMEs, the Government of Jordan should consider a more inclusive approach when developing employment, skills, economic, trade and investment policies.

Core conventions and labour standards: Increased efforts should be made to ratify the Freedom of Association and Protection of the Right to Organize Convention, 1948 (No. 87). This would strengthen the role of the social partners and civil society in policymaking. Core labour standards as well as further labour provisions should be included in all trade and investment agreements.

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► About the METI programme

Mainstreaming Employment into Trade and Investment (METI) is a programme funded by the European Commission and implemented by the ILO. The METI programme aims to better enable policymakers in the Middle East and North Africa[1] to incorporate an employment perspective into trade and investment policies. This will support the design and implementation of investment strategies that faciliate the creation of quality employment in the region. These objectives are even more urgent in the context of post-COVID-19 pandemic recovery.

The programme supports the operationalization of the European Union's (EU) External Investment Plan that aims to drive inclusive and sustainable development of the Southern Mediterranean region of the European Union. It also aims to boost public and private investment to create more jobs and higher growth and work towards meeting other United Nations (UN) Sustainable Development Goals. METI was launched in 2020 and will continue to support policymakers for a four-year period.

For more information: http://www.ilo.org/meti

METI's Country Reports identify key issues to be addressed and the policies and measures to be implemented in the four partner countries (Egypt, Jordan, Morocco and Tunisia) in order to realize the potential for creating and expanding decent and productive employment. The diagnostic reports conclude with an overview of policy challenges related to trade, investment and employment and offer some guidance for policymakers. Each report will be followed by an in-depth value chain analysis of strategic sectors which will shed further light on the obstacles to creating and upgrading employment along the value chain, especially for women and young people and within small and medium-sized enterprises. Based on this analytical work, a tripartite Policy Working Group[2] will then develop concrete policy recommendations to identify ways to promote employment that include facilitating economic upgrading and/or diversification of the value chain, linking small-scale producers to international and regional markets, formulating action plans through tripartite public-private collaboration and encouraging technological and managerial innovation, with the associated improvements in worker productivity. The resulting policy recommendations will be published in the form of a Policy Brief that will complement the Country Report and provide guidance to key stakeholders on how they might leverage trade, investment, sectoral, labour and related policies to create more productive and decent employment.

The METI project is partnering closely with two further EU-funded programmes implemented by the International Trade Centre and the Organisation for Economic Co-operation and Development (OECD).

[1] Project countries include Algeria, Egypt, Israel, Jordan, Lebanon, Libya, Morocco, the Occupied Palestinian Territory and Tunisia.

[2] The Policy Working Group is comprised of policymakers from relevant government ministries, specialized national agencies (e.g., customs, export promotion agencies, investment boards, etc.), representatives from the social partners (e.g., trade unions and employers' organizations), and other private sector representatives and development practitioners.

The International Trade Centre EuroMed programme aims to contribute to inclusive and sustainable economic growth focused on decent job creation and greater regional integration through enhanced and better-informed trade and investment policymaking in the Southern Mediterranean countries. The programme focuses on: (i) facilitating closer economic ties between the EU and Southern Mediterranean countries and enhancing regional economic integration; and (ii) improving trade and investment transparency by providing free access to information for economic operators and policymakers.

For more information: https://euromed.macmap.org/euromed/

The EU-OECD Programme on Investment in the Mediterranean aims to support investment climate reforms to advance sustainable growth and decent job creation in the Southern Mediterranean. Working together with governments and other partners in the region, the programme: (i) provides targeted policy advice and capacity building on investment policy design and implementation; (ii) facilitates public-private dialogues on investment climate reforms in priority sectors; and (iii) supports monitoring and evaluation of reforms to gauge success.

For more information: https://www.oecd.org/mena/eu-oecd-mediterranean-investment/

Introduction

Jordan is an upper-middle-income country with a per capita gross domestic product (GDP) of US$4,283 in 2020. Its economy has grown consistently since the 1990s, although the annual growth rate has slowed considerably since 2007. This sustained economic growth has contributed to poverty alleviation and the share of Jordanians living below the international poverty line of US$1.90 has been at an all-time low since 2010. Income equality has also increased since the 1990s, reflected in a significant decrease in the country's Gini coefficient. Since the mid-2000s, Jordan has experienced several external shocks that seriously impacted its economy and growth trajectory.

The 2007-08 **global financial crisis** hit the Jordanian economy hard at a time when it was thriving. Due to its relatively low exposure to the international financial system and some immediate measures taken by the Central Bank of Jordan, the impact of the crisis was not immediate. Disruptions to global supply chains and rising consumer prices had a negative effect on Jordan's imports and exports and led to higher inflation. In addition, rising unemployment rates worldwide caused a significant reduction in the inflow of remittances (Al-Najjar et al. 2010; Ahid and Augustine 2012).

In early 2011, the **Arab uprisings** began. Jordan was still recovering from the global financial crisis and experiencing high food prices and unemployment when a series of anti-government protests began. These protests led to constitutional amendments, reforms of the electoral system, a transfer of power to the legislature, and the dismissal of several government members. Although the uprisings in Jordan were less severe than in some other Middle Eastern countries, they marked an important shift in the country's political landscape (Ryan 2018; Harris 2015).

Jordan's economic situation is also impacted by conflicts in neighbouring countries which result in a large influx of **refugees**. Jordan has the second highest share of refugees per capita in the world, with the vast majority being of Syrian origin. The refugee influx increases pressure on Jordan's infrastructure, resources and labour market (Ajluni and Kawar 2014; Stave and Solveig 2015).

In response to these external shocks, the Government consistently ran large annual budget deficits, financing the gap with loans, foreign assistance, and savings from economic reform measures enabled through the International Monetary Fund Extended Fund Facility. As a result, fiscal space became more limited with growing government debt after the country had witnessed a substantial decrease prior to 2007 (IMF n.d.).

The country also faces multiple other **labour market** challenges. An expanding working age population encounters a seemingly saturated labour market which is characterized by a limited capacity of the private sector to absorb workers, the prevalence of traditional gender roles, and a lack of employment opportunities for highly qualified workers. This results in a relatively high rate of unemployment and an underutilization of a large part of the workforce, in particular women and young people. This often pushes women and young workers to accept a job or start an enterprise in the informal and/or low-wage economy.

Jordan’s entrepreneurial scene is vibrant, but small and male dominated. High operating costs, due in part to high taxes and energy costs, pose significant barriers to entry. In addition, institutional factors, such as political instability, bureaucracy and the prevalence of a large informal economy, make self-employment less attractive, but the only option for many. Moreover, complex customs and trade regulations hamper the growth potential of enterprises.

The **COVID-19 pandemic** had significant economic repercussions for Jordan’s workers and enterprises. According to the Department of Statistics, the value of total exports dropped by 4.5 per cent, the unemployment rate rose sharply reaching 24.7 per cent by the end of 2020, and GDP fell over three subsequent quarters. Women, young people and refugees were hit the hardest. A lack of social security, health insurance, or other social protection measures exacerbated their vulnerability. Many SMEs, in particular informal enterprises, ceased operations, releasing thousands of employees into an unknown future.

Trade and investment offer significant opportunities for economic development through the expansion of productive sectors and the adoption of new technologies. They also offer, at least in theory, the growth potential for productive and decent jobs that could help Jordan to provide suitable economic opportunities for its growing labour force. Jordan has developed its **trade relationships** over the past two decades and entered several free trade agreements. This openness led to a growth of both imports and exports. Imports, however, exceed exports which results in a persistent trade deficit. Jordan’s exports can be considered as “concentrated” in terms of both product and market. First, they concentrate on textiles and chemical products, which make up the largest share of national exports. Second, they concentrate on partners within the Greater Arab Free Trade Area and North America. Just three countries receive nearly half of total national exports: the United States of America, Saudi Arabia, and India (OEC n.d.). Textiles and chemical products are the product group with the largest total export potential, followed by fertilizers, pharmaceutical components and live animals. Travel and transport are the main service exports. Jordan could diversify its export basket by adding different food products as well as footwear, depending on the destination market (ITC n.d.).

The country is facing several **obstacles to better harness the benefits of external trade** relationships. Existing non-tariff measures as well as complicated customs and certification procedures slow down export companies. In addition, improving the transport quality, including the road networks and the logistics environment are key to foster trade. Overall, Jordan ranks relatively low in the global value chain and relies heavily on imports with foreign value-added. Better regional integration could help the country to climb up in the global value chain and, at the same time, give local SMEs access to a larger market.

The inflow of **FDI** is a potential avenue to upgrade the Jordanian economy, especially considering the Government’s limited fiscal space. The access to finance, goods and technologies gained through FDI could increase innovative and productive capacity. Foreign direct investment can further support the sophistication of export products and the diversification of the export basket. More generally, attracting both foreign and domestic investment could lead to a structural transformation of the economy. In the mid-2000s, Jordan attracted a substantial amount of foreign investment but the volume has decreased over time. However, these investments did not necessarily contribute to a structural transformation since they were concentrated in the real estate, construction and oil and gas sectors. Today, the service sector faces significant difficulties attracting investors despite its high potential for growth and employment creation. Targeted investments could also support Jordan's transition to a green economy.

Focusing on policies that could improve the export potential of tradable sectors would increase the productivity and job creation potential of these sectors, helping to absorb the growing numbers of highly qualified workers entering the country's labour market. It is therefore important to focus effective industrial policies on strategic sectors that could increase exports. Trade liberalization in general, and changes in the ability of an economy to add value in the global value chain in particular, could have a negative impact on the labour market, with more job destruction than job creation and high adjustment costs for low-skilled and vulnerable workers. Vulnerable workers, including young people and women, would be unable to bear these adjustment costs to secure jobs in productive firms and tradable sectors and could ultimately move to non-tradable sectors and even to informality. Other policies that focus on developing public infrastructure and trade logistics would facilitate the shifts of production factors in these economies. And in combination with targeted skills and training programmes, they could decrease the adjustment costs for firms and workers and facilitate the emergence of high value-added and productive firms. This could enhance the impact of trade and investment policies on the labour market and the economy as a whole. An integration of labour provisions into trade and investment policies is needed to ensure an equal distribution of the progress made through liberalization efforts.

Section 1 of this report reviews existing literature on the relationship between employment, trade and investment. This review is followed by an overview of the Jordanian labour market and current developments in trade and investment. Section 1 also provides a brief overview of the impact of the COVID-19 pandemic. Section 2 reviews the evolution of employment, trade and investment policies in Jordan and offers an overview of its current free trade agreements and bilateral investment treaties. It further discusses current policy trends and strategic priority sectors identified by the Government. This is followed by a brief overview of the institutional mechanisms that govern the policymaking process in Jordan. The last section highlights policy challenges which need to be addressed to better harness Jordan's trade and investment potential.

▶ I. Employment, trade and investment in Jordan

1.1 The nexus between trade, investment and employment[3]

In theory, trade liberalization reforms should lead to aggregate productivity gains by opening up economies. Trade liberalization leads to increased competition with foreign firms and the production of products with more advanced technology, better quality and potentially lower prices. This means that industries and firms previously protected by high tariffs must make significant adjustments. Ultimately, at least in theory and in a well-functioning market, uncompetitive activities and firms are forced to exit, while firms that can bear the adjustment costs and adapt to the new competitive landscape continue operating and become more productive. Productive factors, including capital and labour, that are liberated from uncompetitive activities and firms, are absorbed by competitive ones, leading to an efficient transfer of productive factors and eventually resulting in overall productivity gains. In traditional trade theory (cf. Ricardo 1817; Heckscher 1924; Ohlin 1933), the reshuffling of productive factors is done across sectors, or, as in the "new" trade theory, across firms in the same or in different sectors. Melitz (2003) demonstrates the firm heterogeneity effects of trade policies and provides important evidence for the "new" new trade theory. The author finds that exposure to trade leads to productive firms entering the export market, forcing the least productive ones to exit. Moreover, these inter-firm reallocation effects lead to growth in overall industry productivity, ultimately resulting in welfare gains. Considering significant improvements in logistics and information and communication technology, Inomata (2017) argues that global value chains represent another opportunity to reconstruct classical theory. Complex production processes can now be broken down into small segments and shifted to the most cost-efficient locations, often across national borders. This has triggered the emergence of a new body of literature on the international transfer of tasks.

The reshuffling of productive factors across sectors or firms is an inherent feature of developed and well-functioning markets and economies. In the case of middle-income countries like Jordan this reshuffling might be costly for firms and workers, due to significant failures in the business climate and economic institutions (Haltiwanger 2011). These include the under-development of infrastructure and capital markets, ineffective competition policies and relatively low human capital. This adjustment process of local firms can be facilitated by spillover effects created through investment from foreign firms. A large body of literature finds a strong impact of such FDI on the productivity of domestic firms (cf. Saurav and Kuo 2020). The OECD's Foreign Direct Investment Qualities Indicators are a tool to assess how FDI contributes to sustainable development (OECD 2019). For Jordan, the indicators show that foreign firms perform better than domestic firms in several areas, such as productivity, wages, training opportunities and gender parity. The indicators further reveal that this performance advantage is relatively small and weak compared to other peer countries which suggests a large potential for targeted policy interventions, particularly when it comes to green business practices (OECD 2022). Depending on the characteristics of the foreign and domestic firms, FDI can stimulate exports and economic growth which may result in the creation of

[3] This section draws on ILO (forthcoming).

more and better jobs (World Bank Group 2018). Mishal and Abulaila (2007), for instance, found a positive relationship between FDI and GDP growth in Jordan. More specifically, the Jordan Strategy Forum think tank shows that an increase in FDI of 1 per cent, increases GDP by 0.34 per cent (Jordan Strategy Forum 2018). Al-Qudah, Piontek and Oláh (2021) also find a positive relationship between FDI and economic growth and highlight the importance of a well-developed financial market in Jordan to improve spillover effects. However, the job creation effect of FDI in Jordan has declined over time (mainly because of lower FDI shares in manufacturing) and is lower than in other Middle East and North African countries. Each US$1 million of greenfield FDI created around 1.3 jobs in Jordan compared to an average of 1.7 across the Middle East and North Africa (OECD 2022). Analysing the effect of FDI on exports, Mukhtarov et al. (2019) find that a 1 per cent increase in FDI would increase exports by 0.13 per cent in Jordan.

Trade liberalization can also lead to economic gains. Awad-Warrad (2012) studies the relationship between trade openness and real economic growth in Jordan and finds that a 1 per cent increase in the trade openness index would increase per capita real GDP by roughly US$480 (341 Jordanian dinars (JD)). At the sectoral level, the study indicated a positive and significant effect of trade openness on the per capita output of both industrial and construction sectors, while insignificant for services sector. Another study by Sandri, Alshyab and Ghazo (2016) investigates the impact of trade in goods and services on economic growth. The results indicated that, for Jordan, trade in services seems to positively stimulate economic performance, whereas the effect of trade on goods is negative. The study estimated that an increase in trade in services of 1 per cent would improve output by 0.28 per cent.

Technological change is another factor influencing productivity and economic growth. It can lead to a reallocation of resources which may change the position of a country in the global value chain (cf. Bailey and De Propris 2020). On the one hand, new technologies such as robotics and automation, may lower the production cost of intermediate goods in countries with higher labour costs. This reduces the comparative advantage of countries with lower labour costs and might lead to reshoring (Rodrik 2018). On the other hand, the adoption of new technologies in more developed countries might increase imports of intermediate products from less developed countries, also increasing the export of finished goods to those countries (Artuc, Bastos, and Rijkers 2020). At present, there is no clear overall trend but recent empirical case studies suggest that automation technologies in developed countries are indeed associated with reshoring (Mattos et al. 2020).

Economic theory does not provide a clear answer as to whether trade and investment improve or worsen labour market outcomes (cf. Helpman, Itskhoki, and Redding 2013). However, several empirical studies show that labour market outcomes depend on the design and implementation of trade policies, and how they are complemented with investment and industrial policies. In terms of **employment creation or destruction**, Menezes-Filho and Muendler (2011) find that trade liberalization in Brazil increased unemployment. In other developing countries, trade expansion often relies on trade liberalization that may hurt previously protected sectors in the short term, leading to the displacement of low-skilled workers who may not secure a job in more competitive industries (cf. McMillan and Rodrik 2011). Other studies show a positive relationship between trade openness and employment creation: Felbermayr et al. (2011), for example, analyse a panel data set of 20 OECD economies and find that a 10 per cent increase in total trade openness reduces unemployment by about one percentage point. A study of 107 countries including Jordan by Carrère et al. (2016) arrives at a more differentiated result: while trade reduces unemployment in countries with comparative advantage in sectors with more efficient labour markets, it can lead to higher unemployment in countries with comparative advantage in sectors with less efficient labour markets. A study on the impact of increased exports on job creation in Jordan concluded that a 10 per cent increase in manufacturing exports tends to increase induced job opportunities by 12.4 per cent whereas a 10 per cent increase in indirect taxes tends to decrease related job opportunities by 12.9 percent in the same sector (Al-Zubi, Faouri, and Shammout 2019). Similarly, a case study by the International Trade Centre (2018b) estimated that Jordan would be able to create more than 85,000 new jobs by unlocking its regional export and trade potential. Almost one quarter of the jobs would be for women.

Trade liberalization could lead to positive impacts by increasing **quality job creation** in export-led sectors and boosting demand for highly skilled workers, as suggested by some studies. For instance, Robertson et al. (2009) study the impact of trade and investment policies on jobs in Cambodia, El Salvador, Honduras, Indonesia and Madagascar. They find that in all these countries exposure to international trade and investment in the textile and garment sectors is correlated with an increase in the number of jobs in the industrial sector and a decrease of employment in the agricultural sector, improving the overall quality of jobs. An analysis of trade openness in the Egyptian manufacturing sector shows significant negative implications on several job quality indicators (e.g. social security, medical insurance, paid sick leave) but also a strong positive impact on wages (Azzawi and Said 2009). Brambilla et al. (2015) study the relationship between exports, employment and wages in a large sample of developing countries and show that exporters pay 31 per cent higher salaries than non-exporters. Also Krishna, Poole and Senses (2011) find a significant difference in the effect of trade openness on wages in exporting firms compared to domestic firms, especially for more highly qualified workers. However, in some cases, trade openness increased wage inequality (cf. Helpman et al. 2012; Meschi, Taymaz, and Vivarelli 2016). Ben Yahmed’s (2012) research offers a more nuanced conclusion: although trade openness increases the gender wage gap among highly skilled workers, it reduces it among unskilled workers.

Informality is another dimension related to the quality of employment. Dix-Carneiro et al. (2021) conducted a comprehensive analysis on how trade affects informality in Brazil and found that trade openness decreases informality in the tradable sectors. It also results in significant welfare gains, even when informality is repressed. In turn, repressing informality increases productivity, but at the expense of employment and welfare. Furthermore, the informal economy acts as a buffer for unemployment in the event of negative economic shocks. Goldberg and Pavcnik (2003) show that a tariff elimination in Colombia increased informal employment in the most liberalized industries. A study examining the impact of the North American Free Trade Agreement on informal employment in Mexico finds that reductions in the import tariffs bring reductions in the likelihood of informality in the tradable industries (Aleman-Castilla 2006). This result is in line with other studies of trade openness in Egypt, which find a positive correlation between tariffs and informal employment (Selwaness and Zaki 2013; Salem and Zaki 2019).

Another characteristic of the Jordanian economy is **migration**. In 2019, Jordan hosted more than 3.3 million international migrants which corresponds to about one-third of the total population. Almost nine out of ten migrants are refugees, mostly from the Syrian Arab Republic. The influx of refugees increases the pressure on Jordan’s infrastructure and resources, for instance, to provide adequate shelter and food. Although the recognition of a refugee status does not include the right to work in Jordan, the prevalence of refugees seems to have a negative effect on the labour market. An increased potential workforce intensifies competition for existing jobs resulting in a downward pressure on wages. Moreover, child labour is substantially more prevalent among refugees than among Jordanian nationals (Ajluni and Kawar 2014; Stave and Solveig 2015). However, these findings do not seem to be universally applicable. Fallah, Krafft, and Wahba (2019) find a large increase in formal employment and in hourly wages in areas with high concentration of Syrian refugees. Despite significant improvements in the situation of refugee workers, Jordanian nationals are still considerably more likely to enjoy decent work than Syrians in most areas (Stave, Kebede, and Kattaa 2021).

Labour market outcomes can vary across groups and do not necessarily hold for **women, youth and vulnerable populations**. An estimation of the effects of the North American Free Trade Agreement on wages in the United States shows a negative impact on wage growth for married women who perform manual labour (McLaren and Hakobyan 2010). Kucera and Roncolato (2011) estimate the effects of trade on employment, incomes and poverty following a period of rapid trade liberalization in India and South Africa in the early 1990s. In India, the authors find that trade liberalization led to 2.3 million fewer jobs, with this loss mainly driven by trade with developing countries. In South Africa, the authors find that trade reforms led to a net gain of 135,000 jobs. They estimate that women's share of employment would have been higher without trade liberalization reforms. Other studies find a positive effect of export-led development strategies on the demand for female workers (cf. Zaki 2021; Otobe 2015). Al-Wadi (2017) studies the impact of increased trade under World Trade Organization agreements on women's self-employment and salaried employment in the Middle East. For Jordan, the author finds that trade liberalization has decreased the share of women in self-employment but increased the share of women in salaried employment. Lastly, Kis-Katos and Sparrow (2011) examine the effects of trade liberalization on child labour and show a strong decline in Indonesia.

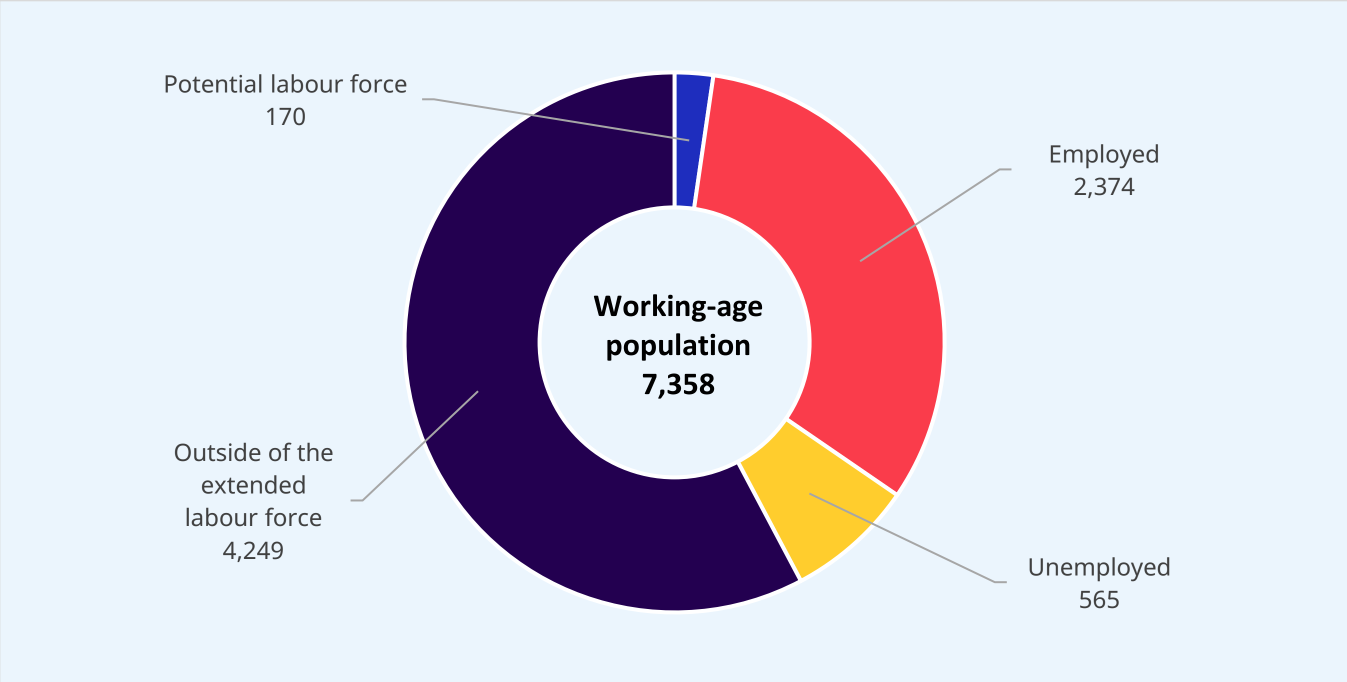
The above literature review demonstrates that the impact of trade policies on the labour market, including on the non-tradable sectors, depends heavily on the **institutional setting** and on the capacity of institutions to support firms and workers in managing potentially high adjustment costs. This should be closely monitored and addressed by policymakers in Jordan. It further underscores the need to align trade and investment policies with effective industrial and employment policies to ensure that countries are building on their comparative advantages and maximizing the impact of trade and investment policies.

1.2 The labour market

1.2.1 Overview

Over recent decades, Jordan's population has expanded rapidly due to relatively high birth rates and an influx of migrants from neighbouring countries. According to data from Jordan's Department of Statistics, the high birth rate means that the population is quite young, with almost two-thirds of the population below the age of 30 in 2020. Population growth was accompanied by an increasing workforce. In 2020, Jordan's working-age population, comprising women and men aged 15 years and older, was about 7.4 million (Figure 1). Of these, 2.4 million were employed and 565,000 were unemployed. The sum of both categories form Jordan's labour force of 2.9 million, which corresponds to a labour force participation rate of almost 40 per cent. Another 170 million persons are either seeking work but are not yet available to take up employment, or are available but are not looking for a job (potential labour force). The majority of the working-age population (4.2 million or 58%) is considered to be outside of the extended labour force, and includes people engaged in education or unpaid care work, and those in retirement.

▶ Figure 1 Snapshot of Jordan's labour market, 2020 (in thousands)

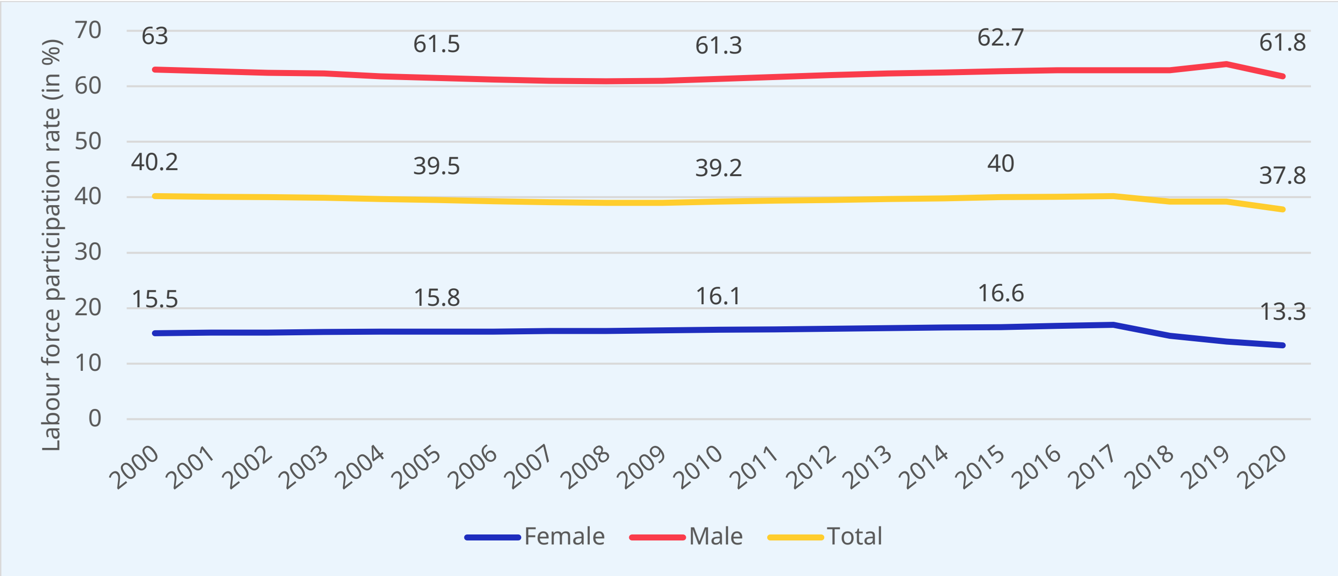


Source: ILOSTAT.

Jordan's economy is characterized by a large service sector which employs almost 80 per cent of workers. According to data from Jordan's Department of Statistics, the industrial (18 per cent) and agricultural sectors (3 per cent) play a much less important role in employment.

Over the past two decades, the total labour force participation rate has remained mostly unchanged at 40 per cent (Figure 2). However, the overall rate masks significant differences in the participation rate of women and young people. While more than 60 per cent of working-age men in Jordan participate in the labour market, this share is more than four times lower for women at around 14 per cent. This gap seems to have increased in recent years.

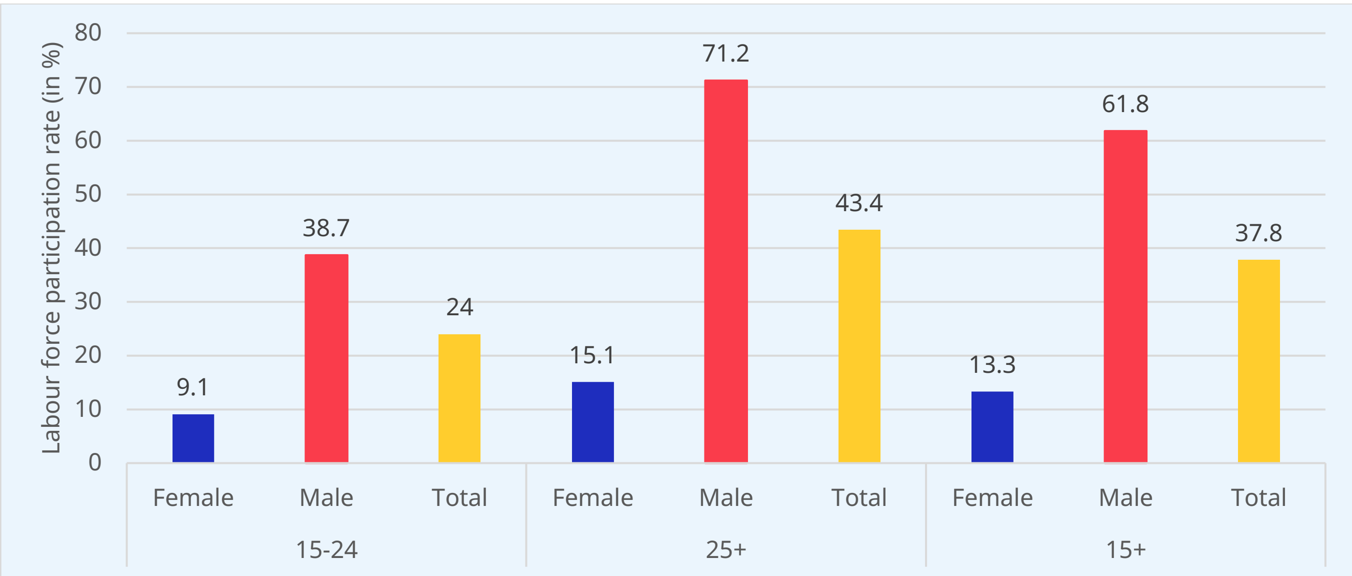
▶ **Figure 2 Labour force participation rate by gender, 2000-20 (percentage)**



Source: ILOSTAT (modelled estimates).

Further disaggregated by gender and age, Figure 3 reveals a much lower total labour force participation rate of young people aged 15-24 years (24 per cent) compared to adults aged 25 years and over (43.4 per cent). Also here, we find considerable gender disparities. While women under the age of 25 have a labour force participation rate 6 percentage points lower than that of older women, the difference to their male counterparts in the same age bracket amounts to almost 30 percentage points, and to even 62 percentage points compared to men over the age of 25. Men over the age of 25 are on average twice as likely to be in the labour force than younger men.

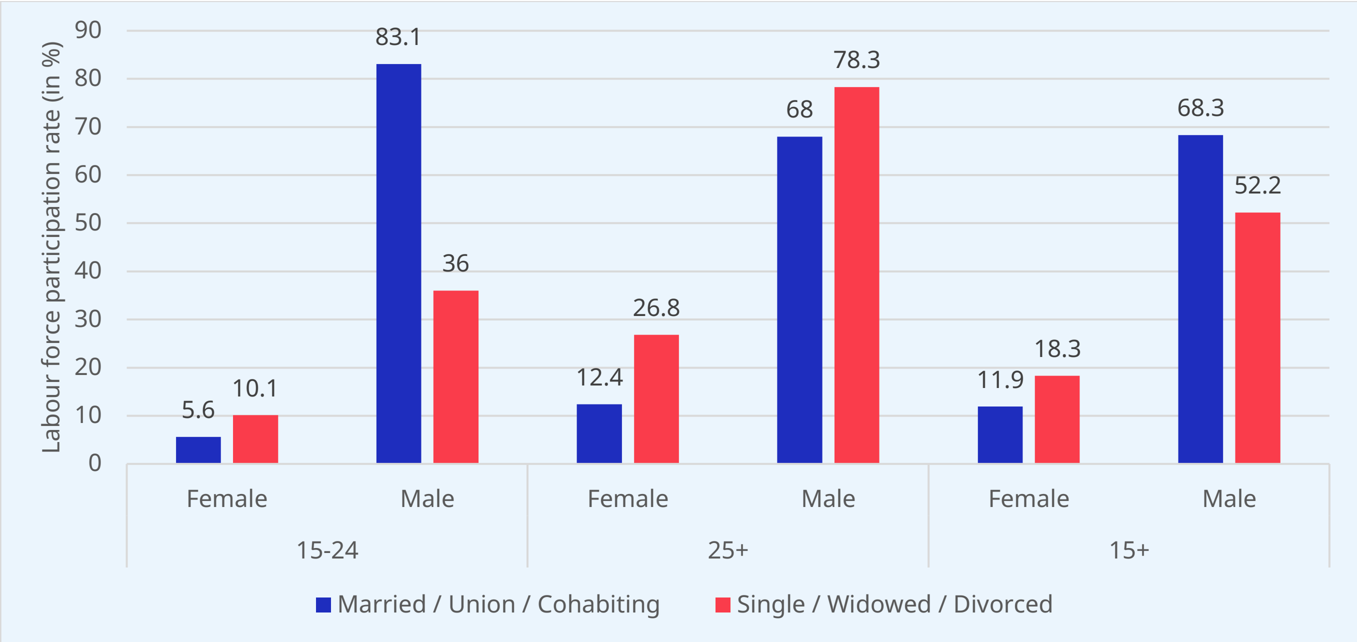
▶ **Figure 3 Labour force participation rates by gender and age, 2020 (percentage)**



Source: ILOSTAT (modelled estimates).

In general, a lower labour force participation of young people could indicate a higher educational attainment and therefore a more highly skilled workforce. Indeed, according to Jordan's Department of Statistics, gross enrolment rates have increased by about 2.5 percentage points over the past five years. However, a lower labour force participation rate could be also an indication of the limited capacity of the labour market to absorb young people, or of a malfunctioning of the social security system, which may force young people (especially women) to assume care responsibilities in the household. In addition to gender and age, marital status seems to influence labour force participation rates (Figure 4). Women of all ages are much more likely to participate in the labour market if they are single, widowed or divorced. Once married, their participation rate halves. A similar trend can be observed for adult men (although very different in scale) but a reversed trend for young men. The labour force participation rate of young men increases by a factor of 2.3 when they are married, cohabiting, or entering into a union. A possible explanation for this could be the prevalence of traditional gender roles in which women are burdened with a greater share of domestic and caregiving responsibilities, in particular at a younger age.

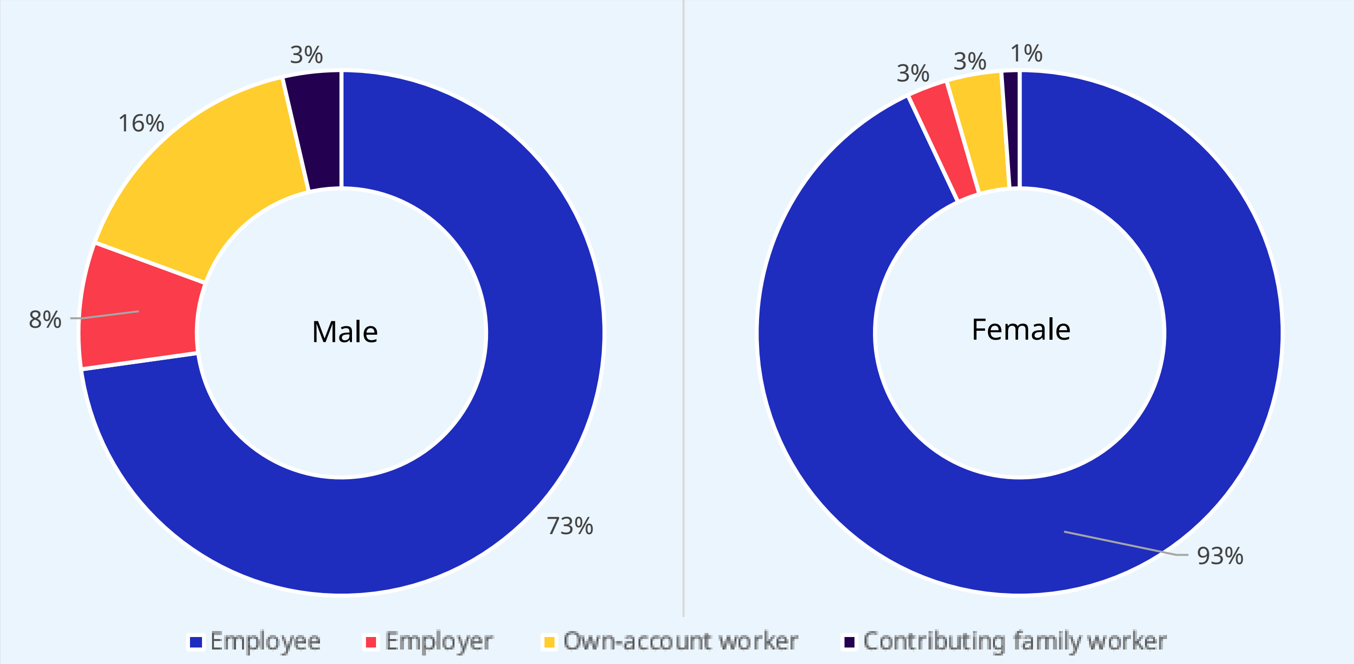
▶ Figure 4 Labour force participation rate by gender, age and marital status, 2020 (percentage)



Source: ILOSTAT

The vast majority of Jordan's workers are employees: 73 per cent of men and 93 per cent of women workers (Figure 5). Entrepreneurship appears to be less common. Only 6 per cent of women and 24 per cent of men are employers or own-account workers. The private and the public sector account for a similar share of the employees (53 per cent and 47 per cent respectively). However, the share of female employees is slightly larger in the public (24 per cent) than in the private (18 per cent) sector (Jordanian Department of Statistics). Women in the public sector are predominantly employed in education and other social services.

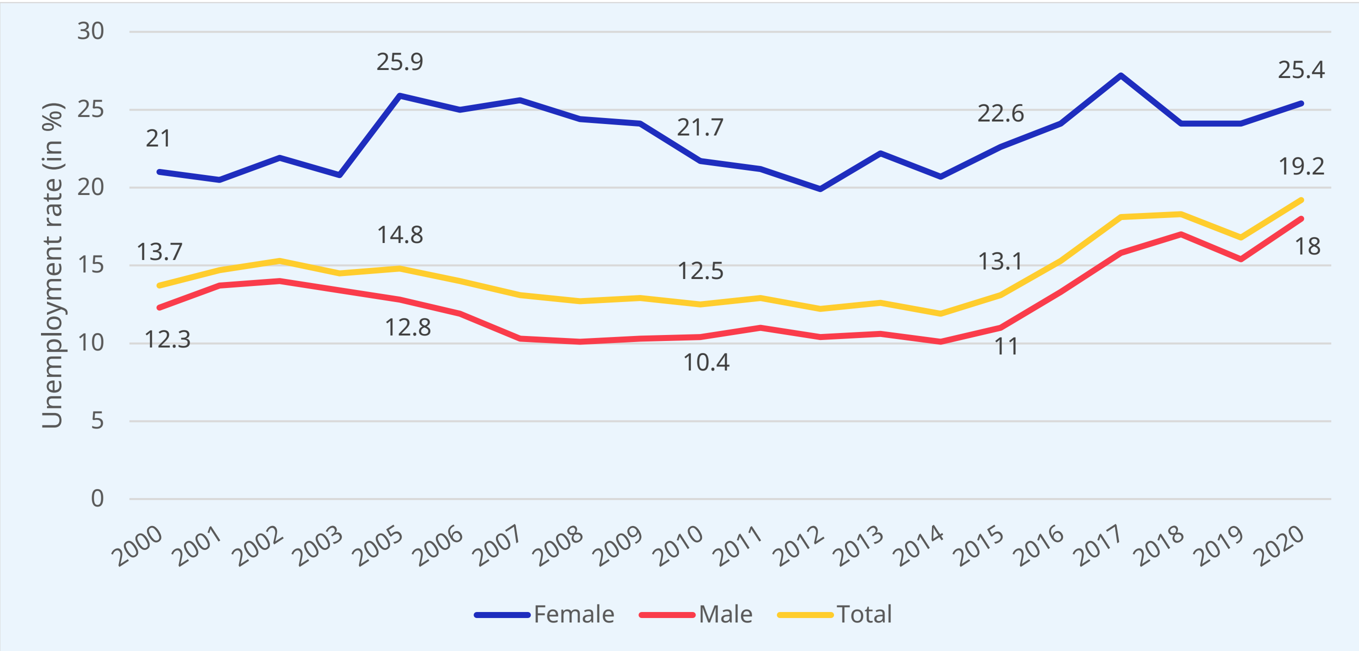
▶ Figure 5 Employment status by gender, 2020 (percentage)



Source: Jordan Department of Statistics.

The unemployment rate in Jordan is subject to fluctuation and has increased overall by 5.5 percentage points over the last two decades (Figure 6). While this increase was at a similar magnitude for women and men, the unemployment rate for women is more than 7 percentage points higher than for men.

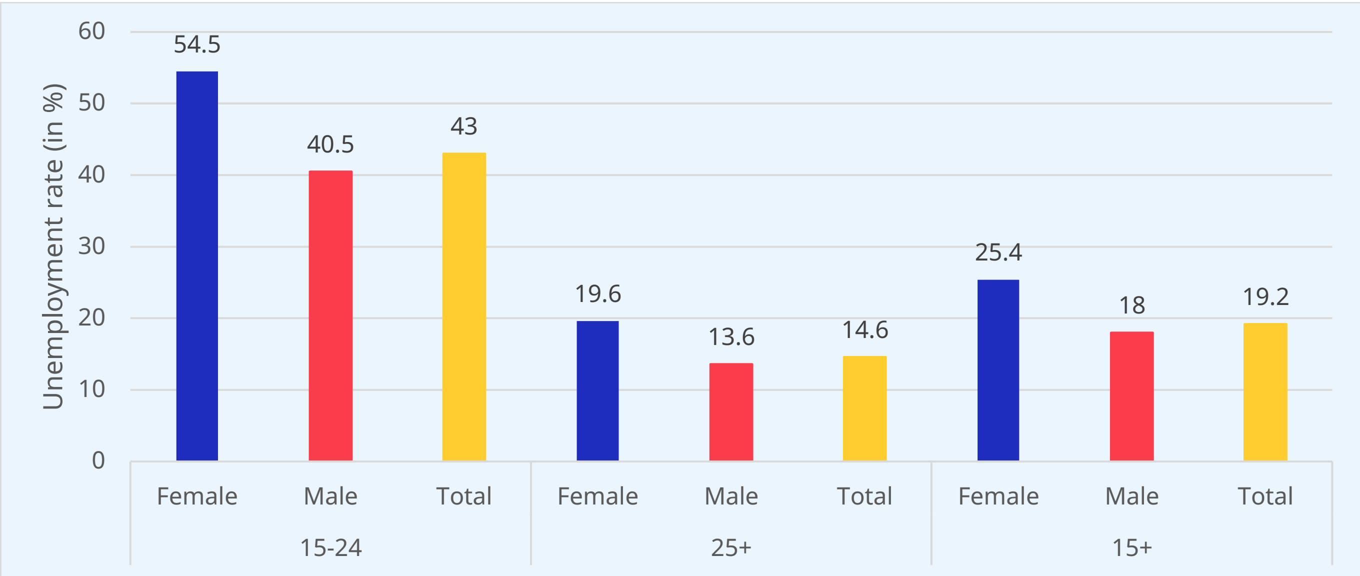
▶ Figure 6 Unemployment rate by gender, 2000-20 (percentage)



Source: ILOSTAT.

Similar to the labour force participation rate, a further disaggregation of the unemployment rate by age exposes important discrepancies. Overall, workers under the age of 25 (40.5 per cent) are almost three times more likely to be affected by unemployment than workers over the age of 25 (14.6 per cent). Young women are the most affected. While more than half of young women were registered as unemployed in 2020, this was only the case for two out of five older women. Male workers under the age of 25 are also more affected than older workers, yet their unemployment rate is considerably lower than of their female counterparts.

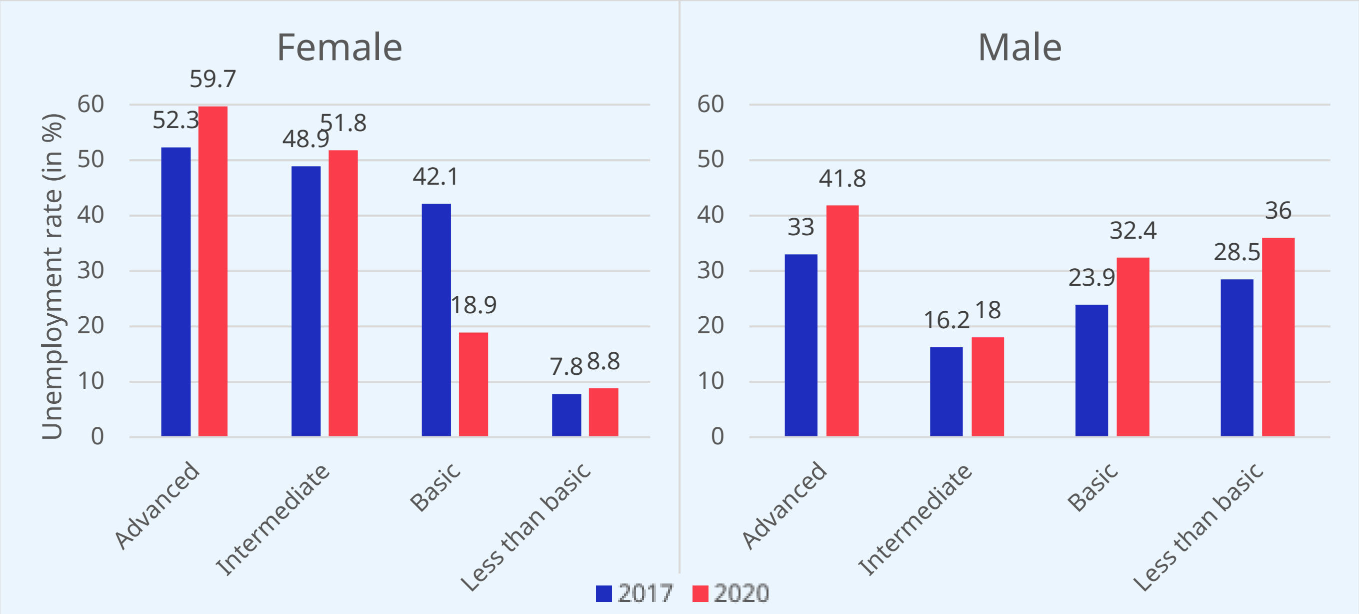
▶ **Figure 7 Unemployment rate by gender and age, 2020 (percentage)**



Source: ILOSTAT.

An important determinant for obtaining employment, in particular for new labour market entrants, is education. However, Figure 8 shows that unemployment is most prevalent for young persons with high educational attainment, in particular women. This trend even grew between 2017 and 2020 which could indicate a mismatch between the skills acquired through education and those required on the labour market. While unemployment seems to decrease for women with a decreasing level of education, the pattern is less clear for young men. In fact, young male workers with an intermediate level of education have the lowest rate of unemployment which might be related to their stronger presence in self-employment. This might suggest that women transition more easily into jobs which require fewer skills. Often, such jobs are of lower quality and offer lower wages.

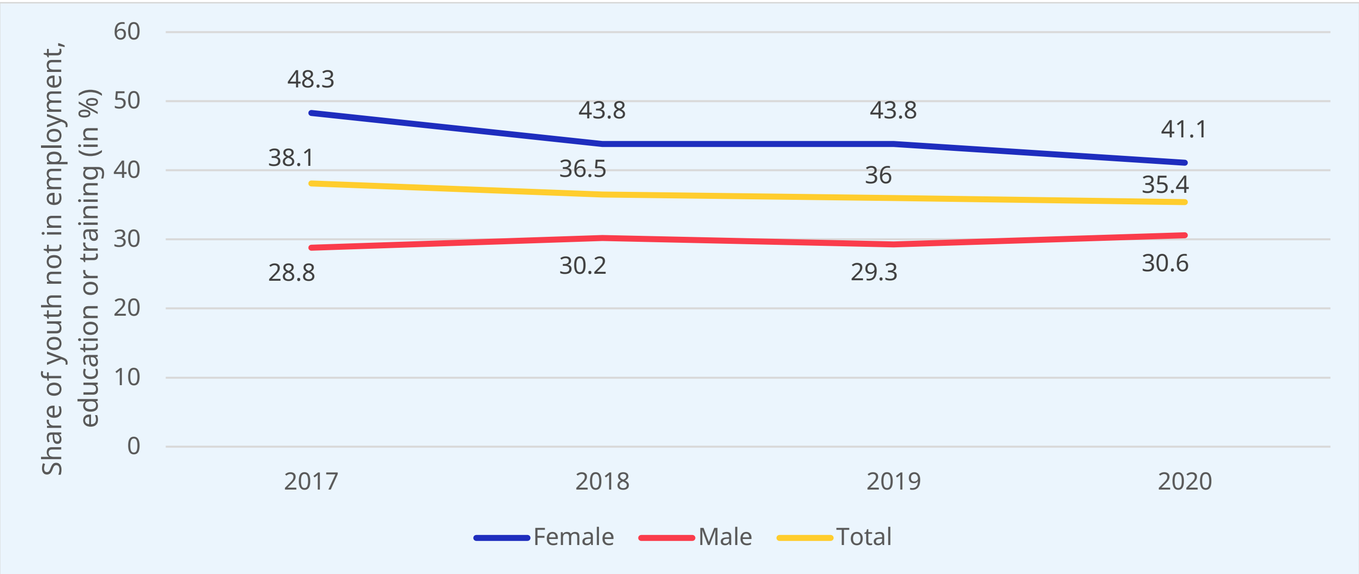
▶ Figure 8 Youth unemployment rate by gender and education, 2017 and 2020 (percentage)



Source: ILOSTAT.

The transition from school to work is an important step in a young person's life. However, this transition seems to be protracted in Jordan, with more than a third of young people not in education, employment or training (NEET) for an extended period (Figure 9). The number of young people in this position (NEET rate) is a broad measure of labour underutilization and includes young people leaving school at an early age, being discouraged or unemployed. Women are disproportionally affected and have a NEET rate more than 10 percentage points higher than young men. While the rate decreased over the past years for young women (-7.2 percentage points), it increased slightly for young men (+1.8 percentage points).

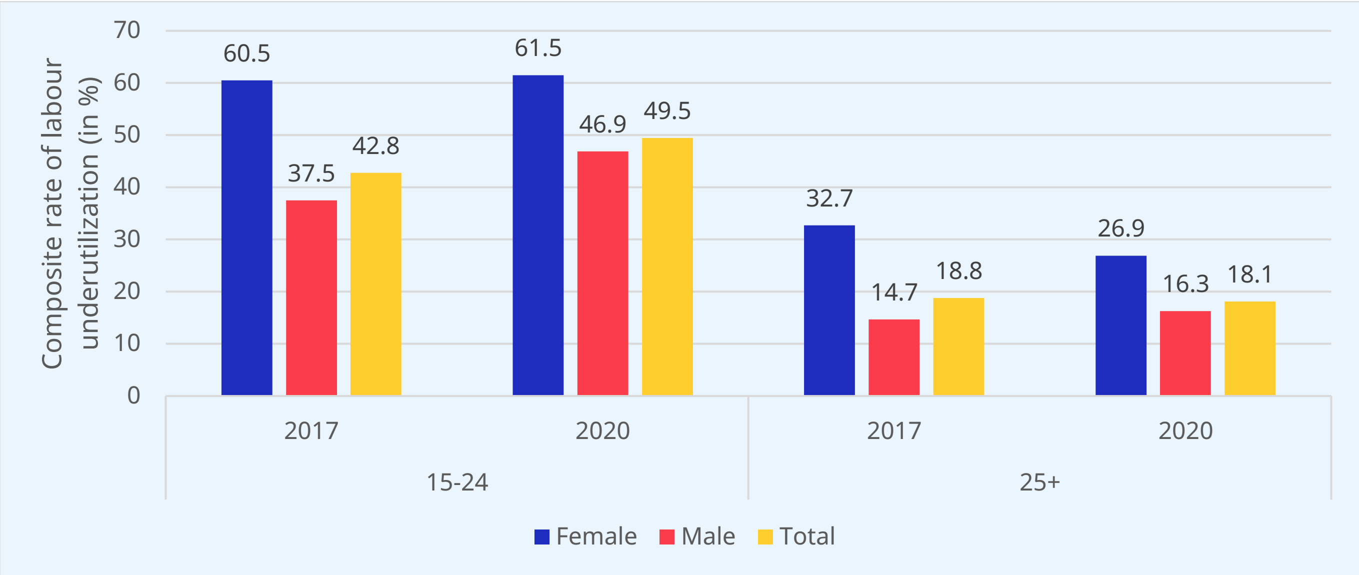
▶ Figure 9 Share of youth not in employment, education or training (NEET) by gender 2017-20 (percentage)



Source: ILOSTAT (modelled estimates).

Another measure to assess the ability of an economy to efficiently use its human resources, is the composite rate of labour underutilization (LU4 rate). In addition to the unemployed and the potential labour force, the LU4 rate also includes workers in time-related underemployment.[4] In 2020, about half of the labour force under the age of 25 and a little less than one-fifth of the labour force over the age of 25, could be considered as underutilized (Figure 10). Hence, the LU4 rate is more than twice as high for young workers than for adult workers. Also, here we notice that women – both under and over the age of 25 – are significantly more affected by labour underutilization than men. While the LU4 rate increased for young women and men as well as for adult men, there was a decrease of almost 6 percentage points for adult women.

▶ Figure 10 Composite rate of labour underutilization by gender and age, 2017 and 2020 (percentage)

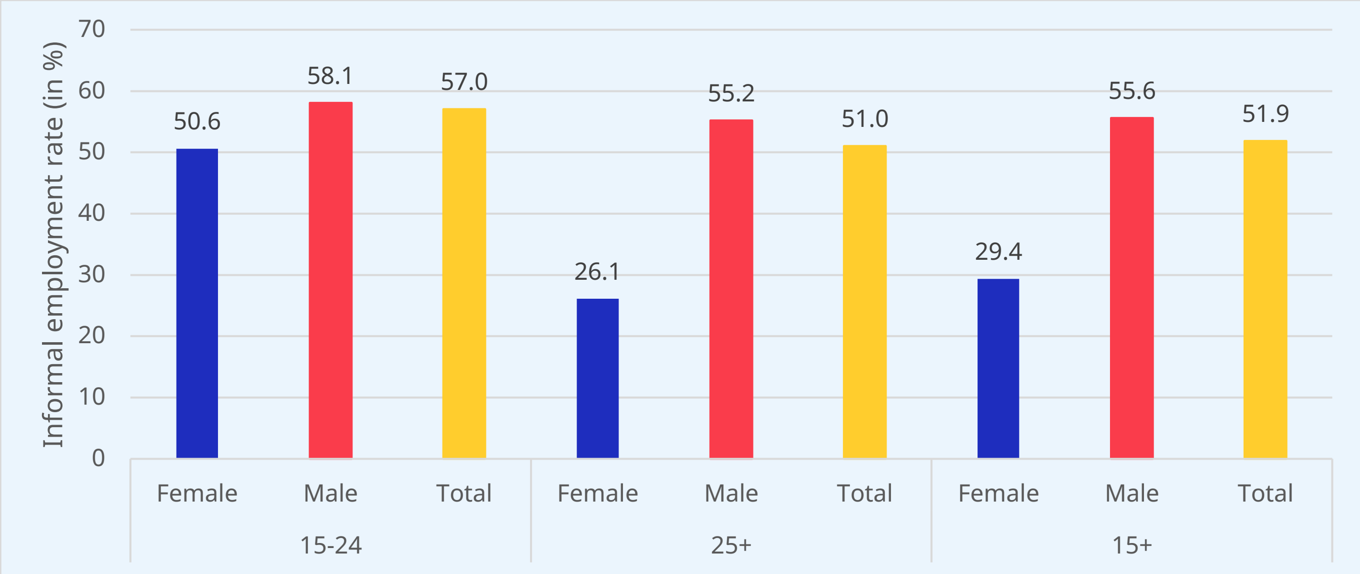


Source: ILOSTAT (modelled estimates).

In economies with a high rate of unemployment, informal employment is often the only option for workers. Indeed, more than half of the workers in Jordan seem to have no choice but to take up informal jobs which are often of lower quality. As shown in Figure 11, younger workers can be found more often in informal employment. Yet, there seems to be a transition into formality with increasing age, reflected by the lower numbers of informal workers over the age of 25. This transition is most pronounced for women whose share of informal employment almost halves. Men of all ages are more likely to be in informal employment than women. However, it should be noted that women informal workers are more concentrated in jobs associated with lower quality in terms of remuneration, social protection and basic workers' rights (c.f. Otobe 2017).

[4] Time-related underemployment includes persons in employment whose working time is insufficient in relation to alternative employment situations in which they are willing and available to engage.

▶ **Figure 11 Informal employment by gender and age, 2019 (percentage)**



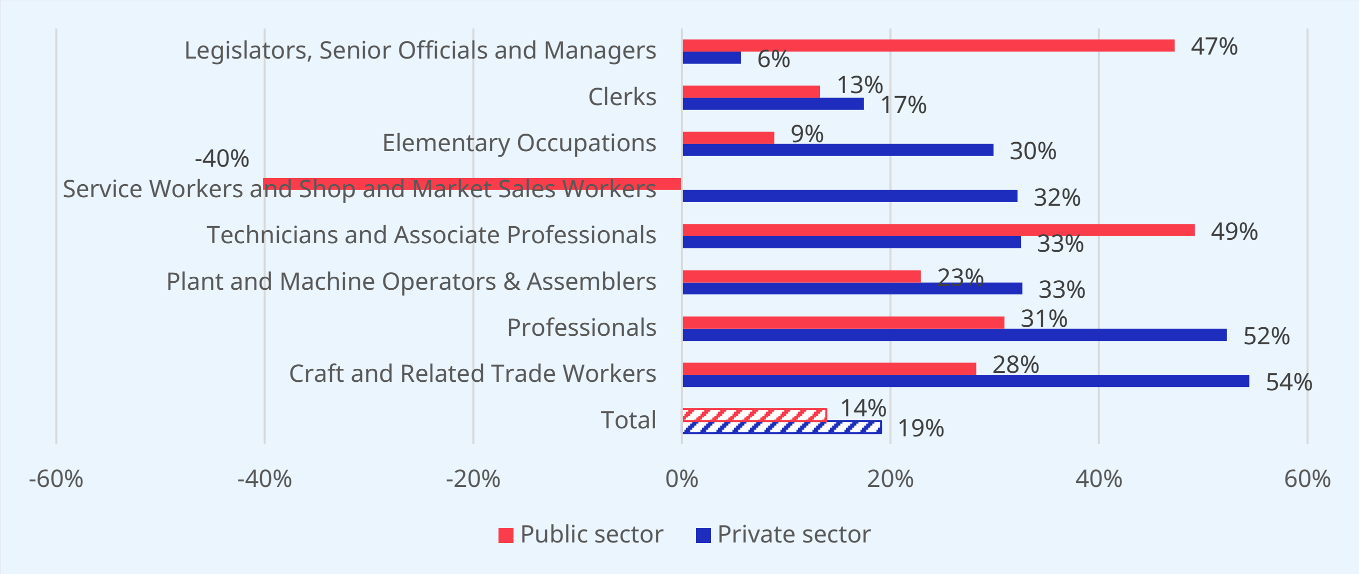
Source: ILOSTAT.

An important labour market outcome are wages, with equal pay for work of equal value being the guiding principle for equity on the labour market. The gender pay gap, defined as the percentage difference between the average hourly earnings of employed women and men, is a measure to address progress towards this goal. In 2019, women in the public sector earned on average 14 per cent less than men, and 19 per cent less in the private sector (**Error! Reference source not found.**). In the private sector, the largest wage gaps can be found in the occupations of craft and related trade workers (54 per cent), and in the general professionals (52 per cent) category. The largest differences in the public sector can be found with technicians and associated professionals (49 per cent) and with legislators, senior officials and managers (47 per cent). Yet, there is one exception in the public sector: female service workers, shop and market sales workers earn on average 40 per cent more than their male counterparts.

Research by the International Finance Corporation (2015) shows that Jordanian women seem to have difficulties in gaining ground in the top levels of Jordan's business world. Only about 9 per cent of board members in private shareholding companies and 3.5 per cent in publicly listed companies are women. More than three-quarters of companies have no women on their boards.

One measure to promote pay equality is the minimum wage. In 2000, Jordan introduced a monthly minimum wage which is currently about US$367 (JD260) for nationals and US$324 (JD230) for migrant workers. Migrant workers in the qualified industrial zones earn about US$176 (JD125) plus US$134 (JD95) of in-kind wages (food and accommodation) (ILO 2021).

▶ **Figure 12 Gender pay gap in the public and private sector by main groups of occupations, 2019 (percentage)**



Source: Jordan Department of Statistics.
Note: Calculated on the basis of on hourly wages.

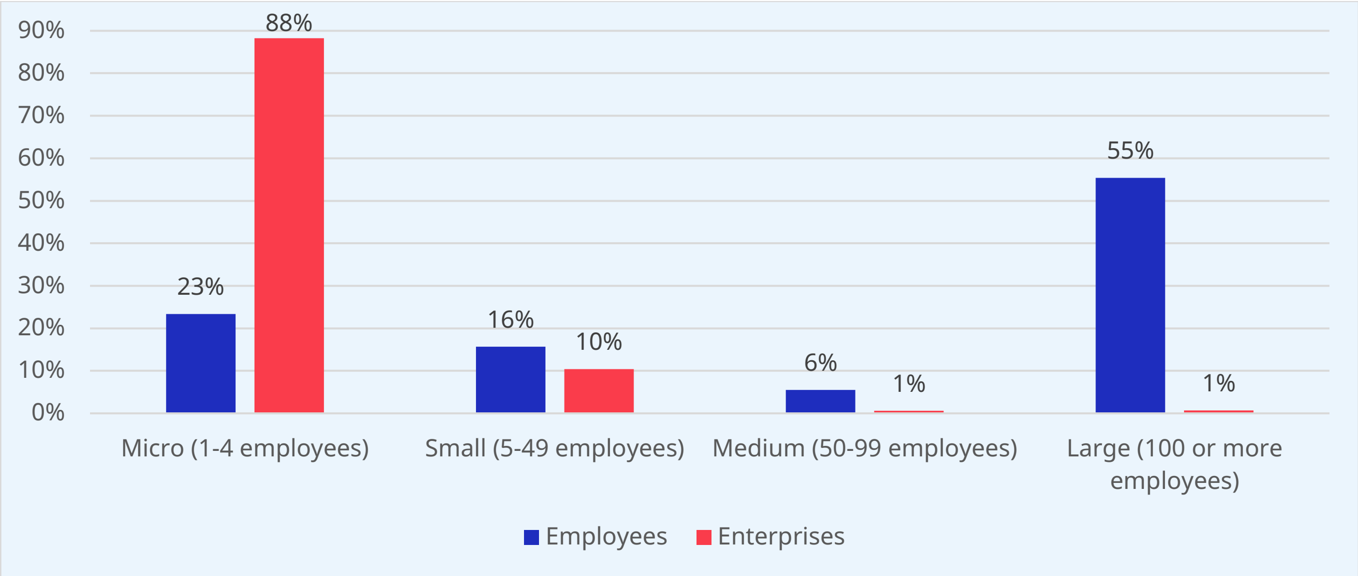
1.2.2 Entrepreneurship

Entrepreneurship is an important engine of growth and can drive change. To harness this potential and to address the abovementioned employment challenges, the Jordanian Government is increasingly focussing on the promotion of entrepreneurship. Over the past decade, several programmes and policies that support entrepreneurship have been implemented (see section II 1.1.1).

The Jordanian economy is characterized by a large number of micro, small and medium-sized enterprises.[5] Almost 9 out of 10 firms can be categorized as microenterprises (Figure 13). However, they only account for 23 per cent of employment. Ten per cent of enterprises are of small size, but employ 16 per cent of workers. Medium-sized and large enterprises represent each about 1 per cent of all firms. Yet, they account for more than 60 per cent of all employment in Jordan.

[5] There is considerable divergence regarding the way in which countries report employment distribution (cf. ILO 2019c). In this report, we align the taxonomy to the data provided by the Jordan Department of Statistics: microenterprises (with 1 to 4 employees), small enterprises (with 5 to 49 employees), medium-sized enterprises (with 50 to 99 employees) and large enterprises (with 100 or more employees).

▶ Figure 13 Distribution of employees and enterprises by size, 2019 (percentage)



Source: Jordan Department of Statistics.
Note: Public and private organizations.

Jordan has a small but vibrant entrepreneurial and start-up scene. In 2019, about 9 per cent of Jordanians were either a nascent entrepreneur, or a business owner (JEDCO, CSS and Government of the Netherlands 2020). This represents an increase of about 1 percentage point from 2017, mainly driven by an increase in the number of women entrepreneurs. Despite this improvement, the entrepreneurial activity rate for women (6.75 per cent) is still well below that of men (11.43 per cent). According to the Global Entrepreneurship Index, which measures both the quality of entrepreneurship and the extent and depth of the supporting entrepreneurial ecosystem in 137 countries, Jordan climbed up in the ranking from 72nd to 49th place between 2014 and 2018. Compared to other countries in the region, it fares particularly well in terms of product innovation, technology absorption, competition, start-up skills, and cultural support indicators. However, Jordan lags in terms of growth, risk capital, risk acceptance, networking, and human capital indicators (Abukumail 2019). In 2019, the World Economic Forum ranked 27 Jordanian start-up companies among the top 100 in the Arab world (World Economic Forum 2020) who are shaping the region's technology community. Nevertheless, thousands of Jordanian technology professionals did not find adequate opportunities in their own country and hold key positions in technology companies in the Persian Gulf region. A recent World Bank survey of 230 Jordanian entrepreneurs shows that they are well-educated and have solid business experience: among the main founders of Jordanian start-ups, 94 per cent have a university degree and 62 per cent have over 10 years' experience (Abukumail 2019).

Jordanian entrepreneurs face considerable business challenges. According to the World Bank Enterprise Survey, tax rates, corruption, political instability, and electricity are the biggest obstacles for all Jordanian firms regardless of size. Compared to 2013, all these obstacles increased in importance, in particular corruption and electricity (+11.1 and +10.9 percentage points).[6] Unlike

[6] According to the World Bank Doing Business Indicators (2000), obtaining electricity in Jordan (55 days) is much faster than the Middle East and North Africa average (63.5 days). However, the price of energy is by far the highest in the region.

large firms, small and medium-sized enterprises also consider labour regulations, customs and trade regulations, as well as the practices of the informal sector to be serious challenges. On a positive note, the survey records significant improvements in access to finance and the availability of an adequately educated workforce with decreases of 29 and 4.6 percentage points since 2013.

Table 1 Biggest entrepreneurial obstacles, by firm size

	Small (percentage)	Medium (percentage)	Large (percentage)	Overall change 2013-19 (in percentage points)
Tax rates	25.1	29.5	38.7	↑ 4.8
Corruption	15.2	13	24.4	↑ 11.1
Political instability	15.2	15.9	6.4	↑ 3.7
Electricity	10.4	11.5	26.4	↑ 10.9
Labour regulations	8.4	4.3	0.2	↑ 0.2
Customs and trade regulations	6.3	8.1	1.2	↑ 3
Practices of the informal sector	4.8	2.5	0.4	↑ 0.3
Tax administration	3.3	0.4	0.6	↑ 1
Business licensing and permits	2.6	0.8	0.9	→ 0
Access to finance	2.4	2.8	0.4	↓ -29
Access to land	1.9	1.2	0.1	↓ -3.3
Transport	1.7	6.5	0.1	↑ 1.3
Crime, theft and disorder	1.5	0	0	↑ 0.3
Courts	1.1	3.2	0	↑ 0.2
Inadequately educated workforce	0.2	0.1	0.2	↓ -4.6

Source: World Bank Enterprise Survey.
Note: Small-sized firms 5-19 employees, medium-sized firms 20-99 employees, large firms 100+ employees.

To meet the challenges facing entrepreneurs in Jordan, including social entrepreneurs, the Ministry of Digital Economy and Entrepreneurship in cooperation with the Jordan Strategy Forum launched an initiative to facilitate and support ecosystems for entrepreneurial and emerging companies. As a result, a policy paper was prepared to improve growth opportunities and the competitiveness of entrepreneurial and start-up companies.[7] The policy paper focused on proposing amendments and regulations to overcome the obstacles and difficulties faced by such enterprises, starting from the legal registration stage, and obtaining professional licences to other difficulties including attracting labour and foreign financing.

1.2.3 Summary

This section summarized the manifold challenges of the Jordanian labour market. The growing working-age population is faced with a lack of opportunities, which is exacerbated by a persistence of traditional gender roles and a low demand for highly qualified workers. As a result,

[7] Policy paper available at: https://www.modee.gov.jo/EN/Pages/The_Facilitating_Entrepreneurial_and_startup_Businesses_initiative.

unemployment and labour underutilization rates are relatively high, especially for women and young people. This often forces these workers to accept informal or low-wage jobs.

Jordan's entrepreneurial scene is vivid, but small and male dominated. High operating costs, due in part to tax rates and energy costs, pose significant entry barriers for entrepreneurs. In addition, institutional factors, such as political instability, corruption and the prevalence of a large informal sector, make self-employment less attractive. Moreover, complex labour, customs and trade regulations hamper the growth potential of enterprises.

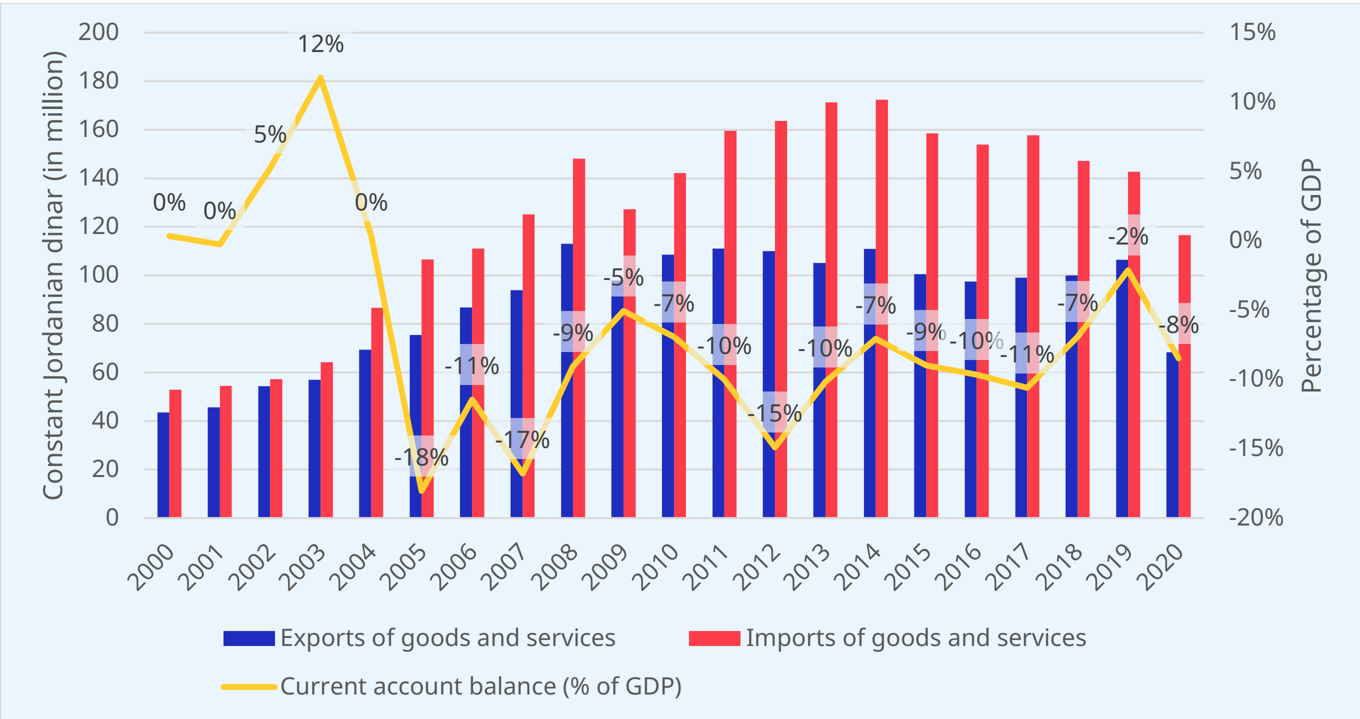
1.3 Trade and investment

1.3.1 Evolution of trade

1.3.1.1 Overview

Over the past two decades, Jordan further developed its trade relationships and both imports and exports increased in value (Figure 14). In 2000, imports and exports were at similar levels, although the former always prevailed. The early 2000s were marked by high growth rates, with imports continuing to outpace exports. A key driver of this surge of import value can be attributed to rising oil prices. As a result of this divergence, Jordan's current account balance turned negative and reached a low of -18 per cent of GDP in 2005. After the 2007-08 global financial crisis, the growth rate of export value halted and the rate for imports started to decrease in the mid-2010s. This decrease led to a convergence of export and import values which resulted in an improvement of the current account balance. In 2020, exports and imports plummeted, probably due to the COVID-19 pandemic.

▶ **Figure 14 Imports, exports and current account balance, 2000-20**

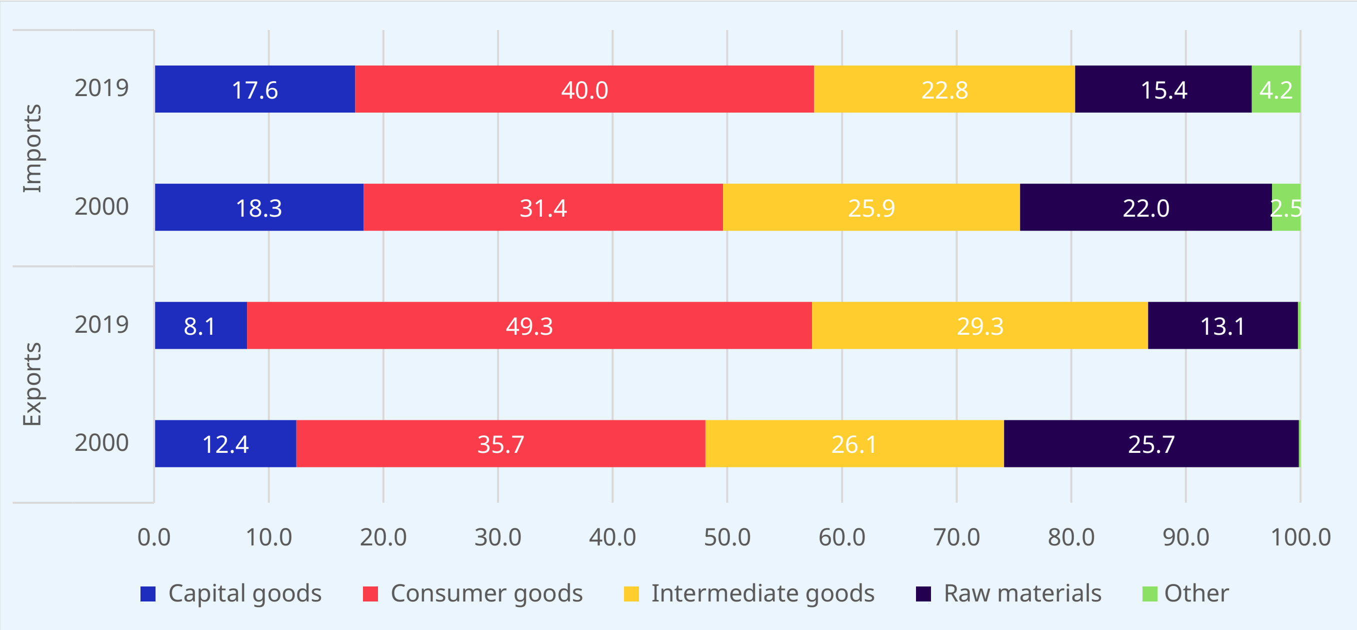


Source: Jordan Department of Statistics.

As shown in Figure 15, the largest share of Jordan's imports in 2019 were consumer goods (40 per cent), followed by intermediate goods (22.8 per cent). Capital goods (17.6 per cent) as well as raw materials (15.4 per cent) have considerably smaller shares. The share of imported consumer goods grew by almost 10 percentage points between 2000 and 2019, mostly at the expense of raw materials and intermediate goods (-6.6 and -3.1 percentage points).

In 2019, almost half of Jordan's exports were consumer goods (49.3 per cent), followed by intermediate goods (29.3 per cent), raw materials (13.1 per cent) and capital goods (8.1 per cent). Between 2000 and 2019, consumer and intermediate goods increased their shares (+13.6 and +3.2 percentage points) while the shares of raw materials and capital goods decreased (-12.6 and -4.3 percentage points).

▶ Figure 15 Imports and exports by stages of processing, 2000 and 2019



Source: World Integrated Trade Solution.

Jordan's top 10 export goods in 2019 are listed in Table 2. With an export value of US$1.37 billion and a share of 15 per cent in the total export value, knitted or crocheted apparel and clothing accessories lead the ranking by far. Several chemical products follow on the next three ranks, with each contributing about 10 per cent to the total export value. In other words, the top four products make up almost half of Jordan's total export of goods in terms of value. Lower down the ranking are more textile and chemical products but also mineral products and precious metals, as well as machines and vegetable products. Overall, Jordan's total export value amounted to US$8.9 billion in 2019. The top 10 export products account for 69 per cent of this value.

Over recent years, the composition of Jordan's export basket has changed in terms of the products and their individual weight. Non-knit or crocheted apparel and clothing accessories, for instance, as well as precious metals, gems and jewellery almost doubled in terms of their export value between 2014 and 2019. At the same time, the value of exported vegetables and certain roots and tubers and of fertilizers shrank by 57 and 41 per cent respectively.

▶ **Table 2 Top 10 export goods, 2019 (in value-terms)**

Rank	Section	Product	Value (in million US$)	Share in total goods exports	Growth rate 2014-19
1	Textiles	Knitted or crocheted apparel and clothing accessories	1,371	15%	↑ 70%
2	Chemical products	Fertilizers	909	10%	↓ -41%
3	Chemical products	Pharmaceutical products	878	10%	↓ -7%
4	Chemical products	Inorganic chemicals, organic and inorganic compounds of precious metals, of rare earth metals, of radio-active elements and of isotopes	725	8%	↑ 62%
5	Mineral products	Salt, sulphur, earths, stone, plastering materials, lime and cement	589	7%	↓ -1%
6	Textiles	Non-knit or crocheted apparel and clothing accessories	574	6%	↑ 92%
7	Precious metals	Precious metals, gems and jewellery	311	3%	↑ 94%
8	Chemical products	Organic chemicals	269	3%	↑ 68%
9	Machines	Machinery and appliances	251	3%	↓ -5%
10	Vegetable products	Vegetables and certain roots and tubers; edible	234	3%	↓ -57%
		Other export products	2,800	31%	↓ -20%

Source: Observatory of Economic Complexity.
Note: Products are classified according to the harmonized system nomenclature (2-digit level).

In 2019, Jordan exported US$7.97 billion worth of services. Travel is by far the top export service and accounts for almost three-quarters of the total service export value. Transport is in second place, but only accounts for one-quarter of the value of travel. Both sectors have enjoyed steady growth over recent years.

▶ **Table 3 Top 9 export services, 2019 (in value-terms)**

Rank	Service	Value (in million US$)	Share in total service exports	Growth rate 2014-19*
1	Travel	5,786	72.6%	↑ 32%
2	Transport	1,473	18.5%	↑ 10%
3	Government services, n.i.e.	256	3.2%	↓ -53%
4	Other business services	186	2.3%	↓ -59%
5	Personal, cultural, and recreational services	93	1.2%	↑ 156%
6	Financial services	76	1.0%	↓ -5%
7	Construction services	73	0.9%	↑ 596%
8	Computer and information services	14	0.2%	↓ -54%
9	Royalties and license fees	9	0.1%	↓ -18%

Source: Observatory of Economic Complexity.
Notes: For transport, the growth rate is calculated for 2018-19. n.i.e. = not included elsewhere.

Although the contribution of the remaining sectors to the overall service trade value is relatively small, some experienced significant growth between 2014 and 2019, in particular construction services (+596 per cent), and personal, cultural, and recreational services (+156 per cent).

Jordan exports its goods and services to 161 countries around the world. Table 4 shows the top destination countries in 2019. Globally, the United States appears to be the most important export partner with an export value of US$1.86 billion. This amounts to over one-fifth of Jordan's total export value. On the next ranks, we find Saudi Arabia, India and Iraq. However, the export relationship with these countries became less significant between 2014 and 2019. Overall, the global top 10 destination countries for Jordan's exports account for over 70 per cent of its total trade value.

Among the EU's Southern Mediterranean countries, Lebanon and the Occupied Palestinian Territory are the main destination countries for Jordan's exports. Despite significant growth rates of 19 and 10 per cent respectively between 2014 and 2019, their overall share in the Jordanian export basket remains low at about 2 per cent. Exports to Morocco have also increased by 42 per cent. The contribution of all other destination countries in this region has decreased by between 13 per cent (Egypt) and 69 per cent (Israel). Overall, Southern Mediterranean countries only account for 10 per cent of Jordan's total export value.

The value of exports to the EU and its 27 member states is comparably low. Except for the Netherlands (1.2 per cent), the share of each country is below 1 per cent. However, the import of Jordanian products seems to have accelerated in several countries between 2014 and 2019, most notably for Greece (+157 per cent), Belgium (+75 per cent), France (+74 per cent) and the Netherlands (+73 per cent). In other countries the import of Jordanian products has declined, in particular Bulgaria (-91 per cent) and Portugal (-29 per cent). Overall, the top 10 destination countries in the EU only account for 5.3 per cent of Jordan's total export value. If considering all 27 EU member states, the share increases slightly to 5.9 per cent.

Table 4 Top 10 export destination countries by region, 2019

Region	Rank (global value)	Country	Trade Value (in million US$)	Share in total trade	Growth rate 2014-19
GLOBAL	1	United States	1,855	20.8%	↑ 67%
	2	Saudi Arabia	1,145	12.8%	↓ -9%
	3	India	749	8.4%	↓ -16%
	4	Iraq	635	7.1%	↓ -54%
	5	United Arab Emirates	478	5.4%	↑ 25%
	6	China	453	5.1%	↑ 59%
	7	Kuwait	305	3.4%	↑ 79%
	8	Indonesia	258	2.9%	↑ 45%
	9	Lebanon	198	2.2%	↑ 19%
	10	Occupied Palestinian Territory	178	2.0%	↑ 10%
		Rest of World	*2,657*	*29.8%*	

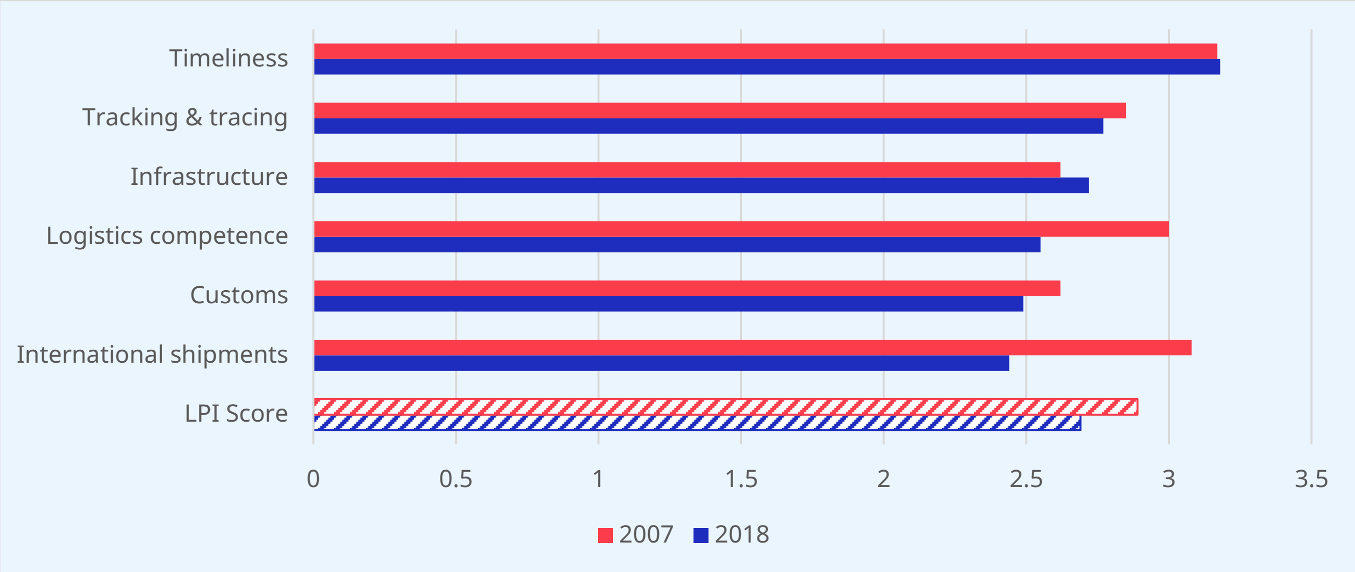
EU Southern Mediterranean	9	Lebanon	198	2.2%	↑	19%
	10	Occupied Palestinian Territory	178	2.0%	↑	10%
	13	Egypt	137	1.5%	↓	-13%
	14	Israel	114	1.3%	↓	-69%
	18	Syrian Arab Republic	95	1.1%	↓	-57%
	20	Algeria	82	0.9%	↓	-48%
	36	Libya	43	0.5%	↓	-3%
	43	Morocco	24	0.3%	↑	42%
	47	Tunisia	16	0.2%	↓	-46%
		Rest of World	*8,023*	*90.0%*		
European Union	15	Netherlands	104	1.2%	↑	73%
	21	Italy	77	0.9%	↓	-15%
	22	Spain	77	0.9%	↑	22%
	24	Belgium	71	0.8%	↑	75%
	38	Germany	40	0.5%	↓	-9%
	40	France	34	0.4%	↑	74%
	44	Greece	18	0.2%	↑	157%
	45	Portugal	17	0.2%	↓	-29%
	46	Romania	17	0.2%	↑	19%
	49	Bulgaria	14	0.2%	↓	-91%
		Rest of World	*8,444*	*94.7%*		
		EU-27	*530*	*5.9%*		

Source: Observatory of Economic Complexity.

1.3.1.2 Quality of infrastructure

The quality of the logistics network is crucial to the development of trade and transport of goods. The World Bank Logistics Performance Index allows countries to identify the challenges and areas for improvement in their performance on trade logistics. According to the Logistics Performance Index, Jordan scores particularly low in the ease of arranging competitively priced shipments and in managing customs and border clearance. At the same time, Jordan fares relatively well in delivering shipments within the expected timeframe. Between 2007 and 2018, Jordan only improved marginally in terms of timeliness and infrastructure but worsened for all other indicators. Consequently, its overall Logistics Performance Index score decreased and led to a drop in the global rankings from 52nd to 84th place.

▶ **Figure 16 Logistics Performance Index, 2007 and 2018 (1 to 5, 5= best)**



Source: World Bank Logistics Performance Index.

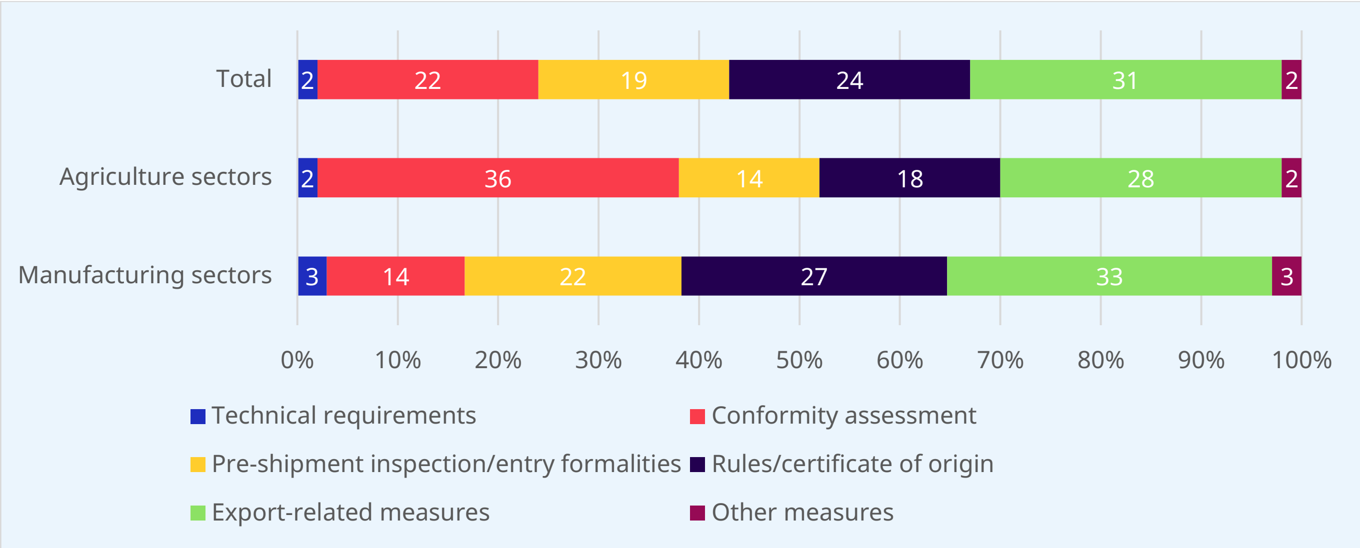
These logistical challenges are also reflected in the World Bank's Enterprise Survey in which 23 per cent of small and 33 per cent of medium-sized enterprises identified customs and trade regulations as a major constraint in 2019.

1.3.1.3 Non-tariff measures

Non-tariff measures are usually imposed by countries in order to respect social, safety and environmental practices. The gradual reduction of tariffs made such non-tariff measures a major impediment to trade, especially for SMEs, which lack the capacity to process and meet such regulations.

In 2016, the International Trade Centre surveyed 570 Jordanian exporters to identify the specific non-tariff measures that affected their business. Overall, 48 per cent of exporters considered such measures to be an obstacle (International Trade Centre 2018a). In almost nine out of ten cases, difficulties arose from procedural issues, rather than the severity of the measure. Most respondents in the agricultural sector identified conformity measures as the key obstacles (Figure 17). In the manufacturing sector, measures of the exporting country, such as export taxes, export quotas or export prohibitions, were cited most frequently. Obtaining a certification for the rules of origin were more problematic for manufacturing than agricultural products. In this context, exporters highlighted a lack of knowledge and expertise, as well as the fees charged by the respective agencies.

▶ **Figure 17 Type of non-tariff measures by sector, 2016 (percentage)**



Source: International Trade Centre non-tariff measures business survey, 2015–16.

1.3.1.4 Integration in regional and global value chains

As a result of the increasing fragmentation of international production, global trade has become more complex and, as revealed by the global COVID-19 pandemic, more fragile. Since the 2007-08 global financial crisis, global value chain integration has slowed.

The European Bank for Reconstruction and Development conducted a series of diagnostics on the integration of Southern and Eastern Mediterranean countries in global value chains. These diagnostics show that the overall level of integration of the region is low. Only 50 per cent of the respective exports have some value chain linkages (European Bank for Reconstruction and Development 2020). In general, Jordan is less involved in global value chains but has stronger backward (mainly in the apparel industry) than forward linkages (mainly in the chemicals and mineral industry): about 25 per cent of its export value being foreign inputs and 15 per cent being domestic value added exported to other countries used in further export production (European Bank for Reconstruction and Development n.d.). The country therefore strongly relies on foreign value-added inputs and intermediates to produce its export products.

Ayadi et al. (2021) examined how COVID-19 affected different countries through their regional integration and their exposure to global value chains. The analysis highlights the limited integration of Southern Mediterranean countries. The value-added of Jordan's export products, for instance, relies only to a small extent (3 per cent) on inputs sourced from Southern Mediterranean countries. It relies more heavily on inputs from the Northern Mediterranean countries Italy, Greece, Spain and France (14 per cent). The largest share of inputs (83 per cent) is sourced from the rest of the world. The authors also provide an analysis of the regional integration from the demand side and find an even stronger reliance of Jordan on the rest of the world (95 per cent) compared to the Mediterranean region (5 per cent). This also reflects the strong reliance of the production of Jordanian export products on global demand or supply. Compared to the other Southern Mediterranean countries, Jordan is the least dependent on both demand and supply shocks from the Mediterranean region since its main trading partners are the United States and Middle Eastern countries (see Table 4). Jordan's concentration on a few trading partners also implies a greater exposure to cyclical fluctuation in these partner countries. Jiang, Kucera and Chan (forthcoming) show, for instance, that the trade collapse to the United States induced by the COVID-19 pandemic led to a loss of over 45,000 jobs in Jordan. Women were disproportionately affected by this loss. This loss was overcompensated during the subsequent recovery phase and resulted in a net employment effect of about 30,000 jobs. It is worth emphasizing that this positive net employment effect does not mean that the overall impact on jobs through changes in exports during the Covid-19 crisis was positive. Without the trade contraction, the overall effect would likely have been much higher.

The progress report on the regional integration of Southern Mediterranean countries draws a similar conclusion. Jordan's intra-regional exports of manufacturing products (except for transport equipment) fell way below the expectations. Chemical products, for instance, only reached half the predicted level between 2015 and 2018 (OECD 2021b). According to a study by Egel et al. (2019), a better economic integration of the six core Levant countries[8] could increase their average GDP by 3 to 7 per cent. In addition, it would create between 0.7 and 1.7 million new jobs, which could reduce unemployment rates in the region by 8 to 18 per cent.

These assessments underscore the importance of the Agadir Agreement to increase regional value chains between Southern Mediterranean countries on the one hand, and the importance of the Euro-Mediterranean Agreement to take better advantage of value chains with EU member states.

1.3.2 Export potential assessment

The fluctuations in the composition of Jordan's export basket reflect the country's efforts to identify new export opportunities. The International Trade Centre developed two indicators to assist countries with the identification of promising products for inclusion into export promotion activities, the export potential indicator and the product diversification indicator. Both indicators break down a country's potential exports of a product to a given target market into three factors: supply, demand and ease of trade (Decreux and Spies 2016).

1.3.2.1 Export potential indicator

The export potential indicator identifies products for which the exporting country has already proven to be internationally competitive, and which have good prospects of export success in specific target market(s) (intensive product margin).[9] Table 5 gives an overview of the sub-sectors that bear untapped export potential for Jordan, based on the export potential indicator. The export potential is the projected value in 2026 based on supply, demand, market access conditions and bilateral ease of trade.

On the global market, apparel, chemical and fertilizer products show the highest export potential. As also shown in Table 2, a large share of the global demand for these products is already saturated by Jordan's current exports, here calculated as the five-year average of past values. Nevertheless, a

[8] Egypt, Iraq, Jordan, Lebanon, Syrian Arab Republic, and Turkey.

[9] For further methodological details, please refer to Decreux and Spies (2016).

gap remains which can be considered as untapped export potential.[10] Fertilizers, for instance, show the largest absolute difference between potential and actual exports in value terms, leaving room to export an additional value of US$735 million. Chemicals (US$733 million) are in second place and apparel ranks third with an untapped export potential of US$569 million.

Within the Middle East and North Africa region, we find again the largest untapped export potential for fertilizers (US$457 million), followed by pharmaceutical components (US$251 million), apparel (US$192 million) and chemicals (US$111 million).

Compared to the previous two regions, the export potential to the EU and Western Europe is considerably smaller. Also here, apparel (US$179 million), chemical (US$55 million), pharmaceutical components (US$38 million) and fertilizers (US$26 million) are the top product categories with untapped export potential.

Table 5 Sectors with untapped export potential, ranked by region and total export potential

Region	Rank	Sub-sector	Export potential (in million US dollars)	Actual exports (in million US dollars)	Untapped export potential (in million US dollars)
World	1	Apparel	2,000	1,900	569
	2	Chemicals	1,600	1,100	733
	3	Fertilizers	1,400	821	735
	4	Pharmaceutical components	712	638	467
	5	Live animals (except poultry)	568	105	463
	6	Vegetables	194	211	72
	7	Jewellery & precious metal articles	181	104	131
	8	Food products n.e.s. (processed or preserved)	140	115	85
	9	Mineral products	114	105	67
	10	Paper products	111	107	62
Middle East & North Africa	1	Live animals (except poultry)	167	143	69
	2	Chemicals	298	522	111
	3	Pharmaceutical components	280	34.9	251
	4	Apparel	355	255	192
	5	Fertilizers	562	105.2	457
	6	Vegetables	49	57.3	26

[10] The untapped export potential reflects the extent to which potential exports deviate from actual exports. Actual exports may be higher or lower than the expected potential value. When actual exports exceed potential exports, this can be driven by an exporter's exceptional performance in some markets while neglecting others. Conversely, the untapped potential value signals room for export growth if frictions, for example in the form of regulations or buyer-seller mismatches, can be overcome (see https://exportpotential.intracen.org/en/resources/learning/glossary#realized-potential).

	7	Jewellery & precious metal articles	56	74.1	30
	8	Food products n.e.s. (processed or preserved)	28.8	70	14.6
	9	Mineral products	49.5	65.3	13.4
	10	Paper products	83.9	84.4	39.5
European Union & Western Europe	1	Apparel	237	73	179
	2	Chemicals	78	98	55
	3	Fertilizers	45	48	26
	4	Pharmaceutical components	39	2.3	38
	5	Vegetables	9.6	11	7.9
	6	Fruits	6.8	8.8	5.1
	7	Machinery, electricity	6.3	1.1	6.2
	8	Jewellery & precious metal articles	5.8	4	4.4
	9	Food products n.e.s. (processed or preserved)	5.2	17	3
	10	Plastics & rubber	4.4	14	3.8

Source: International Trade Centre Export Potential Map
Note: N.e.s: Not elsewhere specified.

In collaboration with the ILO, the International Trade Centre further developed their methodology by integrating employment data into the analysis. This amended approach of spotting export potential for employment was applied in Jordan in 2018 to estimate the employment impact of the untapped export potential in the country. The approach allows for a differentiation between direct, indirect, and induced jobs:

- **Direct jobs**: Realising the export potential of a product would require an increase in production which would, in turn, increase the demand for labour.
- **Indirect jobs**: An increase in production would entail an increase in production inputs. This additional demand for inputs could translate into job creation in sectors supplying the expanding production.
- **Induced jobs**: Higher production levels increase the available income in an economy and therefore lead to higher consumption. This, in turn, can boost the overall demand for goods and services and result in employment creation.

The study (ILO 2019a) concludes that realising Jordan's untapped export potential could create a total of 106,345 jobs, 32 per cent of which would be direct jobs, 26 per cent indirect jobs, and 42 per cent induced jobs. The clothing industry is expected to create the highest number of new jobs (33,713), followed by the fertilizers (14,362) and chemical products industries (7,197). About a quarter of the new jobs would be for women (27,631), with the highest shares in the clothing (40 per cent), pharmaceutical (23 per cent) and other manufacturing industries (22 per cent).

The outcome of this analysis informed a subsequent ILO Skills for Trade and Economic Diversification study which identified skills needed to promote international trade and boost economic growth in the chemicals and cosmetics manufacturing sector (ILO 2020).

Another study conducted by the Jordan Chamber of Industry in cooperation with the ILO and with support from the Government of the Netherlands identified the manufacturing products that benefit from the relaxed rules of origin of the free trade agreement with the EU (see section II 1.2.1) and that present considerable potential regarding value added, export and employment creation. According to these criteria, a list of 525 products has been compiled, including textile and garment products (e.g. sports shoes, coats, jackets, buttons and tableware) but also household products such as kitchenware and PVC flooring (JCI, ILO, Government of the Netherlands 2019).

1.3.2.2 Product diversification indicator

The product diversification indicator identifies products that the exporting country does not yet export competitively but which seem feasible based on the country's current export basket and the export baskets of similar countries (extensive product margin). Table 6 shows a ranking of the likelihood of successful product diversification based on supply, demand and market access conditions. Considering these dimensions, Jordan's best options for export diversification in the global economy are lentils, sesame seeds and avocados. Each of them bears a considerably large import value of US$2.3 billion to US$6.3 billion.

Lentils and sesame seeds are also the products that can be most easily diversified when exporting to the Middle East and North Africa region. The region appears to be a key destination market for both products with projected import values of US$768 million and US$860 million respectively, corresponding to over one quarter of the total global demand for sesame seeds and one third for lentils.

The EU and Western Europe would be an interesting market if Jordan decides to add avocados, lentils and/or sports footwear to its export basket. The projections are particularly high for avocados and sports footwear since the region accounts for 43 and 56 per cent of the total projected import value.

▶ **Table 6 Sectors with potential for product diversification, ranked by region and projected import value**

	Rank	Product	Projected import value (in million US dollars)
World	1	Lentils, dried & shelled	2,300
	2	Sesame seeds	3,200
	3	Avocados, fresh or dried	6,300
	4	Legumes n.e.s., dried & shelled	576
	5	Lemons & limes, fresh or dried	3,700
	6	Shrimps & prawns, frozen	18,000
	7	Cane or beet sugar & chemically pure sucrose	11,000
	8	Wheat or meslin flour	4,800
	9	Apricots, dried	364

	10	Fish n.e.s., whole, fresh	3,900
Middle East & North Africa	1	Lentils, dried & shelled	768
	2	Sesame seeds	860
	3	Wheat or meslin flour	1,000
	4	Avocados, fresh or dried	92.2
	5	Lemons & limes, fresh or dried	328.2
	6	Fish n.e.s., whole, fresh	293
	7	Cane or beet sugar & chemically pure sucrose	1,700
	8	Legumes n.e.s., dried & shelled	71.9
	9	Semi-milled or wholly milled rice	5,800
	10	Shrimps & prawns, frozen	593
European Union & Western Europe	1	Avocados, fresh or dried	2,700
	2	Lentils, dried & shelled	261
	3	Sports footwear, rubber/plastic soles & textile uppers	8,900
	4	Lemons & limes, fresh or dried	2,000
	5	Sesame seeds	328
	6	Shrimps & prawns, frozen	5,000
	7	Fish n.e.s., whole, fresh	2,300
	8	Kidney beans, dried & shelled	569
	9	Apricots, dried	158
	10	Other footwear, rubber/plastic soles & uppers	11,000

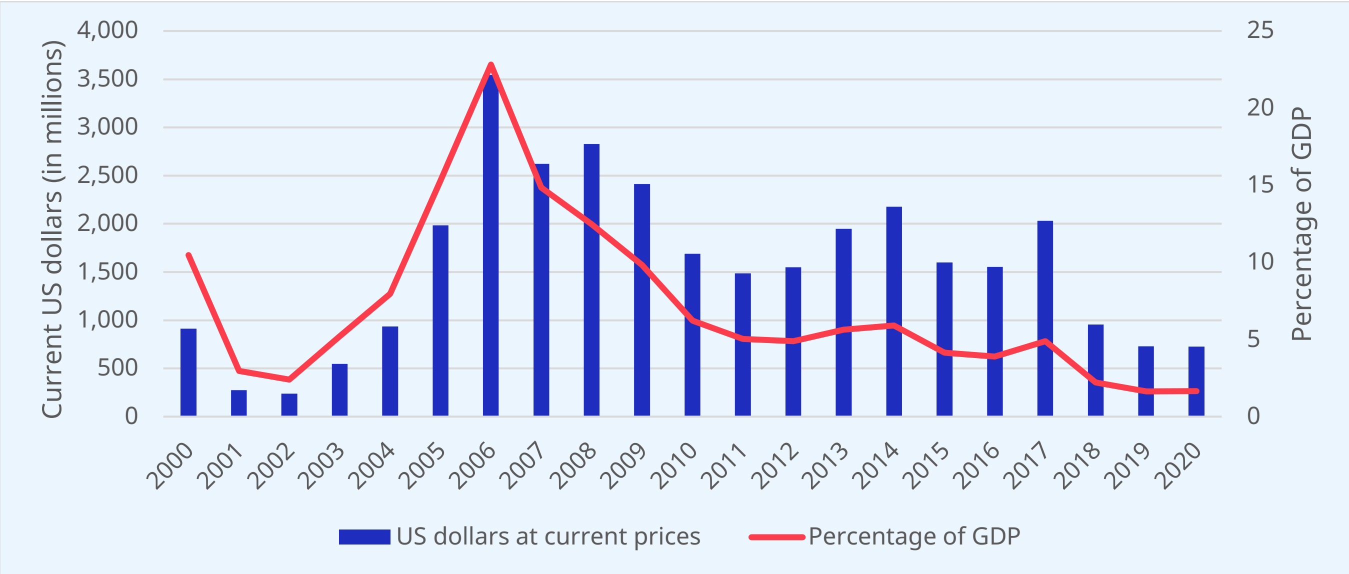
Source: International Trade Centre Export Potential Map
Note: Import values are projected for the year 2000. N.e.s: Not elsewhere specified.

In 2017, the Jordan Strategy Forum also conducted a study on the impact of a diversification of the export basket, based on the criteria: sophistication, distance and global market value of the product. Three scenarios were developed which assigned different weights to each of the criteria. Under the 'jobs scenario' criteria Jordan should prioritize products closer to its current productive knowledge. The research shows that sectors producing textiles, chemical and mineral products, metals, and animal products have the highest level of sophistication and are the closest to Jordan's current productive knowledge (Jordan Strategy Forum 2017). A study by Hausmann et al. (2020) confirmed the identification of the sectors (with the exception of chemicals) and supplemented the list by creative industries, education services and some specific opportunities in the agricultural sector.

1.3.3 Evolution of investment

One of the keys to integrate a country into the global economy is through FDI. In the early 2000s, Jordan experienced rapid growth of FDI inflow, amounting to US$3.5 billion in 2006. This corresponded to more than 22 per cent of the country's GDP. In the aftermath of the 2007-08 global financial crisis, FDI levels declined but remained relatively high compared to other developing economies, especially considering the size of the Jordanian economy. From 2017 to 2020 FDI inflow halved and fell from about US$2 billion to below US$1 billion, probably due to budget consolidatory measures (e.g. tax increases and subsidy cuts) announced by the Government in combination with geopolitical concerns in the region. It then remained at a level of below 2 per cent of the GDP.

▶ **Figure 18 Inflow of foreign direct investments, 2000-20**



Source: UNCTAD STAT.

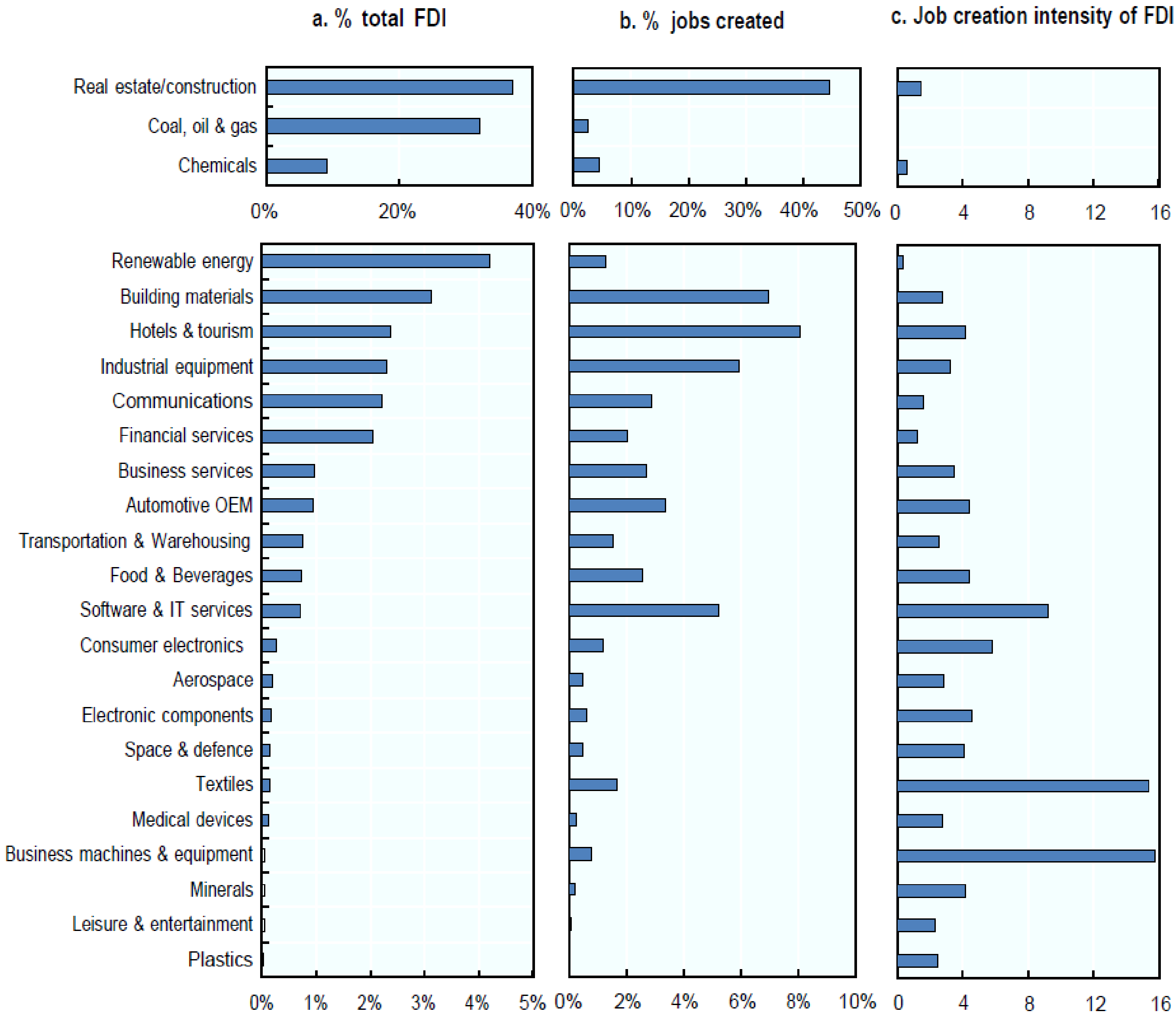
The Government of Jordan has initiated several large-scale projects over recent years, mainly related to infrastructure and often in partnership with foreign investors. Such investment opportunities mainly attract foreign investors from the United Arab Emirates, Saudi Arabia and Kuwait who account for half of the total FDI (OECD 2022). A recent mapping exercise of the business activities of 80 European companies in Jordan, carried out by the EU Delegation to Jordan, underscores the significance of European investors. These companies "have a combined annual turnover of around €2.5 billion, pay close to €230 million annually in corporate tax, and contribute to 22,000 direct and indirect jobs" (EUD 2021). Most of the jobs created are held by Jordanian nationals (92 per cent) and in SMEs (62 per cent). Almost one-fifth of the jobs created are held by women.

Real estate development and construction, coal, oil and gas, as well as the chemicals industry are most frequently targeted by foreign investors and corresponded to almost 80 per cent of all FDI between 2003 and 2020 (Figure 19, panel a). However, Jordan was also successful in attracting investors for renewable energy projects; although, to a much lesser extent (4.5 per cent of total FDI). In line with its efforts to improve energy security through energy from renewable resources (see section II 1.3.2 Green economy policy), FDI worth US$2.3 billion was collected to finance 25 wind and solar power projects.[11] These projects have an energy generating capacity of more than 1.1

[11] Annex 1 provides further details and includes a list of major infrastructure projects which are (co-)financed by foreign investors.

gigawatts. Jordan's advanced policy and regulatory framework for investments in renewable energy encourages this trend (OECD 2018).

▶ Figure 19 Greenfield foreign direct investment contribution to job creation in Jordan by sector, 2003-20

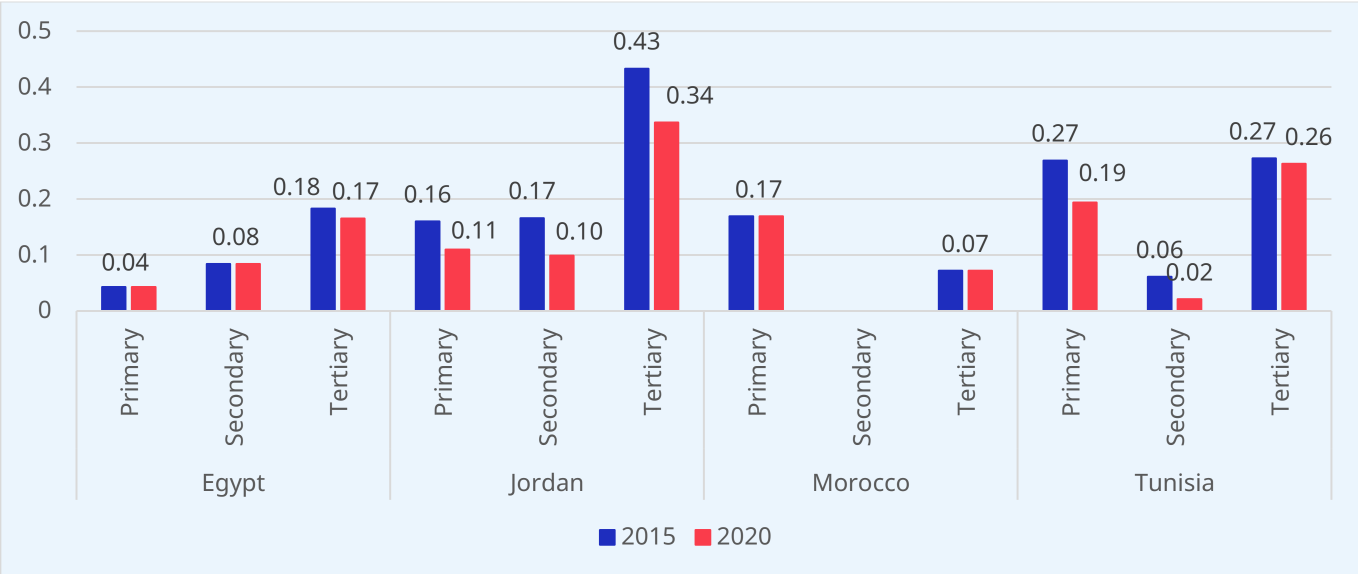


Notes: Greenfield FDI corresponds to announced capital expenditure (CAPEX). Number of jobs and CAPEX are partly based on estimates. Job creation intensity of FDI in panel C corresponds the number of jobs expected to be created per USD 1 million of announced CAPEX. It is calculated as a 2-year moving average value. Greenfield FDI in mining and fuels also covers oil and gas-related power generation.
Source: OECD (2022, 85) based on Financial Times FDI Markets, as of May 2021.

Most FDI-related jobs (45 per cent) can be found in real estate and construction (Figure 19, panel b). However, these jobs usually only exist over the actual labour-intensive construction period and therefore cease relatively quickly. In contrast, jobs created in hotels and tourism (8 per cent), as well as in the building materials (7 per cent) and industrial equipment (6 per cent) sectors, could be longer lasting and provide opportunities for higher skilled workers. When assessing the number of jobs expected to be created per US$1 million of investment, panel C shows that textiles as well as business machines and equipment create the most jobs. For every US$1 million invested, around 16 jobs are created. In contrast, the sectors attracting most FDI rarely create more than two jobs per US$1 million of investment.

The ability of an economy to attract foreign investors can be also assessed by the OECD's FDI Regulatory Restrictiveness Index (Figure 20). The index gauges the restrictiveness of a country's FDI rules by evaluating 22 sectors on the basis of the prevalence of different types of restrictions.[12] Compared to other Southern Mediterranean countries, Jordan has relatively restrictive rules in the service sector (tertiary). Although this index value shrank by 20 per cent between 2015 and 2020, Jordan's potential to advance structural transformation through service sectors seems to be largely unrealized. In particular, tourism, business services, distribution, transport and logistics could generate productivity gains and stimulate labour demand, including for high-skilled young and women workers (OECD 2022). Foreign direct investment restrictions seem to have also decreased significantly to 0.10 for the manufacturing sector (secondary) and are now at a similar level as Egypt but still much higher than in Tunisia. There is also a decrease in the extraction of raw materials sector (primary).

▶ **Figure 20 Foreign direct investment Regulatory Restrictiveness Index, 2015 and 2020**



Source: OECD.Stat
Note: Scores range from 0 (open) to 1 (closed). No data available for the secondary sector in Morocco.

Real estate investment (0.833) and architecture (0.645) are the most restricted sectors. The third rank is shared by several sectors, such as retail, wholesale and distribution (0.545) (OECD n.d.). On the other side of the spectrum, we find basic infrastructure services (e.g., electricity generation and transport equipment), as well as information and communication technology (e.g., mobile and fixed telecoms and radio and television broadcasting). Three-quarters of the overall index can be attributed to equity restrictions, such as to the prevention of full or foreign-majority ownership. At

[12] (i) Foreign equity limitations, (ii) screening or approval mechanisms, (iii) restrictions on the employment of foreigners as key personnel, and (iv) operational restrictions.

the same time, restrictions regarding key foreign personnel and discriminating screening and approval policies appear to be less relevant in Jordan.

A study by the Jordan Strategy Forum (2018) reiterates these findings and stresses the importance of regulatory stability. The Government and its respective agencies would need to exercise more transparency and predictability in order to increase the level of FDI.

1.3.4 Summary

Jordan's trade relationships intensified over the past two decades, leading to increased imports and exports. However, imports exceed exports, which results in a persistent trade deficit. Textiles and chemical products are currently Jordan's main export goods, and they are also the product group with the largest untapped export potential. Travel and transport are the main service exports. Jordan could diversify its export basket by adding different food products as well as footwear, depending on the destination market.

The country is facing several obstacles to better harness the benefits of external trade relationships (ILO 2022a). Existing non-tariff measures as well as complicated customs and certification procedures slow down export companies. In addition, improving transport quality, including the road networks, and the logistics environment are key to foster trade. Overall, Jordan ranks relatively low in the global value chain and relies strongly on imports with foreign value-added. A better integration into the region could help the country to climb up in the global value chain and, at the same time, enable local SMEs to access a wider market.

The inflow of FDI is a potential avenue to upgrade the Jordanian economy. In the mid-2000s, the country attracted a substantial amount of foreign investment but this has decreased over time. The service sector in particular faces difficulties to attract investors despite its significant potential to advance Jordan's structural transformation. Targeted investments could also accelerate Jordan's transition to a green economy (see section II 1.3.2 Green Economy Policy). This would require greater regulatory stability as well as more transparency and predictability on behalf of the Government and its agencies. Existing restrictions regarding foreign ownership should be revisited, especially for sectors with a solid comparative advantage. Moreover, the involvement of the private sector in infrastructure projects (i.e. through public-private-partnerships) could increase the quality of Jordan's infrastructure and would also reduce the fiscal burden on its public budget (OECD 2021a).

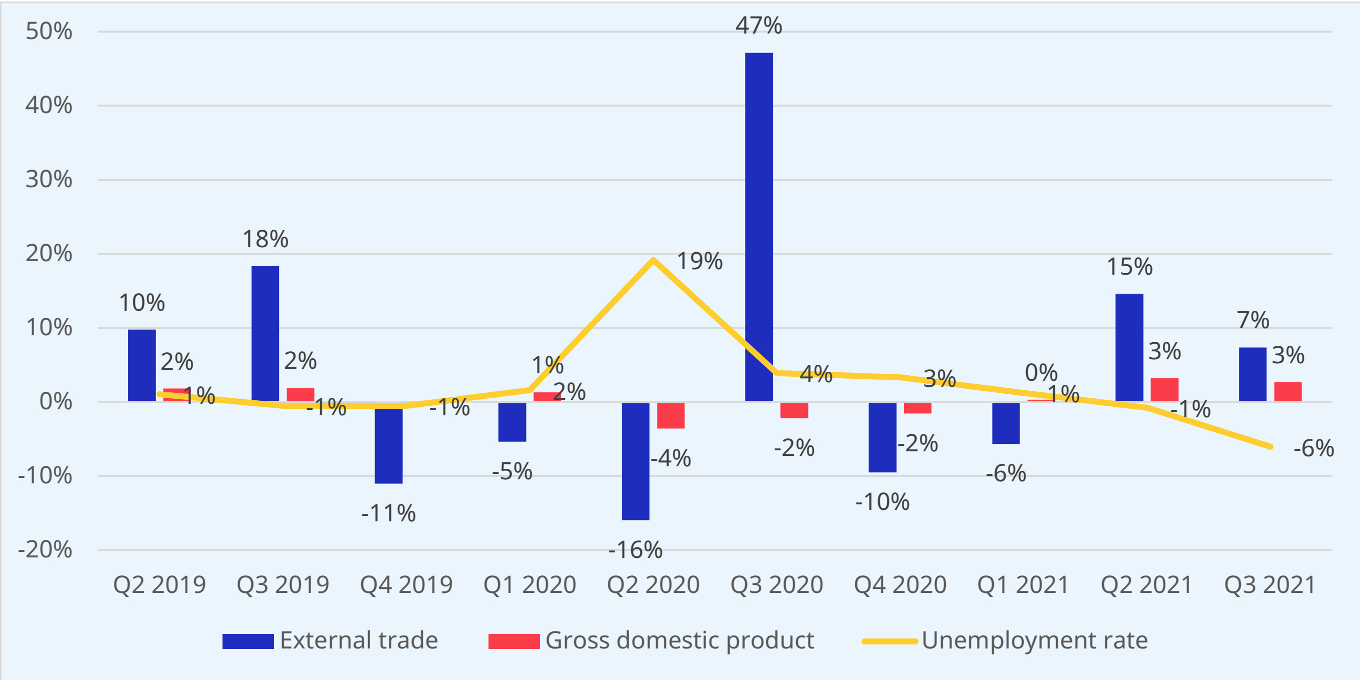
1.4 The impact of COVID-19 on employment, trade and investment

At the start of the COVID-19 pandemic in 2019, governments began to adopt different measures to protect their populations, including: mobility restrictions, strict hygiene measures in public places including restaurants and shops, restrictions at the workplace and even border closures. Many of these measures protected citizens from COVID-19, but had a devastating impact on economies.

Figure 21 illustrates the economic repercussions of the pandemic in Jordan. Until the third quarter of 2019, Jordan's external trade was growing at a relatively high rate and unemployment decreased slightly. Overall, the economy expanded at a rate of 2 per cent compared to the previous quarter. In the following quarter, external trade dropped. With the arrival of the virus in Jordan during the first quarter of 2020 and the imposition of a strict nationwide curfew, external trade contracted by

16 per cent and GDP by 4 per cent. Simultaneously, unemployment surged by 19 per cent. While trade grew at a remarkable rate of 47 per cent in the third quarter of 2020, GDP continued to shrink and unemployment rose. The first signs of recovery were seen in the second quarter of 2021, with an increase of trade (+15 per cent), a decline in the unemployment rate (-1 per cent) and a positive GDP growth rate (+3 per cent).

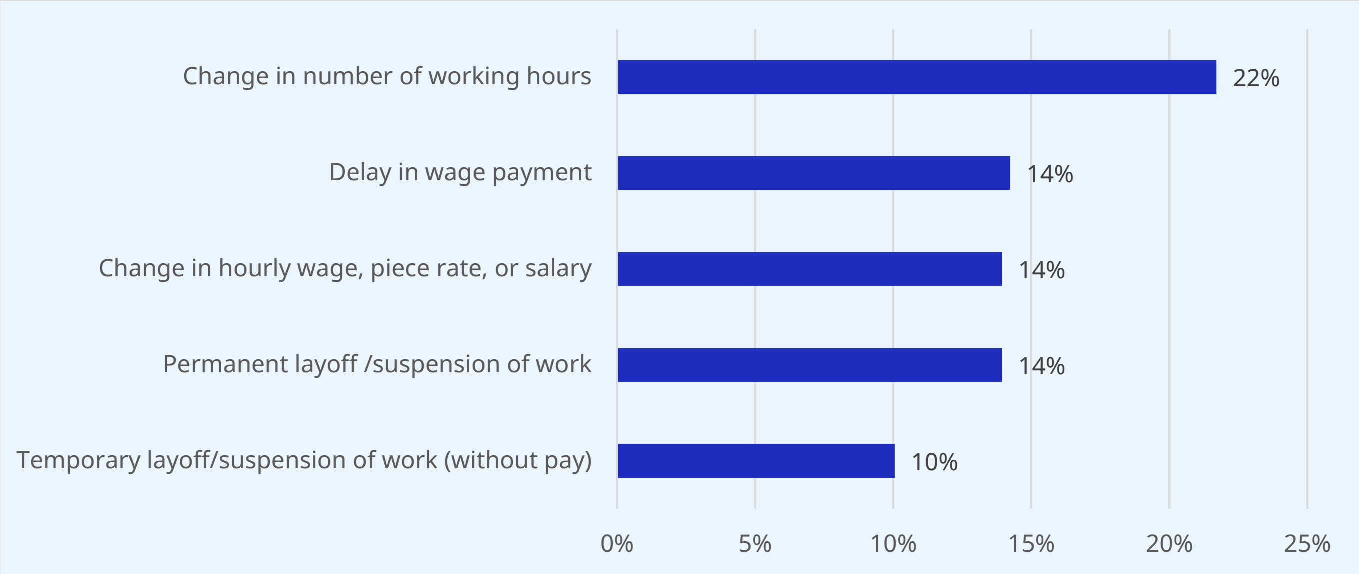
▶ **Figure 21 Evolution of trade, economic growth and employment, from the second quarter of 2019 to the third quarter of 2021 (percentage change compared to previous quarter)**



Source: Jordan Department of Statistics.
Note: No GDP data available for Q4 of 2019.

Several studies and rapid assessments document the devastating impact of the pandemic on workers and enterprises. The Economic Research Forum conducted the COVID-19 Middle East and North Africa Monitor Household and Enterprise Surveys over the second half of 2020 and the first half of 2021. Figure 22 shows that many workers suffered directly from the impact of the pandemic. More than one fifth of the respondents experienced a reduction in working hours and almost one quarter were permanently or temporarily laid off. Other repercussions included cuts or delays in payment. Further research shows that informal workers were greatly affected by these repercussions, in particular regarding layoffs and decreases in earnings (Krafft, Assaad, and Marouani 2021).

▶ Figure 22 COVID-19 impact on employed workers, first quarter of 2021 (percentage)



Source: Economic Research Forum COVID-19 Middle East and North Africa Monitor Household and Enterprise Surveys.
Note: Experiences related to the coronavirus in the last 60 days. Multiple answers allowed. N = 1,004.

The ILO and the Fafo Institute for Labour and Social Research conducted a rapid assessment in April 2020 (ILO and Fafo 2020). The aim was to better understand the scope of the crisis and some of the pressing issues and concerns of workers. The sampling strategy focussed on the most vulnerable, in particular women and Syrian refugees. The study finds that almost half of the respondents (47 per cent) who were employed before the pandemic, were out of work at the time of the interview. Most of them had been dismissed temporarily (28 per cent) or permanently (38 per cent), and 34 per cent were on paid leave. Furthermore, respondents reported a significant decline in their median monthly income (-42 per cent) and an increase in household and childcare duties, particularly for women. The increase of household and caring responsibilities for women was also confirmed by the Economic Research Forum data, which shows that one third of women spent more time than usual doing household work and almost half spent more time caring for children.

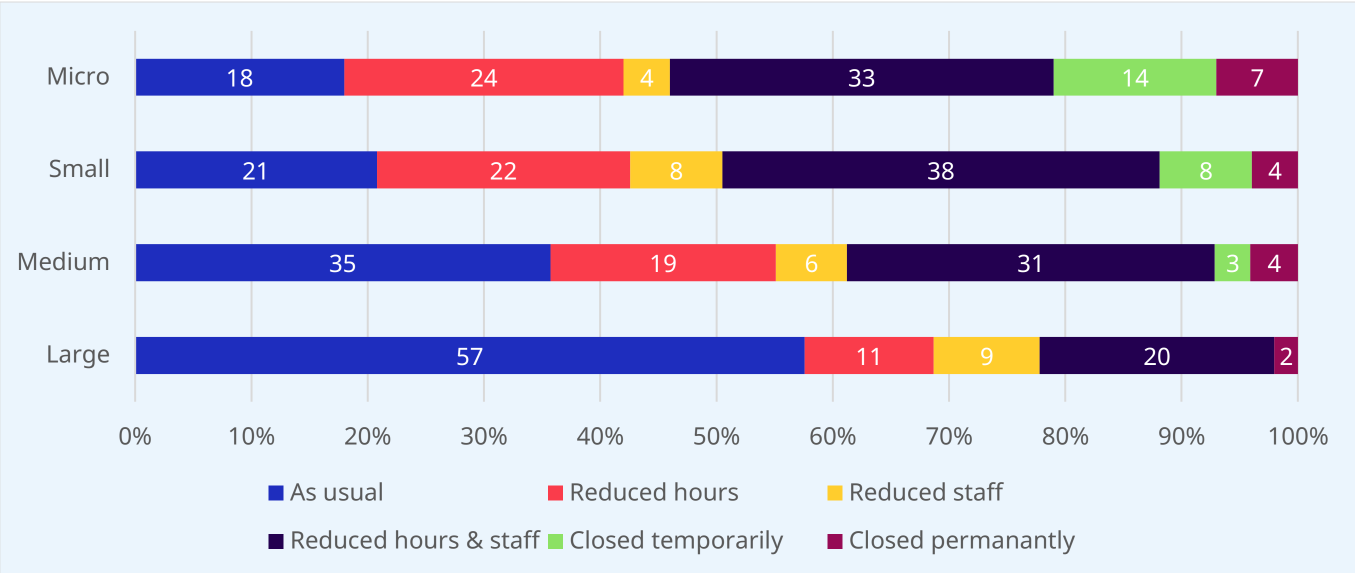
The findings seem to be in line with the research carried out by the European Investment Bank, the European Bank for Reconstruction and Development, and the World Bank on the impact of COVID-19 on enterprises (World Bank Group n.d.). The data shows that about half of the enterprises in Jordan have had to decrease the total number of permanent workers since December 2019. The decrease was greater in small enterprises (54.2 per cent) compared to medium-sized (48.1 per cent) and large enterprises (43.6 per cent). Moreover, the service sector (55.8 per cent) was more seriously affected then manufacturing (44.2 per cent). Women were more affected by this downsizing. The share of women permanent full-time workers decreased overall by 7.8 percentage points, this trend was most pronounced in small enterprises (-13.6 percentage points). The disproportionate loss of jobs in combination with an unequal distribution of care and household responsibilities, further aggravated the financial fragility of women and could result in women being disproportionately affected by poverty (UfM 2022).

Tamkeen, a Jordanian non-governmental organization, assessed the impact of the pandemic on migrant workers and revealed a deterioration in their working conditions in industrial areas during

2020 (Tamkeen 2020). According to the report, many migrant workers experienced delays or reductions in payments which resulted in conflicts between factory owners and workers. Moreover, inappropriate housing conditions could hamper physical distancing, facilitating the spread of the virus among workers.

Another study by the ILO, the Fafo Institute for Labour and Social Research and the United Nations Development Programme surveyed more than 2,000 Jordanian enterprises between February and March 2021 (ILO, Fafo and UNDP 2021). Figure 23 shows that large enterprises were much less affected by the consequences of the pandemic than micro, small and medium-sized enterprises. In fact, the robustness of enterprises seems to decrease with size. Over half of the surveyed micro, small and medium-sized enterprises reduced working hours and/or staff in response to the pandemic. In addition, 21 per cent of the microenterprises, as well as 12 and 8 per cent of the SMEs had to cease operations; either temporarily or permanently. The World Bank Enterprise Survey found even higher numbers. Since the start of the pandemic, 14.6 per cent of firms closed permanently, with the highest share among small enterprises (18.8 per cent).

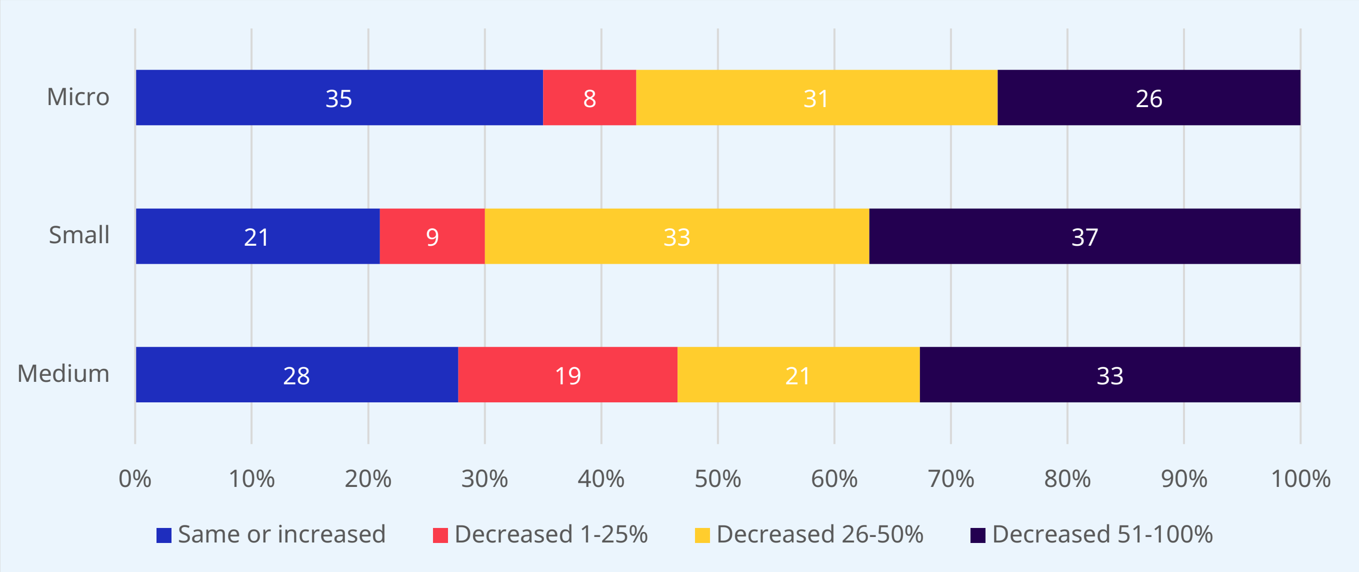
▶ Figure 23 Current operational capacity among enterprises by size, first quarter of 2021 (percentage)



Source: ILO, Fafo and UNDP (2021).
Note: N = 2,039.

The primary reason for ceasing business operations was the sharp drop in sales, due to the reduced demand for goods and services. Indeed, almost eight in ten entrepreneurs cited reductions in sales as one of the most serious consequences, followed by poor access to credit (58 per cent) and decreased revenues (46 per cent). The Economic Research Foundation COVID-19 Middle East and North Africa Monitor reports similar findings. The vast majority of micro, small and medium-sized enterprises reported a decrease in revenue, about one third at the scale of 51 per cent or more (Figure 24). The World Bank Enterprise Survey quantifies the financial loss in monthly sales to 33.4 per cent compared to the previous year with the strongest decline for small enterprises (39.8 per cent).

▶ **Figure 24 Revenue change by size, first quarter of 2021 (percentage)**



Source: Economic Research Foundation COVID-19 Middle East and North Africa Monitor Household and Enterprise Surveys.
Note: Revenue change over the past 60 days versus 2019.

▶ **Box 1 Policy responses of the Jordanian Government to combat the COVID-19 pandemic**

On 2 March 2020, the first positive COVID-19 case was officially confirmed in Jordan. Two weeks later, King Abdullah II signed a royal decree to enact the National Defence Law, declaring a state of emergency to contain the spread of the virus. A national response team led by the Prime Minister and the National Centre for Crisis Management introduced strict lockdown and response measures. These included the closure of schools and universities, air and land border crossings, private businesses, banks, and non-essential public services as well as all public religious gatherings and social events.

The Government issued several defence orders to boost the economy and protect jobs and livelihoods, for instance:

- **Fiscal and monetary measures**: To stimulate the economy, the Central Bank of Jordan dropped the interest rate, enabled the rescheduling of loans for sectors affected by the pandemic at no cost and reduced the cash reserve requirement for banks to release an additional liquidity of around 550 million Jordanian dinars (US$775 million).
- **Support for enterprises**: The Government established emergency funds for companies at risk, facilitated bank guarantees, reduced tax rates, and introduced payment plans for overdue social security contributions.
- **Workers**: The Solidarity 2 programme targeted enterprises that are not affiliated to a social security scheme. Under this programme, employees receive monthly unemployment benefits while the enterprise pays a fixed amount. Wage subsidy programmes and emergency funds were also launched by the Government and civil society organizations.

- **Wages**: The Solidarity 1 programme provided 50 per cent of the employees' salaries while the employer pays 20 per cent. The Government also permitted wage reductions provided both workers and employers agreed.
- **Social dialogue:** The General Federation of Jordanian Trade Unions and the Jordan Chamber of Industry were consulted on the development of the measures targeting employers and workers. Moreover, the General Federation of Jordanian Trade Unions is supporting workers by recording cases of irregularities in wage payment. The representatives of the leather and garment industries sector at the Jordan Chamber of Industry, after dialogue with the Ministerial COVID-19 Committee, have agreed to the partial operation of the garment factories inside Special Economic Zones.
- **Assistance from the international community**: The ILO conducted rapid assessments and provided technical expertise to the Social Security Corporation, the Ministry of Labour and the Ministry of Social Development to shape the policy responses required to limit the crisis' negative impact on employment. The World Bank provided over US$1.1 billion to Jordan in order to alleviate the impact of the COVID-19 crisis.[13] The financing includes emergency health and vaccine support, cash transfer programmes for vulnerable segments of society, support for the business sector, and financing for programmes to promote public and private investments in a climate-resilient and inclusive recovery. In addition, other United Nations agencies and international development agencies, including USAID, the EU and GIZ, provided support to address the health, social, and economic consequences of the pandemic, in particular for vulnerable groups.

Sources: ILO, the Fafo Institute for Labour and Social Research and the United Nations Development Programme (2021) and ILO's COVID-19 and the world of work country policy response portal.

The nexus between trade and industrial policies and the labour market is particularly important for Jordan, considering the stagnant labour market, high levels of unemployment and substantial disconnect between the population's aspirations and the reality of economic opportunities. If channelled correctly through effective institutions and industrial policies that promote structural change, trade and investment policies could help Jordan to expand its productive sectors while creating much-needed quality jobs, including for women and young people.

[13] More information available here: https://www.worldbank.org/en/news/press-release/2021/05/28/jordan-the-world-bank-group-adapts-its-strategy-to-support-covid-19-response-inclusive-and-resilient-recovery-and-contin.

▶ II. Policy review and debates

1.1 Evolution of employment, industrial and trade policies

Over the past few years, the Government has reached a consensus that the only way out of the unemployment crisis is through higher economic growth, induced by substantial increases in exports and FDI. The recent Jordan Economic Growth Plan (2018-22) prioritized attracting FDI, increasing exports, and enhancing the business environment. The Growth Plan was developed by the Economic Council and sets out a clear route to improve the business environment and the investment climate. In addition, the Plan calls for a more stable legal and regulatory environment supported by an innovation strategy to promote FDI-SME linkages and knowledge transfer.

In addition to the Growth Plan, in 2014, Jordan launched the Jordan Vision 2025 to spur economic growth and create jobs for Jordanians. The main priorities of these two overarching strategy documents are:

- **Enhancing economic diversification and facilitating trade** to promote Jordan as a key trade hub and an export-oriented economy; and
- **Enhancing employment and labour market participation** as a key pathway to inclusive and long-term growth. Greater labour market flexibility and skills development are key elements of the Government's approach to tackle unemployment and increase labour force participation rates, in particular among women and young people.

The Vision 2025 and the Economic Growth Plan provide strategic direction and are further supplemented by several national strategies for the implementation of policy objectives.

1.1.1 Employment policies

Launched in 2012, the National Employment Strategy 2011-20 defines its main goal as improving standards of living for Jordanians, through increased employment, wages, and benefits, and productivity improvements. To achieve this goal, the Strategy suggests an integrated approach that combines fiscal, monetary and investment policies, as well as education and social welfare policies. Its action points are divided into three phases. The short-term goal (until 2014) was to absorb the unemployed through targeted active labour market programmes and SME development programmes. In the mid-term (until 2017), the educational sector was supposed to be reformed in order to improve the school-to-work transition and reduce the skills mismatch on the labour market. The long-term goal was to increase productivity through human capital development and economic restructuring by 2020. The Jordanian Government is currently preparing a new National Employment Strategy which is expected in 2022.

To bridge the gap, the Ministry of Labour is presently implementing a National Empowerment and Employment Programme 2017-21, which mainly seeks to foster the labour market participation of Jordanians and create jobs for skilled Jordanians. The following sectors have been identified as priorities for this intervention: tourism, manufacturing (excluding garment production),[14] construction, agriculture, day-care centres and petrol stations. For each of the sectors, the National Empowerment and Employment Programme sets out annual targets to reduce the number of migrant workers, ranging from 10 per cent (construction) to 25 per cent (tourism) (ETF 2020). Moreover, the National Empowerment and Employment Programme aims to strengthen labour inspection and compliance with occupational safety and health standards, foster labour relationships with social partners and improve the quality of the public employment services.

The National Employment Strategy as well as the National Empowerment and Employment Programme place a particular emphasis on supporting women and young people, two areas which are further elaborated in the National Youth Strategy 2019-25 and the National Strategy for Women 2020-25. The National Strategy for Women was prepared by the Jordanian National Commission for Women and aims to create decent jobs for women and promote female entrepreneurship and leadership opportunities. In addition, it seeks to improve access to education and provide gender-sensitive infrastructure, such as safe and accessible means of transport. The National Strategy for Women is complemented by the Women's Economic Empowerment Action Plan (2019-24), jointly developed by Jordanian National Commission for Women and the Mashreq Gender Facility, and the Gender Mainstreaming Strategy (2021-24), jointly developed by the Public Security Directorate and UN Women. The National Youth Strategy is less explicit regarding employment opportunities for young people but includes some concrete measures to facilitate their transition into the labour market, such as targeted training for job seekers and an online repository for vacancies.

In line with the focus of the National Employment Strategy and National Empowerment and Employment Programme on a highly skilled and qualified workforce, the National Strategy for Human Resource Development (2016-25) aims to support the achievement of Jordan's social and economic ambitions and sets out an ambitious reform agenda for all sectors related to education. A cornerstone of this reform agenda is to enhance the relevance and attractiveness of the technical and vocational education and training system by improving the quality of the institutions involved and by further expanding the network of sector skills councils.[15] The most significant governance reform is the creation of the Technical and Vocational Skills Development Commission, which replaced the wider employment, technical and vocational education and training system (E-TVET), led by the E-TVET Council. The Technical and Vocational Skills Development Commission has its own council, chaired by the Minister of Labour, and most of its members are from the private sector. One of the key objectives of Technical and Vocational Skills Development Commission is to improve the quality of technical and vocational education and training quality by applying international best practices to training and to harmonize occupational standards and quality assurance among all technical and vocational education and training providers through enhanced engagement and coordination with the private sector.

With all these employment programmes and initiatives in Jordan, the Government is developing a new National Empowerment and Employment Programme in coordination with workers' and employers' organizations, financial institutions, industry and civil society groups. The goal is to

[14] Garment production mainly takes place in economic zones which are managed according to specific terms in free trade agreements.

[15] Sector skills councils are independent, employer-led organizations on national level which seek to build a skills system that is driven by employer demand (ILO 2019b).

design a coherent framework linking all employment policy interventions that affect both the supply and demand sides of the labour market.

Drafted in 2014, the National Entrepreneurship and SME Growth Strategy (2015-19) aimed to foster job creation and income generation by promoting business start-ups and improving the performance and growth of existing SMEs. However, the strategy and the accompanying action plan were never officially approved by the Government. In 2021, the Jordan Cooperative Corporation with the support of the ILO launched a National Strategy for the Cooperative Movement in Jordan. This strategy seeks to strengthen the role of cooperatives in enhancing decent work and productivity in different economic sectors in the country.

Jordan and the World Bank, in coordination with other donors, prepared a five-year reform matrix on growth and job creation in 2018. The reform matrix[16] aims to help the Government to implement its reform agenda in line with the Economic Growth Plan. The matrix includes a set of reforms aimed at increasing Jordan's macroeconomic stability, enhancing the business environment and improving competitiveness. It focuses on the legal environment for businesses and trade, and on establishing a flexible labour market to create more jobs. The matrix also aims to increase national exports of goods and services and facilitate access to finance from local funding institutions. A reform secretariat was established at the Ministry of Planning and International Cooperation in 2020 to follow up on the implementation of these reforms. In 2021, the reform secretariat led a dialogue with the private sector to update the reforms light of the COVID-19 pandemic.

Some of the key achievements that were reported by the reform secretariat in relation to trade, FDI and the labour market (up to July 2020) are summarized in Box 2.

▶ Box 2 Key achievements of the reform secretariat

REDUCE BUSINESS COSTS, IMPROVE REGULATORY QUALITY AND INCREASE COMPETITION

- Initiation of the investor journey reform to streamline regulatory requirements and procedures across the business lifecycle
- Adoption and entry into force of a regulatory predictability framework to improve governance and regulatory certainty
- Introduction of a new monitoring and inspection framework

DRIVE FOREIGN DIRECT INVESTMENT AND PROMOTE EXPORT DEVELOPMENT OF PRODUCTS, SERVICES AND MARKETS

- Opening of 22 out of 51 economic activities to full ownership by non-Jordanian investors
- Introduction of an investor grievance redress mechanism
- Implementation of a roadmap for digitizing Government payments
- Launch of the customs national single window to automate all trade related procedures

[16] Further information on the reform matrix available at: https://mop.gov.jo/ebv4.0/root_storage/en/eb_list_page/reform_matrixturningcorneren28feb2019-1.pdf

MAKE LABOUR MARKETS MORE FLEXIBLE TO CREATE JOBS

- Reducing procedural steps for registration and licensing of nurseries
- Flexible work permit scheme for migrant workers in specific occupations
- Allowed hiring of non-Jordanians in highly specialized occupations and positions
- By-laws and instructions specifying acceptable working conditions in the agriculture sector

Source: Ministry of Planning and International Cooperation, midterm progress, reform matrix, 2020.

1.1.2 Industrial policies

Jordan has implemented many initiatives specifically to incentivise exports. The Industrial Policy (2017-21)[17] was prepared by the Ministry of Industry and Trade in cooperation with stakeholders from the public and private sectors. It replaces the 2010-14 industrial policy. The updated policy includes education, training and employment, energy and transport, women's' empowerment, and legislation and laws as key components due to their importance to the industrial sector. At the same time, important elements of the previous policy were maintained, including the development of Jordanian products, creativity and innovation, investment promotion, specifications and standards, and protection of the environment. Industrial experiences from other countries (including Egypt, Tunisia, Turkey and the United Arab Emirates) constituted important reference points for the formulation of the new policy.

The overarching goal of the policy is to increase the attractiveness of the industrial sector for investors and to provide export incentives. The policy highlights that the high production costs and scarcity of natural resources (especially water, energy and raw materials) have a direct negative impact on the competitiveness of Jordanian products. In addition, the policy identifies the lack of trained and qualified workers as well as access to finance and high tax rates, as key challenges.

The policy includes a detailed action plan to achieve these goals with specific milestones. However, no follow-up mechanism was set in place and the activities were interrupted by a lack of funding and a change in priorities.

1.1.3 Investment laws, policies, and regulations

Over the past decade, Jordan has implemented an ambitious reform agenda to attract more FDI. This agenda was mainly designed to strengthen Jordan's position as an open, safe and attractive investment destination and comprised measures including laws and legislation to improve the investment climate in the country.

The Jordanian Investment Law of 2014 was the first important reform. The law provides several incentives and benefits for local and foreign investment in various sectors and established the Jordan Investment Commission. The Jordan Investment Commission, which recently became the Ministry of Investment, oversees the implementation of the Investment Law and the promotion of new and existing investments in Jordan. Jordan's steering committee for the development of the legislative environment regulating investment is currently developing an updated version of the

[17] Full text of the Industrial Policy available at: http://www.mit.gov.jo/ebv4.0/root_storage/ar/eb_list_page/2021-2017_السياسة_الصناعية.pdf [in Arabic only].

Investment Law which is expected to have three objectives: (i) creating a single window for establishing, registering and licensing economic activities; (ii) reducing production costs, in particular electricity; and (iii) enhancing the investment and business environment.[18]

The enactment of the Investment Law was followed by a set of important achievements, including the enactment of the Insolvency Law for bankruptcy of businesses,[19] the Movable Assets and Secured Lending Law and By-law (regulates loans secured with movable property, such as financial leases and fiduciary transfer of title), the Venture Capital By-law (regulates funding to early-stage start-up companies), and most recently the Private-Public Partnership Law to regulate and ease processes of joint projects with the private sector.

Article 12 of the Labour Law declares that it is not permissible to employ any non-Jordanian worker without the approval of the Minister of Labour or an authorized representative. The Government considers this article to be necessary to ensure that FDI will create jobs for Jordanian nationals.

According to the 2014 Investment Law and its by-laws, investment incentives in Jordan differ based on the area of investment (Table 7).

Investment in development zones

The Development Zone Law No. 2 of 2008 created six development zones, strategically distributed throughout the country, with a view to supporting investors by creating a competitive business environment and providing them with new investment and tax incentives.

According to the Ministry of Labour, textiles factories in these zones employed 64,989 workers, one quarter of whom were Jordanian nationals. Women make up 83 per cent of Jordanian nationals working in textile factories in development zones (MoL 2020).

Investment outside development zones

Incentives vary among sectors and regions, but generally include an exemption from customs duties.Under the income tax regulation for the less developed regions, the tax due on economic, industrial and vocational activities shall be reduced. Thus, investments in poorer areas benefit from greater tax deductions.

Aqaba Special Economic Zone

According to the Aqaba Special Economic Zone authority, the Zone has attracted investments of over US$20 billion, since its establishment.[20] The Aqaba International Industrial Park, has attracted investments of over US$600 million, creating 3,500 jobs in more than 100 different companies operating in the park. The plan is to increase the investments to US$1billion and to create an additional 2,500 jobs by 2023 (Jordan Industrial Estates Company n.d.). In the long term, the Zone is

[18] Further information on the Investment Law can be found at: https://www.jordantimes.com/news/local/new-investment-law-%E2%80%98positive-step%E2%80%99-key-lies-implementation-say-economists

[19] According to the World Bank, insolvency reforms encourage debt restructuring and reorganization reduce both failure rates among small and medium-size enterprises and the liquidation of profitable businesses. See, for instance: https://www.doingbusiness.org/en/data/exploretopics/resolving-insolvency/why-matters

[20] More information available at: https://www.ammonnews.net/article/352006 [in Arabic]

expected to attract an additional US$10 billion, which should create an additional 10,000 jobs in trade, industrial, logistics, and tourism sectors.[21]

Table 7 Investment incentives according to the Jordanian Investment Law of 2014

Incentive \ Investment area	Investment in Development Zones	Investment Outside Development Zones	Aqaba Special Economic Zone
Exemption from income tax on profits	✓	×	✓
Exemption from income tax on salaries and allowances of non-Jordanian employees	✓	×	✓
Exemption from custom duties	✓	✓	✓
Exemption from licensing fees, and building and land taxes	✓	×	✓
Permission to transfer foreign currencies and profits	✓	×	✓

Source: Authors' compilation from the UNCTAD Investment Policy Hub.

1.1.4 Export policies

In 2014, the Government of Jordan with support from the International Trade Centre launched Jordan's National Export Strategy (2014-19). The strategy seeks to develop the Jordanian economy, combat poverty and increase employment through export development. Its strategic objectives addressed the competitiveness of SMEs on the global market, the strengthening of Jordanian brands, and the creation of a favourable business environment for exports. Like the Industrial Policy, the strategy was only partially implemented and lacks continuity and follow-up mechanisms.

The most important step to promote exports was the establishment of **Jordan Exports** in 2020. Jordan Exports is a national company, responsible for promoting and developing the export sector in Jordan. It was established through a joint public-private sector funding. The services it provides are set out in Table 8.

According to figures from Jordan Exports, as of June 2021, 1,700 Jordanian companies had been informed of the Jordan Exports services, 200 companies received assistance to enhance their export readiness, and 20 companies received support to enter new markets (Jordan Exports, 2021).

[21] More information available at: https://jfranews.com.jo/article/186491 [in Arabic].

▶ **Table 8 Overview of services provided by Jordan Exports**

Market intelligence	Providing macro and sectoral market studies of both international and national markets to identify untapped export potential for Jordanian companies.
Export finance information	Providing comprehensive information for existing and potential exporters. For example, regarding sources of export financing and insurance.
Trade portal	Promoting trade and export to various stakeholders and service suppliers.
Export readiness assessment	Assessing the readiness of Jordanian companies that are interested in exporting and helping to enhance their understanding of export requirements.
Trade fairs	Promoting the products of Jordanian companies at trade fairs and provide mentoring on follow-up work needed to secure sales.

Source: Authors' compilation based on the website of Jordan Exports.[22]

1.1.5 Summary

Over recent decades, the Government of Jordan has initiated a series of reforms to foster economic growth. Jordan's Economic Growth Plan in conjunction with the Vision 2025 provide an overarching direction and seek to align various policy areas, including employment, trade and investment.

The current National Employment and Empowerment Programme (2017–21) seeks to decrease reliance on migrant workers by creating employment opportunities for skilled Jordanian national workers. Emphasis is placed on the labour market participation of women and young people as well as on the potential of SMEs, which is further refined in complementing strategies. Jordan's Industrial Policy (2017–21) seeks to increase the attractiveness of the industrial sector for investors and to provide export incentives. An important step for this endeavour was the enactment of the Investment Law in 2014, which provides incentives and benefits for local and foreign investment in various sectors. It also established the Jordan Investment Commission which recently became the Ministry of Investment. Another important entity was established under Jordan's National Export Strategy (2014–19): Jordan Exports, which is responsible for promoting and developing the export sector.

All these reforms and policy changes seem to have contributed to Jordan's economic development. However, the impact of some policies did not meet expectations. Moreover, only a few reforms included a clear roadmap for implementation and many lacked concrete follow-up mechanisms. In addition, several activities were interrupted by a lack of funding and a change in priorities.

1.2 Trade openness and free trade agreements

Jordan's first set of actions to open the economy to international trade started in the mid-1990s. Trade reforms were a key Government priority, which resulted in waves of reforms that targeted trade facilitation through legislation including by adopting international standards on customs and taxes, patent and copyrights, and trademark protection.

[22] See: https://jordanexports.jo/.

In 2000, Jordan gained membership to the World Trade Organization as part of its efforts to engage with the global economic system. The membership included agreements on trade and tariffs, a general agreement on trade in services and an agreement on trade-related aspects of intellectual property rights. These agreements were meant to integrate Jordan into the international trade system and open global markets for Jordanian goods and services.

1.2.1 Jordan's free trade agreements and investment treaties

1.2.1.1 Free trade agreements

Since 1997, Jordan has signed several plurilateral and bilateral free trade agreements.

Table 9 Overview of Jordan's trade agreements

Name of the agreement	Partner country/countries	Date of signature	Date of entry into force
Agadir Agreement	Egypt, Jordan, Morocco and Tunisia	February 2004	January 2006
EU-Jordan Association Agreement (Euro-Mediterranean Agreement)	EU member states	November 1997	May 2002
Free trade agreement with European Free Trade Association (EFTA) countries	Switzerland, Liechtenstein, Iceland and Norway	June 2001	September 2002
Jordan-United States Free Trade Agreement	United States	October 2000	December 2001
Jordan-United States Qualified Industrial Zones initiative	United States, Egypt and Jordan	November 1996	November 1996
Singapore-Jordan Free Trade Agreement (SJFTA)	Singapore	April 2004	August 2005
Greater Arab Free Trade Area Agreement (GAFTA)	Algeria, Bahrain, Egypt, Iraq, Kuwait, Lebanon, Libya, Morocco, Oman, Occupied Palestinian Territory, Qatar, Saudi Arabia, Sudan, Syrian Arab Republic, Tunisia, United Arab Emirates, Yemen	April 1997	January 1998
Canada-Jordan Free Trade Agreement	Canada	June 2009	October 2012
Jordan-Turkey Free Trade Agreement	Turkey	December 2009	March 2011 (terminated in 2018)
Jordan-United Kingdom Association Agreement	United Kingdom of Great Britain and Northern Ireland	November 2019	May 2021

Source: Authors' compilation from the WTO country profile.

Agreement to establish a free trade area between the Arab Mediterranean countries (the Agadir Agreement)

The Agadir Agreement is a free trade agreement between Egypt, Jordan, Morocco and Tunisia, which entered into force in 2006. The agreement is a key tool for promoting industrial integration among the member states with the aim of increasing their exports to the EU. It has three primary goals:

- Developing economic activity, supporting employment, increasing productivity and improving living standards.
- Coordination of overall and sectoral economic and trade policies, with a view to ensuring conditions for objective competition and promoting European investments.
- Aligning national legislation with EU legislation to create an appropriate climate for economic integration.

The agreement uses the EU's rules of origin and allows any product that has the status of origin of any of the signatory countries to be used in manufacturing in any of the other three countries. Therefore, the new product enjoys the same preferential treatment that the association agreement grants to any of the products originating from Agadir member states. Thus, it has a comparative advantage for access to the EU.

Cooperation between the Agadir Agreement signatories to benefit from the rules of origin in the agreement is minimal although each of the member countries has unique resources which could help them to maximize the benefits from cumulation of origin (Tolba 2010). The coordination of policies between the Greater Arab Free Trade Area Agreement (GAFTA) and the Agadir Agreement is very important to avoid overlapping and contradiction in procedures because all of the Agadir Agreement countries are also members of GAFTA. Certain sectors in the Agadir Agreement countries could pave the way for increased cooperation and will likely be instrumental in enabling enterprises in the Agadir countries to access European markets. The textiles and clothing sector, for example, has all fundamental pillars for the cumulation of origin among Agadir member states. While Egypt has high-quality cotton, Morocco, Tunisia and Jordan have complex industrial sectors that are specialized in the further processing of clothing and other textiles products.

According to a study by the Technical Unit for the Agadir Agreement (2016), the Agreement has had no clear impact on creating or intensifying trade between its member states. In April 2021, Jordan and Tunisia agreed to form a technical committee to study the obstacles that are limiting the expansion of trade and investments between the two countries, particularly as both countries are members of the Agadir Agreement.

EU-Jordan Association Agreement (Euro-Mediterranean Agreement)

The EU-Jordan Association Agreement aimed to establish a free trade area between the EU and Jordan by 2010 and implement a comprehensive framework to clarify political, trade, economic and financial relations. This Agreement provides Jordan's exports with access to European markets without paying customs duties. The economic objectives of the Agreement are to:

- Establish the conditions for the progressive liberalization of trade in goods, services and capital;
- Foster the development of balanced economic and social relations between the parties;

- Improve living and employment conditions and hence productivity and financial stability; and
- Encourage regional cooperation with a view to the consolidation of peaceful co-existence and economic and political stability.

In July 2016, Jordan and the EU signed an agreement (EU-Jordan Compact Agreement) to simplify the rules of origin to export to EU, valid until 31 December 2030. Under the Agreement, relaxed rules of origin will be applied to exports that are manufactured in specific development zones and industrial areas in Jordan. This affords Jordanian products greater access to EU markets. The simplified rules of origin will be applied to a list of industrial products[23] and are implemented in 18 designated development zones and industrial areas, which employ Jordanians as well as a set percentage of Syrian refugees (MIT 2017). While the approach of linking refugee employment to a duty-free and quota-free preference led to considerable improvements for Syrian refugees (including better labour market access, reduced dependency on cash transfers and higher school enrolment rate), it was also subject to criticism. From a trade law perspective, Panizzon (2019) criticizes the eligibility criteria of the compact and questions its general legality under World Trade Organization trade law and the EU Neighbourhood Policy. Other criticism is levelled at the overly ambitious target of 200,000 jobs and the potential discrimination of other vulnerable groups (Tsourapas 2019). Moreover, the Compact Agreement seems to fall short regarding the labour market access of the self-employed and the prevention of harassment of women at work, which could further discourage their labour market participation (Hagen-Zanker, Barbelet, and Mansour-Ille 2018).

A study by the Jordan Strategy Forum in 2016, identified several obstacles that make Europe an unattractive trade partner: high shipping and electricity costs in Jordan, difficulties in finding agents and distributors for Jordanian products in Europe and frequent changes of trade-related regulations in Jordan. Moreover, limiting the relaxed rules of origin to certain locations[24] (such as industrial zones) would exclude producers who do not want to relocate their factories to these sites (JSF 2016). More generally, the inferior quality of Jordanian products and the high-quality standards from importing countries make it difficult for Jordanian exporters to enter new markets.

In 2021, the European Commission conducted an evaluation of the impact of trade chapters of its Euro-Mediterranean Association Agreements (European Commission 2021). This evaluation showed that in the long run, exports from Southern Mediterranean countries to the EU increase by 15 per cent and imports by 32 per cent on average. This would result in positive income (+0.4 per cent of GDP) and welfare (+0.1 per cent) effects. The Euro-Mediterranean Association Agreements have also resulted in redirection of some of the trade between Southern European countries towards the EU and trade among Southern European countries has been estimated to have fallen in long run by on average 3.4 per cent. Overall, the evaluation concludes that the Euro-Mediterranean Association Agreements have had a positive impact on trade, GDP and welfare, and they have benefitted Southern Mediterranean countries proportionally more than they did the EU.

[23] For instance: apparel, electric and electronic appliances, cables, furniture, buses, cement, precious metals, paints, cosmetics, cleaning agents and soaps, chemicals, stone and marble, and plastics.

[24] This requirement was eliminated on December 2018, and factories around the country can benefit from the rules of origin.

Free trade agreement with the European Free Trade Association countries

Jordan and the European Free Trade Association (EFTA) countries signed an agreement to establish a free trade area which entered into force in 2002. The objective of the agreement is to create an appropriate framework for developing and diversifying trade exchange and economic cooperation, in addition to promoting and facilitating access to European markets.

The free trade agreement includes trade in industrial products as well as fish and marine products and processed agricultural products. Bilateral agricultural agreements between EFTA countries and Jordan have been concluded which form part of the instruments creating the free trade area. The agreement provides for the elimination by 2014 of all customs duties on trade in industrial goods and fish and other marine products. The agreement includes provisions relating to the elimination of customs duties and other trade barriers as well as other trade-related disciplines such as rules of competition, protection of intellectual property, public procurement, state monopolies, state aid, and payments and transfers. The agreement establishes a joint committee to supervise its implementation.[25].

The value of Jordanian exports to EFTA countries totalled €8.6 million in 2020, while imports from EFTA countries amounted to €221 million. Over the last five years, imports fell by 10.4 per cent and exports by about 3.9 per cent.[26] Despite this recent decline, total trade between Jordan and the EFTA countries is still significantly higher than in 2002.

Jordan-United States Free Trade Agreement

This agreement aims to abolish fees and trade restrictions on intra-regional trade and services in both countries. The key provisions of the agreement are:

- **Tariff elimination**: The agreement provided for the gradual eliminate of tariffs on all trade within 10 years, which came into full effect by 2010.
- **Services**: Although Jordan already enjoyed comprehensive access to the United States services market, both parties agreed to further market-opening commitments in various service sectors (including finance, communications, construction and health).
- **Intellectual property rights**: Provides for the requirements for the protection of copyrights, trademarks and patents, and gives effect to various instruments of the World Intellectual Property Organization (WIPO).
- **Electronic commerce:** For the first time in a free trade agreement, Jordan and the United States have both committed to promoting a liberalized trade environment for electronic commerce.
- **Labour provisions:** Reaffirms the parties' support for the core labour standards adopted under the 1998 International Labour Organization's Declaration on Fundamental Principles and Rights at Work (see section 1.2.2. for more details).

[25] For further information see: https://www.efta.int/free-trade/free-trade-agreements/jordan

[26] For further information see: http://trade.efta.int/#/country-graph/EFTA/JO/2020/HS2http://trade.efta.int/#/country-graph/EFTA/JO/2020/HS2

- **Environmental provisions**: Each country agreed to avoid relaxing environmental laws to encourage trade. Both countries agreed to maintain high levels of environmental protection and to improve their environmental laws.
- **Safeguard measures and dispute settlement:** The agreement contains safeguard measures which allow for a temporarily suspension of tariff reductions if a domestic industry is seriously harmed. It further established a dispute settlement panel for cases in which direct bilateral consultations fail.
- **Joint committee:** The implementation of the agreement is supervised by a joint committee comprising representatives of Jordan and the United States.

Jordanian exports to the United States reached US$1.7 billion in 2020, approximately, 25 per cent of Jordan's total exports (DoS, 2020).

Jordanian exports were criticized for being concentrated in the clothing industry. For the agreement to be successful in the long term, the country must begin to attract investment in other export sectors, preferably those that produce products that require more skilled labour, support better paying jobs, and encourage greater Jordanian market shares. If this can be done, then it is likely that the agreement will achieve its economic objectives, otherwise, even with preferential rate status, the long-term success of the deal is likely to be limited (Hotze 2017).

United States of America Qualified Industrial Zones initiative

Jordan was granted the advantage of establishing qualified industrial zones in 1996, which gives Jordanian products manufactured within these industrial zones the advantage of entering US markets without customs duties or restrictions on quantity. The qualified industrial zone initiative aimed to promote peace and revive the Jordanian economy by providing unprecedented opportunity to enter the United States market, the largest consumer market in the world, without tariffs and quantitative restrictions.

The qualified industrial zones have attracted over US$1 billion in capital investments and currently employ more than 47,000 workers; about one-quarter of whom are Jordanian nationals. The bulk of qualified industrial zone exports are garments (US Department of State 2020). The clothing and textile industry has benefited most from this arrangement. As tariffs on these goods into the United States of America are relatively high, exporters have used the duty-free benefits of qualified industrial zones to gain quick access to markets.

Companies based in qualified industrial zones hire migrant workers and thousands of Jordanians, particularly women from the rural areas, work in garment factories in qualified industrial zones. Despite the low wages paid by these factories qualified industrial zone, some women have been able to support their families. However, traditional attitudes towards the work of women persist, and many families prohibit female relatives from working in qualified industrial zones. In response, the Jordanian Ministry of Labour has worked to ease the transition for women moving from the home to a new job by providing free transport to work, subsidizing the cost of food in qualified industrial zones, paying for dormitories near factories to cut commuting times and providing childcare. The long-term effect of women's employment in qualified industrial zones are yet to be quantified, and there is some concern that over time, Jordanian women may have difficulty obtaining higher wages in a global economy where apparel manufacturers can easily relocate to cheaper labour markets.[27] Another study conducted by Nugent and Abdel-Latif (2010) confirms the concerns regarding the quality of the work available in qualified industrial zones, especially for women workers. The authors further conclude that "unless the [qualified industrial zone] firms become successful in moving up the quality chain [...] the prospects for attracting more domestic workers would not seem bright" (Nugent and Abdel-Latif 2010).

Singapore-Jordan Free Trade Agreement

Under this agreement, Jordanian goods entering Singapore are fully exempted from customs duties and other fees of similar effect, while Singaporean goods imported into Jordan are subject to a gradual reduction in customs duties to reach complete exemption over transitional periods ranging from between 5 and 10 years from the entry into force of the Agreement. It further safeguards market access and ensures a more predictable operating environment for service providers. In particular, Singapore services providers will benefit from preferential access in the areas of research and development, advertising, convention and services incidental to manufacturing.

In 2019, the value of exports from Jordan to Singapore was US$98.3 million. The main products that Jordan exported to Singapore are refined petroleum (US$71.6 million), gold (US$3.25 million), and halogens (US$2.95 million). Over the last 24 years the exports from Jordan to Singapore have increased at an annualized rate of 11.1 per cent, from US$7.88 million in 1995 to US$98.3 million in 2019 (OEC n.d.). Despite this growth, the total value of Jordan's exports to Singapore remains limited.

Greater Arab Free Trade Area Agreement (GAFTA)

Regionally, the Greater Arab Free Trade Area is considered one of the greatest achievements with regard to joint Arab economic action. It aims to establish a common Arab market with a gradual abolition of customs tariffs among members. Jordan joined GAFTA in 1998.

Abedini and Péridy (2008) concluded that GAFTA has significant benefits for trade. According to their study, the calculation of gross trade creation shows that regional trade has increased by 20 per cent since the implementation of GAFTA. Given these results, the researchers believe that GAFTA should be extended. In addition, a wider integration with the six Arab countries which are not yet GAFTA members should help future members in their development process through more trade with their partners.

However, the full potential of GAFTA has not been fully realized. According to a study by the United Nations Economic and Social Commission for Western Asia (ESCWA 2019), GAFTA has a limited impact on the trade levels between member countries, and its achievements continue to fall short of expectations. In addition to structural factors such as poor diversification of exports, similar and insufficient productive capacities, and discrepancies among Arab countries in policies providing support to local production and subsidies to inputs, the study highlighted that the situation can also be attributed to weaknesses in the design and implementation of the GAFTA Agreement itself, such

[27] See: http://www.businessoffashion.com/articles/global-currents/made-in-jordan-garment-manufacturing-industry

as: (a) inappropriate rules of origin; (b) pervasiveness of non-tariff barriers; (c) absence of effective dispute settlement and enforcement mechanisms, which undermines the credibility of the agreement; and (d) a lack of coverage of crucial issues, such as services, investment and labour movement.

Canada-Jordan Free Trade Agreement

Under this agreement, Jordanian goods enter the Canadian market exempt from customs duties and other fees of similar effect, while Canadian goods imported by Jordan are subject to a gradual reduction in customs duties to reach complete exemption over transitional periods. In addition, both parties adopted a limited list of sensitive goods to be excluded from the tariff reduction.

Since signing the free trade agreement, the value of Jordan's exports to Canada have increased from US$14 million in 2012 to US$91 million in 2019.[28] The main export products were garments.

Jordan-Turkey Free Trade Agreement

This free trade agreement was intended to remove tariff barriers and facilitate bilateral trade and investments. However, the trading performance of Jordan with Turkey was to the advantage of the latter. While Jordanian imports from Turkey increased by more than 50 per cent between 2011 and 2019, exports only increased until 2014 (+82 per cent) before they fell sharply to a level significantly lower than before the conclusion of the free trade agreement (JSF 2020). The subsequent growing trade deficit with Turkey led to the cancellation of the agreement in 2018 at the request of the Jordanian authorities. Since then, both parties have been renegotiating a new agreement. In 2019, Turkey and Jordan signed a framework agreement for a Joint Economic Committee to increase bilateral trade and to substitute the suspended free trade agreement.

UK-Jordan Association Agreement

In preparation for its the withdrawal from the EU and the subsequent exclusion from the Euro-Mediterranean Agreements, the UK Government began negotiations on several bilateral trade agreements. The agreement with Jordan covers trade in goods and services as well as intellectual property protection. It draws on the Euro-Mediterranean Agreements, including regarding the rules of origin.

According to UK Government figures, total trade in goods and services between both countries was estimated at around £561 million (approximately €620 million).[29]

1.2.1.2 Bilateral investment treaties

Since the 1970s, Jordan has signed 60 bilateral investment treaties. Most of these treaties are in force and were signed between 1990 and 2010 (see Annex 2). In addition, some trade agreements

[28] The United Nations COMTRADE database.

[29] Further information available at: https://www.gov.uk/government/news/uk-and-jordan-trade-agreement-comes-into-effect

include chapters on investment. The purpose of these treaties is to promote and protect investments made by investors from the respective countries in each other's territory. Bilateral investment treaties usually provide a number of actionable standards of conduct, such as fair and equitable treatment, protection from expropriation, free transfer of means and full protection and security (Brabandere 2017). Another common feature of biliteral investment treaties is to allow for an alternative dispute settlement mechanism, often under the auspices of the International Centre for Settlement of Investment Disputes (Wong 2008). Bilateral investment treaties can also be a means to foster certain national policy objectives such as the transition towards a low carbon economy. For example, the bilateral investment treaties with Hungary (2007), Canada (2009) and Japan (2018) explicitly state that environmental standards shall not be lowered to attract investments.

1.2.2 Labour and SME provisions under trade and investment agreements

1.2.2.1 Labour and SME provisions under free trade agreements

Jordan's commitment to labour provisions and working conditions is thought to have a direct and positive impact on its success in attracting additional investments. This commitment is meant to be institutionalized as a key requirement for additional investments under free trade agreements. However, some free trade agreements concluded in the past include labour provisions.

Jordan's free trade agreement with the United States contains labour provisions that were incorporated into the agreement itself.[30] Article 6 of the agreement specifically reaffirms both countries' commitment to labour standards adopted in the 1998 ILO Declaration on Fundamental Principles and Rights at Work. The two countries also agreed that it would be inappropriate to lower standards to encourage trade and agreed to improve labour standards. Each side agreed to enforce its own existing labour laws and to settle disagreements on enforcement of these laws through a dispute settlement process.[31]

Following the signature of the free trade agreement, there were serious issues related to working conditions of foreign workers in Jordanian factories, in particular those recruited mainly from East Asia to work in the qualified industrial zones. Since 2006, the Government of Jordan has worked closely with the US Government with support from the ILO to enhance the inspection and enforcement of best practices with regard to working conditions. In 2016, the US Department of Labor removed Jordanian garments from its list of goods produced by child labour or forced labour.[32] In response, Jordan's Ministry of Health and Ministry of Labour agreed to implement inspection plans for working conditions in factories in 2017. Despite the progress made since 2006, a recent report by the Business and Human Rights Resource Centre (2021) on the period between April and December 2020, highlighted that human and labour rights abuse in Jordan is under-reported in almost all economic sectors. The report also highlights that working conditions and labour rights are a serious issue for many migrant workers that should receive more attention.

[30] Information on violations of labour rights were obtained from the US Trade Representative Reports. Available at https://ustr.gov/trade-agreements/free-trade-agreements/jordan-fta.

[31] Further information available at: https://amcham.jo/free-trade-agreement-fta/

[32] See: https://www.ilo.org/beirut/media-centre/news/WCMS_531596/lang--en/index.htm

The ILO Better Work Programme continues to provide technical support to Government stakeholders to implement international labour standards and to conduct inspections of working conditions. This also includes trainings to build Government capacity to identify gaps and improve working conditions in Jordan (IFC 2021).

The free trade agreement between Jordan and the United States does not include any specific provisions for SMEs. However, USAID and the American Chamber of Commerce in Jordan launched several projects to support Jordanian SMEs to leverage the agreement to access the US market. These projects focused on raising awareness of benefits of and requirements for accessing the US market, in addition to the provision of grants and technical and managerial capacity-building programmes to qualify SMEs to meet the US market standards.

Jordan's free trade agreement with Canada includes obligations on the effective implementation and enforcement of labour laws, and specifically on compliance with the ILO 1998 Declaration on Fundamental Principles and Rights at Work. In addition, the free trade agreement confirms that the two countries will provide employees, including migrant workers, with a healthy working environment and protection, acceptable labour standards, such as minimum wage and overtime pay, as well as compensation for occupational injuries and accidents. The agreement also allows the public to file complaints regarding the compliance with the 1998 ILO Declaration on Fundamental Principles and Rights at Work.

The **EU-Jordan Association Agreement** highlights labour conditions and aims "to improve living and employment conditions, and enhance productivity and financial stability". Furthermore, it lists the "reduction of migratory pressures through job creation" as a priority under social cooperation and the promotion of "job-creating activities" under financial cooperation.

The European Neighbourhood Policy Action Plan with Jordan, which was adopted in 2005,[33] includes provisions to implement the mutually agreed upon decent work country programmes between Jordan and the ILO. To comply with labour-related provisions and in support of the objectives of the Jordan Compact, the Ministry of Labour, the EU and the ILO signed a collaboration agreement to ensure decent working conditions in companies exporting to the EU.[34]

Article 66 of the Association Agreement indicates that it will support the establishment of an environment favourable to the development of private enterprises to stimulate the growth and the diversification of industrial production. It further emphasizes cooperation between SMEs in the EU and in Jordan. Similar to the United States-Jordan free trade agreement, and to enable Jordanian SMEs to further benefit from the agreement, the EU, European Bank for Reconstruction and Development and European Investment Bank, provide technical and financial support to SMEs and key public stakeholders such as the Jordan Enterprise Development Corporation. The goal is to empower Jordanian SMEs to qualify and enhance their exports to Europe and other regions.

Other free trade agreements include only vague references to labour conditions, and some do not mention them at all.

[33] Full text of the Action Plan available at: https://eeas.europa.eu/archives/delegations/jordan/documents/eu_jordan/jordan_enp_ap_final_en.pdf

[34] Full text of the collaboration agreement available at: https://www.ilo.org/beirut/projects/WCMS_713067/lang--en/index.htm

- **The Agadir Agreement**: Mentions that a "free trade zone will be created in order to [...] support employment" but does not elaborate further.
- **The Singapore-Jordan Free Trade Agreement:** The agreement does not refer to labour under any provision.
- **The free trade agreement with the EFTA countries:** The agreement only contains references to labour standards in the preamble and in the objectives.[35]
- **The GAFTA Agreement**: The agreement does not refer to labour conditions under any provision.
- **The Jordan-Turkey Free Trade Agreement**: The agreement does not refer to labour conditions under any provision.

In conclusion, and as noted by Raess and Sari (2018 and 2021), only the agreements with the United States and the United Kingdom feature clear commitments to labour rights and safety and therefore include comprehensive labour provisions. Other agreements do not give similar attention to the issue of labour rights or only in combination with supplementary plans such as the European Neighbourhood Policy.

1.2.2.2 Labour provisions under bilateral investment treaties

Labour provisions are also included in some investment treaties. The bilateral investment treaties with Austria (2001) and Finland (2006), for instance, reaffirm the commitment to the observance of internationally recognized labour standards and rights in their preamble.

The bilateral investment treaties with Hungary (2007), Turkey (2016) and Japan (2018) go even further and explicitly declare relaxing national labour legislation or core labour standards to be inappropriate.

Nevertheless, the vast majority of bilateral investment treaties do not include any labour provisions.

1.2.3 Summary

Jordan was a regional pioneer in moving forward with trade-related reforms and concluding free trade and investment agreements. The free trade agreements that Jordan signed have led to the expansion of both exports and imports. However, the growth of imports has been faster than the growth of exports due to supply side constraints, which in turn contributed to worsening the chronic trade deficit (Awad-Warrad 2011). Moreover, the utilization of these agreements remains limited, and the desired benefits were mostly not achieved. According to the Jordan Investors Association, many of these trade agreements have had a negative impact on the Jordanian economy in general and on local industry in particular. One reason is the unfair competition that Jordanian products faced compared to imported foreign products that entered local markets at reduced prices, benefiting from the exemptions and tariff reductions granted by these agreements. Another reason for the underutilization of free trade agreements is the high quality standards in importing countries, which have made it difficult for Jordanian exporters to enter many markets.

[35] See also: https://www.ilo.org/global/standards/information-resources-and-publications/free-trade-agreements-and-labour-rights/WCMS_115822/lang--en/index.htm

Regarding the impact of free trade agreements on SMEs in Jordan, according to the Director of the Amman Chamber of Industry, there are no provisions in any such agreements concluded by Jordan specifically related to SMEs. Therefore, there are no particular benefits for SMEs because the majority of raw materials for production are imported and not produced locally. Furthermore, according to the CEO of the American Chamber of Commerce in Jordan, exporting to the United States is fairly easy as the requirements are very clear and the free trade agreement covers goods and services. The challenge that SMEs would face is in identifying markets and buyers in the United States, which requires huge marketing budgets. In addition, Jordanian SMEs need to diversify their products and find their niche including by moving from selling regular food products to specialty food products, being agile enough to tailor or make custom products to fit the needs of the US market, with an understanding of consumer trends. Furthermore, little effort had been made to build a brand for Jordan and products made in the country. Companies would therefore have to build the reputation of Jordanian products by themselves.[36] According to a study by the Jordan Strategy Forum (2016) on relaxing the rules of origin for Jordanian exports, there are several key challenges facing Jordanian SMEs when planning to export:

- SMEs are susceptible to market-demand fluctuations and unable to meet the demand for high volume orders.
- Low value-retention and very few sectors use advanced technology.
- Weak access to finance (e.g., export credits or loan guarantees).
- Weak linkages between the service sector and the manufacturing sector.

In April 2021, Maha Ali, the Minister of Industry, Trade and Supply at the time, said that the Ministry was reviewing the free trade agreements in partnership with the private sector to improve opportunities to benefit from them, achieve positive returns on economic performance indicators, and develop appropriate solutions to export obstacles.[37] This review is ongoing and has resulted in the delay of the renegotiated free trade agreement between Jordan and Turkey.

1.3 Current debates related to trade and investment policies

1.3.1 Key Sectors for Investment

The Ministry of Investment (formerly known as Jordan Investment Commission), in coordination with the private sector including sectoral organizations, identified the sectors with the most value added and greatest job creation potential. These sectors were selected based on their investment readiness, availability of supporting ecosystem, contribution to GDP, and job creation potential. Jordan's Economic Growth Plan refers explicitly to these sectors.

Information and communications technology (ICT): With a very advanced ecosystem that includes incubators, venture capital and business accelerators, Jordan's ICT sector has experienced major development over the past 15 years. Currently, the sector itself employs over 16,000 people and is responsible for about 84,000 jobs in the wider economy (Jordan Investment Commission,

[36] Meeting with the director of American Chamber of Commerce, Jordan, 2 August 2021.

[37] Further information available [in Arabic] at https://www.petra.gov.jo/Include/InnerPage.jsp?ID=174878&lang=ar&name=news

2017). According to the OCED (2021), the ICT sector's share of total FDI for the period 2010-2021 was only about 4 per cent. Yet, Jordan is a regional leader on product innovation, technology absorption, and start-up skills and has great potential to attract additional investments which could create more jobs (Growhome 2020). While employment in the ICT sector only accounts for around 1 per cent of the total labour force, 29 per cent of ICT workers are women - the highest rate for women among all sectors of the economy (Growhome 2020). Several indicators underscore the potential of the ICT sector, such as a sound regulatory system to protect industrial property patents, trademarks, copyright, and industrial designs, and a modern and well-connected infrastructure for ICT. Moreover, it offers a large and highly skilled talent pool while labour costs remain relatively low (JSF 2017).

Renewable energy: Jordan is emerging as an ideal location for investment in renewable energy and clean technology. Investments in Jordan's energy sector provide access to countries in the region with serious energy deficits. Energy demand in Jordan is expected to increase by 50 per cent over the coming 20 years and the country is already considered a front-runner in renewable energy (EcoMENA 2019). The share of electricity from renewables grew from 0.7 per cent to over 13 per cent between 2014 and 2019 (IRENA 2021). The Master Strategy for the Energy Sector 2020-30, developed by the Ministry of Energy and Mineral Resources, sets an ambitious target of reaching a 31 per cent share for renewables in total power generation capacity and 14 per cent of the total energy mix by 2030. Capable human capital, supportive infrastructure, supporting regulations, its location as a gateway for Middle East and North Africa region, and abundance of sun and wind, make this sector a high priority for development. However, a mandatory local contribution of 20 per cent is required in competitive biddings for renewable energy projects (IRENA and ESCWA 2018).

Healthcare: Jordan aspires to become a major destination for investment in health and wellness. With a well-established professional infrastructure and qualified human resources, the health sector is well positioned to attract additional investment to meet the growing demand for world-class healthcare services, both regionally and internationally. The key factors that make health services attractive to investors are Jordan's healthcare-minded human capital force, which combines a large and well-skilled workforce with comparatively low treatment costs, a well-developed innovation, research and development infrastructure with modern facilities, and its attractiveness for medical tourists from the region and beyond (JSF 2017).

Industrial sector: Jordan's geographic location provides investors in the industrial sector with great potential to serve high demand from regional markets in areas such as chemicals and food processing. The attractiveness of Jordan's industrial sector is supported by research and development centres and technology-focused universities, the availability of a highly skilled labour force, a supportive transport and ICT infrastructure, and commitment to international treaties and environment standards. Pharmaceuticals and medical supplies, textiles and garments, and chemicals, are some of Jordan's most competitive industrial sectors.

Tourism: Jordan has a wealth of historical, archaeological, and natural attractions for tourists seeking a cultural experience. Moreover, the country has all the necessary infrastructure to become a leading tourism destination globally. Additional investments in this sector could create thousands of jobs for Jordanians, who have recently become very attracted to working in tourism sector. The number of overnight tourists rose to 4.5 million during 2019, an increase of 8.1 per cent compared with 2018, in which the recorded number of overnight tourists was 4.15 million.[38] The travel and tourism sector currently accounts for about 5 per cent of the total labour force and almost one-fifth to the country's GDP.[39] The relatively high level of safety and security, as well as a well-developed tourism infrastructure with modern means of transport, are additional elements that could attract investment in the tourism sector (JSF 2017).

Agribusiness and agro-processing: Jordan has a significant amount of agricultural land, with 10,218 square kilometres divided into three main climatic areas. Each area lends itself to producing different goods, which makes Jordan's agriculture sector ideal for a wide range of products throughout the year. The agro-processing sector makes up 20 per cent of total exports and accounts for almost 14 per cent of total employment (JSF 2017). In 2016, the Ministry of Agriculture launched the National Strategy for Agricultural Development which aims to increase the contribution of agriculture to GDP by at least 17 per cent and to increase its export share by 33 per cent. Jordan's favourable climatic conditions allow for a year-round production of agricultural goods which could – in combination with high-quality agricultural infrastructure and its transport capabilities – satisfy the high demand in the region. Moreover, accessible credit cooperation schemes with reduced interest rates, supplemented by targeted training programmes make this sector attractive to both workers and investors.

Transport and logistics: Jordan's transport and logistics sector accounts for more than 8 per cent of GDP and approximately 126,000 jobs. There are currently 325 licensed transport and logistics companies operating in Jordan. In addition, the annual growth rate of the demand for transport and logistics is expected to increase by 5 to 6 per cent annually until 2030. This is partly because population growth makes this sector a promising prospect for substantial investment opportunities. Over the last ten years, the Jordanian transport and logistics industry has made considerable progress. Aircraft movements have increased by more than 30 per cent and the number of passengers has more than doubled. The demand for passenger and freight transport initially grew rapidly and has continued to grow steadily in recent years. The upward growth trend reveals a variety of promising investment opportunities (JSF 2017). Upgrading transport networks (in particular airports and ports) and developing a multimodal transport system to connect with neighbouring countries and Europe are explicit objectives in Jordan's Economic Growth Plan (2018-22).

During the COVID-19 pandemic, these sectors proved to be very competitive and were able to adapt to the related challenges. Jordanian medical, pharmaceutical, agricultural and industrial products have continued their production levels and export to the global markets.

The potential of the ICT, tourism and transport sectors is confirmed by a recent a joint International Finance Corporation report (IFC 2021). According to this report, ICT and logistics boomed during the pandemic and are expected to be post-pandemic growth sectors. On the other hand, tourism was one of the sectors hit hardest by the pandemic, but is likely to experience a strong comeback as mobility measures and travel restrictions fade away.

[38] https://www.mota.gov.jo/AR/Pages/الاحصائيات_السياحية [in Arabic]

[39] http://www.mota.gov.jo/Contents/Statistical_Summary_2017_Ar.aspx [in Arabic]

1.3.2 Green economy policy

Jordan is amongst the most water-scarce and sun-rich countries in the world, but unlike its neighbours, has limited fossil fuel reserves. Despite this, it is one of the most water and energy inefficient countries in the Middle East, importing the largest share of its energy, and losing a significant percentage of its GDP to environmental degradation (Adam Smith International 2012).

The Environmental Protection Law of 2017 aim to achieve sustainable development that balance economic development, environmental sustainability, and the preservation of natural resources for future generations. The law sets certain requirements and prior approvals for any project from the Ministry of Environment.

There are numerous opportunities for Jordan to pursue green growth but large investments would be required to put Jordan on a green growth path (Adam Smith International 2012). Considering the current economic challenges and the high fiscal deficits, this money would need to come from private sector investment. The study further shows that if Jordan invests in its green economy, it could generate 50,000 jobs and save most of the money it currently loses to environmental degradation each year. A more recent study by the Phenix Centre for Economics & Informatics Studies, in cooperation with the Friedrich Ebert Foundation (2021), confirms the large employment potential and states that the current number of jobs in the renewable energy sector could double or even quintuple through targeted investments.

A shift towards a green economy was officially institutionalized in Jordan in 2014 with the establishment of a national steering committee for the green economy, as well as the creation of a unit for green economy under the Ministry of Environment to support the work of the committee and support the implementation of any decisions or relevant recommendations. In 2017, the first National Green Growth Plan was launched to align policies and investments with sustainable and green economy goals. Most recently, the Ministry of Environment of Jordan launched the Green Growth National Action Plan 2021-25 with support from the Global Green Growth Institute. The Green Growth National Action Plan is a multi-sector implementation plan that supports Jordan’s economic growth objectives and climate change targets while building resilience to catastrophic events, such as the COVID-19 pandemic.

The Green Growth National Action Plan was created to align green growth, climate change, and sustainable development objectives into sectoral strategic frameworks. Action plans at sectoral level were developed for priority green economy sectors including agriculture, energy, tourism, transport, and waste and water. The action plan aims to enhance the enabling environment for green growth and investments.

The National Energy Strategy (2007-20) aimed to produce 2,000 megawatts from direct investment in wind and solar energy by 2020. While this goal has not been fully achieved, some major steps have been taken.[40] Wind and solar energy have been identified as promising renewable energy resources for Jordan (Abu-Rumman, Khdair, and Khdair 2020).

[40] For instance, a wind plant was launched in Al-Tafileh in 2015 with a capacity of 117 megawatts, and a 200-megawatt solar plant in Ma'an was completed in 2016.

The demand for water and energy is increasing in Jordan, a situation that has been exacerbated by the influx of refugees from Iraq and the Syrian Arab Republic. The refugee crisis continues to put pressure on Jordan's economy and environment. Therefore, renewable energy projects with a focus on the generation of electricity using wind and solar energy have become a key objective for Jordan's officials and a considerable number of large infrastructure projects related to the energy generation from renewables have been implemented (see Annex 1). However, as shown in Figure 19, the corresponding sector only attracts about 4 per cent of all foreign investment. Furthermore, Jordan aims to generate 30 to 50 megawatts of power from waste-to-energy. To date, Jordan has primarily focused on landfill gas capture (International Trade Administration 2018).

With increasing economic challenges, many officials do not see the green economy as priority compared to other issues such as poverty and unemployment. As a result, climate action is also severely under-funded, and adaptation would require significant investment, for example in more efficient infrastructure for water and energy. In addition, implementing policies in specific sectors would push for major changes in people's behaviours, but could have a negative impact on the interests or livelihoods of significant parts of the population (e.g., with higher water and electricity prices). Similarly, population growth, combined with internal migration to cities and the large influx of refugees, has resulted in competition for land use and essential goods and services, with difficult policy choices remaining. All this has led the Government to favour policies and actions that increase the supply of scarce resources over ones that decrease demand for them.

A Bloomberg report ranked Jordan first in the Middle East and North Africa region in renewable energy adoption and clean energy growth, and third globally (Jordan Times 2018). The report, which was based on the growth of Jordan's renewable and clean energy market, included a recommended investment policy and legislation to further enhance the attractiveness of this sector. It also examined the amount of investment made and expected to be made in the country, as well as the impact of these investments on greenhouse gas and carbon emission reductions. Jordan's trademark in the pursuit of clean energy utilization has been the continuous tracking of technical advances in renewable industries, as well as the implementation of pilot and demonstration plants.

According to a study by the International Renewable Energy Agency and the United Nations Economic and Social Commission for Western Asia (2018), Jordan has the infrastructure to manufacture solar photovoltaics (PV), concentrated solar power (CSP), and wind plant components. These areas could attract substantial investment and create jobs for Jordanians. However, to achieve this, the Government's plan for renewable energy equipment manufacturing needs to revisit the electricity tariff structure for the industrial sector, enhance visibility of renewable energy technology in the public and private sectors, contribute to awareness-raising initiatives, conduct feasibility and marketing studies in order to begin developing local concentrated solar power and wind components based on existing industries, especially steel, electrical and mechanical industries. In addition, the Government should initiate a national collaboration and partnerships for research and development in order to support local manufacturing, and provide funding (loans and grants) to large-scale projects, especially wind and concentrated solar power (ESCWA and IRENA 2018). There are more than 600 companies working in the field of renewable energy in Jordan and this has been instrumental in providing job opportunities to many experts in this field and to recent graduates.[41]

The proposed World Bank Inclusive, Transparent and Climate Responsive Investments Program-for-Results aims to foster climate responsive investments and growth. The Program will support the accountability and fiscal space for public investment, including towards national climate goals. Moreover, it intends to foster a business enabling environment and the capacity of key institutions to attract private investment and climate finance (World Bank 2021). Furthermore, the European Bank for Reconstruction and Development and the EU launched the first comprehensive green economy programme in the country 2021. The programme combines commercial loans from the European Bank for Reconstruction and Development, concessional loans from the Green Climate Fund, and grant funding from the EU.[42]

[41] Further information available at: https://thearabweekly.com/jordan-making-strides-renewable-energy-production

[42] Further information available at: https://www.ebrd.com/news/2021/ebrd-and-eu-to-promote-green-investments-in-jordan-.html

▶ III. Institutional mechanisms

Under the Constitution, Jordan is a parliamentary monarchy. The Constitution assigns executive authority in the King and his appointed Cabinet. The King signs all laws, appoints and may dismiss all judges by decree and approves amendments to the Constitution after passing them through the lower and upper houses. Government decisions are not subject to parliamentary approval except in areas specified in the Constitution. The Government's economic plans are discussed by the parliament but do not require their approval for implementation, the same applies for economic, trade and investment agreements.

Economic policies in Jordan are divided into four main sections and must be approved by the Cabinet for implementation:

Policy area	Responsible ministry
Fiscal policy	Ministry of Finance
Monetary policy	Central Bank of Jordan
National economic and development policy	Ministry of Planning and International Cooperation
Sectoral policies	Specific relevant ministries

To support the approval of laws, regulations, or other economic plans, the Cabinet has an Economic Development Committee chaired by the Prime Minister or an appointed deputy. This Committee also includes representatives of several ministers, such as the Minister of Finance, the Minister of Industry and Trade, the Minister of Planning and International Cooperation, the Minister of Digital Economy and Entrepreneurship and the Minister of Labour. The role of the Economic Development Committee is to discuss any economic and sectoral strategies and plans, draft laws, and economic agreements and provide their recommendations regarding the subject matter to the Cabinet for final approval.

1.1 Organizational structure and main public entities

The organizational structure of public entities involved in economic decision-making is distributed among different governmental bodies.

The **Prime Ministry** oversees several public entities, including the Integrity and Anti-Corruption Commission, Central Bank of Jordan, Aqaba Special Economic Authority and the Securities Commission.

The **Ministry of Industry, Trade and Supply** oversees the Jordan Enterprise Development Corporation, the Jordan Standards and Metrology Organization and the Companies Control Department. It is the lead ministry in the development of trade policies, negotiation of trade agreements and the drafting of laws and regulations related to trade and industry. It can also take any measures to promote, support, and protect Jordanian businesses interests in all areas related to production, distribution, and exporting and importing, in compliance with other relevant standards and Jordan's commitments under international treaties or bilateral agreements. The Ministry has an advisory council that includes representatives from the private sector to consult on decisions related to trade industry and investment.

The **Ministry of Investment**, formerly known as the Jordan Investment Commission, aims to streamline and unify investment institutions in Jordan, in particular the Export Promotion Department of the Jordan Enterprise and Development Corporation, the Development and Free Zones Commission and the Jordan Investment Board. Under the Investment Law (No. 30 of 2014), the Jordan Investment Commission was identified as the lead agency for implementing the Government's investment promotion policies and activities.

Under the Investment Law, an **Investment Council** is formed under the chairmanship of the Prime Minister with the membership of several ministries and Government entities, including the Ministries of Labour, and of Industry, Trade and Supply.[43] In addition, four representatives of the private sector are appointed for a period of two years. The Council drafts legislation, strategies and national policies for investment, and oversees the management of and progress towards enhancing national investment policy and environment.

The **Ministry of Labour** is responsible for organizing the Jordanian labour market and setting the necessary standards to provide a healthy working environment. It oversees the Social Security Corporation, the Vocational Training Corporation, the Development and Employment Fund and the Technical and Vocational Skills Development Commission. The Ministry also participates in trade agreement negotiations to ensure compliance with Jordanian regulations and Jordan's commitments under international treaties. In this context, the Ministry has departments and divisions that are responsible for labour inspections, child labour, human trafficking and migrant workers.

The **Jordan Standards and Metrology Organization** is responsible for issuing, approval, reviewing, amending and monitoring the implementation of standards and technical regulations on all goods, products and services (except for pharmaceutical products, medicines, veterinary medicines, serums and vaccines). These standards and measures apply for locally produced and imported goods.[44]

The **Jordan Chamber of Commerce** is primarily responsible for facilitating dialogue and cooperation between the private and public sector and advises the Government and the parliament. The principal activities of the Jordon Chamber of Commerce include representing the general interests of the business community, providing information and advice to members, promoting economic development, producing market information and economic statistics, encouraging foreign investment and facilitating international trade. The Jordan Chamber of Commerce is involved in developing policies related to trade and service sectors and their implementation. It also

[43] Minister of Planning and International Cooperation, Minister of Industry and Trade and Supply, Minister of Finance, Minister of Labour, Chairman of the Investment Authority, Governor of Central Bank, Chairman of the Jordan Chamber of Industry, chairman of the Jordan Chamber of Commerce.

[44] See: http://www.jsmo.gov.jo/en/Pages/default.aspx#

promotes trade and development opportunities for SMEs, and conducts research related to trade and services.

The **Jordan Chamber of Industry** is a financially and administratively independent corporate entity. Its aim is to support the formulation of general industrial policies and related strategies and plans. It promotes the interests of all industries with a focus on SMEs and fosters cooperation among chambers of industry on both the national and regional levels.

Jordan Customs, located in the Ministry of Finance, plays an active role in investment promotion, trade facilitation and the facilitation of cross-border movements of passengers and goods.

The **Economic and Social Council of Jordan** was established in 2007 and is composed of ministers, employers, workers, and 'other stakeholders. Each of these groups is represented by 11 members. The addition of a fifth group representing young people is under consideration. Over the past 10 years, the Economic and Social Council has served as a governmental think tank, producing dozens of studies, papers, and policy recommendations, and conducting numerous workshops on all kinds of socio-economic issues in Jordan. Many recommendations put forward by the Economic and Social Council have not adopted by the Government and the parliament which made its work less impactful.

1.2 Social Dialogue

Jordan has ratified seven of the eight fundamental Conventions of the ILO, but not the Freedom of Association and Protection of the Right to Organise Convention, 1948 (No. 87). Tripartite social dialogue is institutionalized in the Labour Code of 1996. According to a study on social dialogue in Jordan (SOLiD 2018), the general implementation of the fundamental Conventions is still weak and freedom of association remains limited, which poses a great threat to social dialogue.

In Jordan, the right to organize is guaranteed under the Constitution (Article 23 (f)) and the Labour Law. However, social dialogue is not considered a key element for initiating or regulating labour issues in Jordan and usually has limited influence on the decision-making process. According to a joint publication of the European Commission and the International Training Centre of the ILO, "there is a serious imbalance in power, between the three actors: a dominant state, a powerful employers' constituency based on powerful individuals rather than powerful organizations, and a weak trade union, and as outsiders, a grassroots labour movement which is unorganized, dispersed and not sufficiently trusted or strong enough to become part of the system" (2016, 111).

It is important to note that the Government consults the chambers of commerce and industry before making labour, commercial and investment decisions. However, these chambers mainly represent the rights and interests of businesses and not necessarily of the workers. Even among employers, micro, small and medium-sized enterprises in Jordan are generally excluded from social dialogue processes, as employers' associations mainly represent large companies. As a result of this lack of representation, public policies favour large corporations at the expense of the smaller private sector and the labour movement (EU, 2016).

On the trade union side, Jordan has the General Federation of Jordanian Trade Unions, a recognized central union covering 17 identified occupations. A sectorial union can only be established within these occupations and with the agreement of the General Federation of Jordanian Trade Unions. This can pose a major obstacle for the organisation of workers. In addition, the formation of a union within an enterprise requires a minimum of 50 members, which could pose a serious obstacle for workers in the numerous micro and small enterprises.

In addition to the ineffective involvement of workers and employers or smaller enterprises, the role of civil society organizations also weak. Although civil society organizations continue to demand greater inclusion in the policymaking process, the fragmentation of the sectors in combination with a lack of resources make this difficult.

In general, it seems that social dialogue is still underdeveloped in Jordan. Social partners continue to have little influence on the decision-making process, particularly in trade, investment, and labour issues. Moreover, social dialogue remains dominated by the public players and large employers. Therefore, there is a need for a paradigm shift regarding social dialogue, in particular to develop a regulatory framework that provides a solid base for exercising the rights to freedom of association and collective bargaining.

1.3 Intellectual property rights

Jordan has passed a series of laws to meet its commitments to protect intellectual property rights under World Trade Organization rules, free trade agreements and investment treaties. Legislation on trade-related intellectual property is currently in place to protect trade, industry, and innovation. Copyright is overseen by the Department of the National Library and patents are registered in the patent and trademark register of the Ministry of Industry, Trade and Supply. Furthermore, Jordan is a signatory of the Patent Cooperation Treaty, the Protocol Relating to the Madrid Agreement concerning the International Registration of Marks and the World Intellectual Property Organization Copyright Treaty. In 2017, Jordan joined the Patent Cooperation Treaty which provides international protection for patents and inventions.

In recent years, Jordan's record in enforcing intellectual property rights has improved and law enforcement capabilities have been continually strengthened, however, more effective law enforcement and legal procedures are still needed. Enforcement of certain items such as audio, video, and software piracy has been strengthened, however, other sectors such as apparel and electronics need more control. According to the International Property Rights Index, Jordan ranked 42nd globally in protection of copy rights and 7th in the Middle East and North Africa region (Property Rights Alliance 2020).

1.4 Anti-corruption

According to a study of the Jordanian National Integrity System, co-authored by Transparency International and Rasheed for Integrity and Transparency (2015), Jordan has an advanced legal system for anti-corruption in place, but implementation is weak and requires empowerment. Actions that could impact investors such as extortion and abuse of office are now crimes in Jordan under the anti-corruption legislation, which also forbids gifts and facilitation payments. Criminal liability for companies is recognized under the Criminal Code. Jordan established the Integrity and Anti-Corruption Commission in 2016 as the key public entity to fight corruption and enhance the transparency and integrity of public services.

Jordan was ranked 60 out of 180 countries in Transparency International's 2020 Corruption Perceptions Index, fifth among the Arab countries. However, Jordan has been stuck at the same score since 2016. According to Transparency International, especially the high turnover in governmental and ministerial positions has made fighting corruption difficult. The index covers a variety of topics such as bribery, accountability, monitoring the use of public funds, misuse of public funds and abuse of official power for personal gain.

IV. Policy challenges

Based on the descriptive analysis in the previous sections, this section summarizes the key challenges related to employment, trade and investment. For each of the three main challenge areas, some policy guidance is provided to support the creation of more productive and decent employment opportunities.

1.1 Employment challenges

The Jordanian labour market benefits from a large and youthful workforce, but is unable to absorb it. This results in high levels of unemployment, in particular among women and young people. A significant share of the working age population is therefore not yet active. The labour force participation rate of women is particularly low, and many young people are not in employment, education or training. The private sector seems not to be able to absorb the excess workforce and is characterized by high levels of informality. Those who are in employment often suffer from time- or skill-related underemployment or are exposed to significant wage differentials. The introduction of a minimum wage in 2000 was an important step towards more equal labour market outcomes. However, the lower rates for migrant workers distort the labour market and threaten the social cohesion. Jordan's entrepreneurial scene is small but slowly expanding. Policies mainly focus on large companies, rather than SMEs. High energy costs and tax rates are major obstacles for doing business. In addition, a lack of knowledge and technology transfer impairs Jordan's innovative capacity, which is key to improving existing products, developing new ones, and entering new markets. Institutional factors, such as political instability, bureaucracy and the prevalence of a large informal sector, make self-employment less attractive. Moreover, complex labour, customs and trade regulations hamper the growth potential of enterprises.

Despite the many initiatives to enhance the technical and vocational education and training system in Jordan, there is still a gap in the system's capability to provide semi-skilled and skilled labour. The educational and vocational training system is largely outdated and does not equip the workforce (especially young workers) with the skill sets currently required by local and international companies.

- **Increasing employment opportunities**: Increased trade has the potential to generate new jobs and improve the quality of existing jobs. The employment potential for women and young people should be a decisive factor when identifying sectors for trade promotion.
- **Increasing labour force participation**: Activating the inactive labour force is a priority. Combating gender stereotypes and enforcing the principle of equal pay for work of equal value, as well as the provision of care facilities could increase the labour market participation rate of women.
- **Integration of migrant workers**: Facilitating the labour market access of migrant workers (including refugees),as well as their equal remuneration (e.g., though a universal minimum wage) could ease the burden on social protection systems and foster social cohesion.
- **Labour market matching**: Public employment agencies are important institutions to support jobseekers but also to anticipate skill demands. Investing in such institutions (including in the

digitalization of their services) could facilitate the matching process on the labour market and decrease costs for workers, employers and the Government.

- **Skilled workforce**: The employability of a worker depends on their skill level. This becomes even more important if Jordan decides to move up on the global value chain, since this usually requires a more highly skilled labour force. The Technical and Vocational Skills Development Commission as well as the Sectoral Skills Councils are key agencies for addressing these issues.
- **Transition to formality**: An important step when increasing the capacity of the private sector to absorb workers is to facilitate the transition to formality. This could include a simplification of the registration process and an adjustment of tax rates for micro and small enterprises.
- **Fostering entrepreneurship**: The potential of the private sector could be further realized by promoting entrepreneurship. This would require the lowering of operating costs but also the removal of institutional barriers such as bureaucracy. Targeted training and support should be provided to female entrepreneurs.
- **Focus on SMEs**: In the past, the growth of SMEs has not been a priority for Jordanian policymakers. Considering their potential in terms of revenue and employment, policies should have a stronger focus on the needs of SMEs and promote their innovative capacity. Long-term strategies for SMEs are vital to enable an enhancement of the quality of their products and to enhance their competitiveness on international markets. These long-term strategies should also include a qualification component to equip SMEs for entering export markets. Specific provisions regarding SMEs could be also included in trade agreements.
- **Compliance with international production standards**: Compliance with international due diligence standards in the production of goods and services could increase the attractiveness of Jordanian products on international markets (e.g., ILO's Core Labour Standards, OECD Guidelines for Multinational Enterprises).
- **Social protection**: Considering potential job destruction due to trade openness, adequate social protection systems are required to support workers in the transition.
- **Regional integration**: The considerable talent pool of the region could be further untapped by promoting labour mobility. This would also contribute to a better allocation of resources and knowledge sharing. The bilateral agreement on labour mobility between Jordan and Egypt is an example of good practice (cf. IOM 2010).

1.2 Trade challenges

Jordan's trade relationships have been strengthened over the past two decades, leading to an increase in both imports and exports. Imports, however, exceed exports which results in a persistent trade deficit. The country is facing several obstacles to better harness the benefits of external trade relationships. Existing non-tariff measures as well as complicated customs and certification procedures slow down exports. In addition, the quality of the transport and logistics network is relatively low, which hampers the movement of goods and services. Overall, Jordan ranks relatively low in the global value chain and relies strongly on imports with foreign value-added.

- **Identifying untapped export potential**: Jordan has already proven to be internationally competitive for several products, some of which have a strong potential for export success in specific target markets.

- **Diversifying the export basket**: Other products which are not yet exported competitively could be added to Jordan's export basket. Products with similarities to current productive knowledge have particular potential.
- **Compliance with international product standards:** Improved product quality is required to realize untapped export potential and diversify the export basket.
- **Compliance with international labour standards**: In order to improve compliance with international labour standards, trade agreements should include labour provisions and have an explicit referencing to the ILO Core Labour Standards.
- **Regional integration**: A better integration into the region could help the country to climb up in the global value chain and produce a larger share of the value added within its own borders. Furthermore, local companies including SMEs would gain access to a larger market and new technologies.
- **Regulatory procedures**: A simplification of customs and duty procedures would ease the administrative burden for exporters and could decrease costs. The digitalization of services provided by the Government (through the e-Government programme) could provide additional benefits.
- **Transport and logistics network**: Targeted investment in Jordan's infrastructure could improve the quality and reliability of its transport and logistics network. This includes roads and ports but also access to electricity and the internet.
- **Training exporters**: Jordan lacks a national level programme to qualify Jordanian enterprises to benefit from the opportunities related to investment and free trade agreements. This is currently conducted at small scale with a focus on large firms in the capital, Amman. Improving product quality to meet international standards should be a clear development goal.

1.3 Investment challenges

Jordan has focussed much attention on investment over the past decade. However, despite the many fiscal and non-fiscal incentives to enhance the investment climate in the country, frequent change of policies and discontinuity of actions were highlighted as key challenges in this regard. Several investment agreements and funds have either not been activated or have been shelved due to political and frequent changing environment for investment. Moreover, issues related to ease of starting a business, construction permits and access to electricity, among other factors, continue to hinder the establishment of a competitive investment climate to international investors. Compared to other Arab countries, Jordan is still amongst the most restrictive economies regarding FDI. Restrictions to foreign ownership and to employment continue to be key obstacles for investors in several sectors, particularly in services.

From an institutional point of view, legislative instability as well as a lack of transparency and predictability in the Government and its respective agencies constitute serious obstacles for investors.

- **Restrictions on FDI**: Existing restrictions on FDI in certain sectors should be reassessed to allow for more competition.

- **Ease of doing business**: A positive investment climate is a key requisite for attracting investors. This includes political and macroeconomic stability but also transparency and simple administrative procedures.
- **Just transition**: Investors are increasingly looking for more responsible investment opportunities. Jordan's just transition[45] provides such an opportunity and could be further promoted in the community of international investors.
- **Regional integration**: Building on its already well-developed banking sector, Jordan could increase financial flows within the region. This would improve the efficiency and reliability of the financial systems and could attract foreign investors. Investment provisions in certain free trade agreements (e.g., the Agadir Agreement) could increase transactions between countries in the Middle East and North Africa region.
- **Investment incentive measure**: A systematic review of current investment incentives, including a cost-benefit analysis and a streamlining of tax incentives, would enable the Government to promote effective measures and to retire others. Incentives could also be more closely aligned to firms' performance and include, for instance, the training of workers.

1.4 Institutional challenges

The Government has recognized the importance of trade, investment and employment for economic growth and initiated several reforms to harness their potential. However, this potential has not always been fully exploited. The absence of a coherent framework aligning trade, investment and employment policies creates bottlenecks or even conflicting priorities in implementation. Moreover, the implementation phase is often not followed by a clear follow-up and monitoring phase, which would be necessary to further adjust and fine-tune the measures. Lastly, the inclusion of social partners throughout the entire policymaking process would increase the commitment of workers and employers and therefore contribute to the sustainability of policies.

- **Alignment of strategies and policies**: Jordan's Vision 2025 and the Economic Growth Plan (2018–22) provide overall strategic guidance for employment, trade and investment. Policymakers should use this guidance when formulating policies for the implementation of these plans. The aim should be to develop coherent policies by better incorporating employment issues into trade and investment policies and vice versa.
- **Coordination across ministries**: While Jordan has strong institutional arrangements, coordination among ministries and Government entities is rather low. However, this is an important prerequisite for a better policy alignment. In the context of employment, trade and investment policies, the Investment Council already plays a decisive role since it includes representatives from all three of these areas. Nevertheless, its role could be further expanded to ensure better overall policy coherence, for example by including representatives of the Ministry of Education, the Ministry of Higher Education and Scientific Research, as well as of the Sectoral Skills Councils.

[45] A just transition means greening the economy in a way that is as fair and inclusive as possible to everyone concerned, creating decent work opportunities and leaving no one behind. See: https://www.ilo.org/global/topics/green-jobs/WCMS_824102/lang--en/index.htm.

- **Follow-up and monitoring**: The lack of monitoring and follow-up mechanisms often compromises policy implementation. The establishment of the reform secretariat in the Ministry of Planning and International Cooperation could represent a major step towards prioritizing reforms to better monitor and oversee the implementation of trade, labour, and investment policies and strategies. The secretariat could play a significant role in reviewing the constraints facing various policies and agreements, and could provide a platform for social dialogue concerning current and future policies and programmes. These efforts should be accompanied by the strengthening of information systems (e.g., related to labour market information and skills anticipation) which could provide the basis for evidence-based interventions.
- **Social dialogue** is still underdeveloped in Jordan and social partners continue to have very limited influence in decision-making processes. Policies around trade, investment, and employment issues are strongly influenced by the Government and – to a lesser extent – by employers. In this context, the Government consults with trade and industry chambers and business associations which mainly represent the larger firms. The voices of SMEs and of workers are heard less. In addition, the role of civil society organizations is also very weak despite their demands for greater inclusion in the policymaking process. The Government should therefore consider involving all social partners as well as civil society organizations into wider socio-economic policy areas such as employment, skills, economic, trade and investment policies. This involvement should begin at the drafting stage.
- **Core conventions and labour standards**: While freedom of association is guaranteed under the Constitution and labour laws, its application remains limited, which poses a serious threat to social dialogue. The Government should therefore increase its efforts to ratify the Freedom of Association and Protection of the Right to Organize Convention, 1948 (No. 87). This would strengthen the role of the social partners and civil society organizations in policymaking. Moreover, core labour standards and further labour provisions should become an integral part of all trade and investment agreements.

Conclusion

This report provided a descriptive analysis of employment, trade and investment in Jordan. In the first section, it reviewed the existing body of literature and analysed the status quo of employment, trade and investment. It showed that the country's labour market is facing a multitude of challenges: a high incidence of unemployment in particular amongst high-qualified women and young people, a relatively small private sector in terms of employment, a low labour force participation rate amongst women and a large informal economy. Entrepreneurship is relatively rare and constrained by high operating costs, political instability, and complex rules and regulations. The COVID-19 pandemic has significantly exacerbated the situation for both workers and enterprises, with GDP contracting sharply while unemployment rose. Women, young people and refugees were hit the hardest. Many SMEs, in particular informal enterprises, went out of business.

Jordan's trade openness led to a growth of both imports and exports. Jordan's exports can be considered as "concentrated" in terms of both product and market. In terms of product, they concentrate on textiles and chemicals. In terms of market, they concentrate on partners within the Greater Arab Free Trade Area and North America. Textiles and chemical products are Jordan's main export goods, and they are also the product groups with the largest total export potential. Travel and transport are the main service exports. Jordan could diversify its export basket by adding different food products as well as footwear, depending on the destination market. The country is facing several obstacles to better harness the benefits of external trade relationships, such as non-tariff measures and complex customs and certification procedures. In addition, the transport and logistics network is in need of an upgrade. Overall, Jordan ranks relatively low in the global value chain and relies heavily on imports with foreign value-added.

The second chapter gave an overview of Jordan's employment, trade and investment policies. Jordan has concluded a range of bilateral and plurilateral trade and investment agreements and is considered to be one of the most open economies in the region. However, the country has not taken full advantage of these agreements and many of them remain underutilized. They also tend to lack labour provisions. The sectors prioritized by the Government could provide an opportunity to further intensify trade relationships, but also to attract FDI. Harnessing the unrealized potential of the service sector as well as Jordan's endeavours towards a just transition could be an area of particular interest for investors.

The third chapter offered a brief overview of the institutional mechanisms that govern the policymaking process in Jordan. It also summarized the status of social dialogue in those processes and noted a lack of consultation with social partners in general, and with SME representatives and workers in particular.

The last chapter set out the key challenges related to employment, trade and investment and offered some policy guidance to create more productive and decent employment opportunities. With regard to the labour market, more opportunities and greater participation are needed, in particular for women and young people. Active and passive labour market policies could support the matching process and the upskilling of the workforce. Entrepreneurship in general and SMEs in particular, merit special attention in the policymaking process.

Compliance with international product standards, a lower administrative burden and an improved transport and logistics network could improve the prospects for Jordanian exports. In addition, several products in Jordan’s export basket have further export potential, and other products could be added. An intensification of regional trade as well as better compliance with international labour and production standards are other measures to increase exports.

The removal of restrictions on FDI, a more friendly business environment as well as explicit investment opportunities for responsible investors are measures to attract more FDI. A better financial integration in the region could provide additional opportunities. Moreover, a review of existing investment incentives could help the Government to focus on the most effective measures.

To establish a more coherent policy framework, employment issues need to be better integrated in trade and investment policies. This requires close coordination across ministries to achieve a strong alignment of these policies. Jordan’s Investment Commission would be well positioned to take on this coordination role, in particular since its upgrade to a ministry. New policies should include follow-up and monitoring mechanisms to enable early intervention and – if necessary – course corrections by the Government. A general principle for the policymaking process should be the inclusion of worker and employer representatives, probably complemented by other civil society organizations.

In conclusion, this report showed that increased trade and investment can improve the quality of existing jobs and create new jobs in Jordan. Focusing on policies that improve the export potential of tradable sectors would increase productivity, create jobs and improve the absorption of highly qualified workers into the labour market. This could enhance the impact of trade and investment policies on the labour market and the economy as a whole. A careful integration of employment issues into trade and investment policies is needed to ensure an equal distribution of the progress made through liberalization efforts.

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Annexes

Annex 1 Foreign direct investment in infrastructure projects, 2015-19

Project name	Investment year	Segment	Technology	Contract period (years)	Percent private	Total investment (US$ million)	Foreign investors (Price per share and % of ownership)	Country of foreign investors
Al Ward Al Joury Solar PV Plant	2015	Electricity generation	Solar, PV	20	100	30	Adenium Energy Capital ($7 / 100%)	Cayman Islands
Al Zahrat Al Salam Solar PV Plant	2015	Electricity generation	Solar, PV	20	100	30	Adenium Energy Capital ($7 / 100%)	Cayman Islands
Al Zanbaq Solar PV Plant	2015	Electricity generation	Solar, PV	20	100	30	Adenium Energy Capital ($7 / 100%)	Cayman Islands
Arabia One Solar PV Power Plant	2015	Electricity generation	Solar, PV	20	100	30	Hanwha E&C ($2.7 / 30%), Construcciones y Auxiliar de Ferrocarriles (CAF) SA ($3.6 / 40%), ATC Group ($2.7 / 30%)	Korea, Republic of Spain
Falcon Ma'an Solar PV Plant	2015	Electricity generation	Solar, PV	20	100	50	Catalyst Private Equity Fund ($6.1 / 50%), Desert Technologies ($3.05 / 25%), Gruppo Maccaferri ($3.05 / 25%)	Saudi Arabia Italy

Jordan Solar One PV Power Plant	2015	Electricity generation	Solar, PV	20	100	70	AMP Solar Group ($6.03 / 67%), Evolution Solar Group ($1.53 / 17%), RAI Energy International ($1.17 / 13%)	Canada United States United States
Shams Ma'an PV Solar Power Plant	2015	Electricity generation	Solar, PV	20	100	168	Mitsubishi ($13.65 / 35%), Qatar Electricity & Water Company (QEWC) ($13.65 / 35%)	Japan Qatar
Al Rajef Wind Farm	2016	Electricity generation	Wind	Not Available	100	185.1	Alcazar Capital Limited ($46.3 / 100%)	United Arab Emirates
Fujeij Wind Farm	2016	Electricity generation	Wind	20	100	197	Korea Electric Power Company (KEPCO) (Not Available / 100%)	Korea, Republic of
Mafraq FRV Solar Plant	2016	Electricity generation	Solar, PV	Not Available	100	95	Fotowatio Renewable Ventures (FRV) ($23 / 100%)	Spain
Zarqa CCGT power plant	2016	Electricity generation	Natural gas	25	100	475	ACWA Power ($97.75 / 85%), International Finance Corporation ($17.25 / 15%)	Saudi Arabia International organization
Attarat Oil Shale-Fired Power Plant	2017	Electricity generation	Other	30	100	2109	YTL Corporation ($237.6 / 45%), Yudean Group ($237.6 / 45%), Eesti Energia ($52.8 / 10%)	Malaysia China Estonia
Baynouna Solar PV Plant	2017	Electricity generation	Solar, PV	20	100	280	Mubadala Development Company ($92 / 100%)	United Arab Emirates

Empire Solar PV Plant	2017	Electricity generation	Solar, PV	20	100	98.4	Fotowatio Renewable Ventures (FRV) ($27.4 / 100%)	Spain
Risha Solar Plant	2017	Electricity generation	Solar, PV	20	100	69	ACWA Power ($15 / 100%)	Saudi Arabia
Safawi Solar Plant	2017	Electricity generation	Solar, PV	20	100	93.3	Fotowatio Renewable Ventures (FRV) ($28.3 / 100%)	Spain
Shobak Wind Farm	2017	Electricity generation	Wind	20	100	104	Alcazar Capital Limited ($23.4 / 90%), Hecate Energy ($2.6 / 10%)	United Arab Emirates United States
Daehan Wind Power Plant	2018	Electricity generation	Wind	20	100	103	Daelim (Not Available / Not Available%), Korea Electric Power Company (KEPCO) (Not Available / Not Available%)	Korea, Republic of Korea, Republic of
Hashemite Solar Plant	2018	Electricity generation	Solar, PV	20	100	50	AES Corporation ($3 / 30%), Others ($3 / 30%), Mitsui ($4 / 40%)	United States N/A Japan
Al Husainiyah Solar Power Plant	2019	Electricity generation	Solar, PV	20	100	74	Philadelphia Solar (Not Available / 30%), AMEA Power (Not Available / 70%)	Jordan United Arab Emirates

Source: World Bank Private Participation in Infrastructure (PPI) database.

▶ Annex 2 Bilateral investment treaties

Name of the treaty	Status	Date of signature	Date of entry into force
Japan - Jordan bilateral investment treaty	In force	27/11/2018	01/08/2020
Jordan - Saudi Arabia bilateral investment treaty	Signed	27/03/2017	
Jordan - Turkey bilateral investment treaty	Signed	27/03/2016	
Armenia - Jordan bilateral investment treaty	In force	29/10/2014	22/11/2017
Jordan - Iraq bilateral investment treaty	Signed	25/12/2013	
Jordan - Palestinian Authority bilateral investment treaty	Signed	04/10/2012	
Estonia - Jordan bilateral investment treaty	In force	10/05/2010	06/06/2011
Cyprus - Jordan bilateral investment treaty	In force	20/12/2009	19/07/2010
Jordan - United Republic of Tanzania bilateral investment treaty	Signed	08/10/2009	
Canada - Jordan bilateral investment treaty	In force	28/06/2009	14/12/2009
Jordan - United Arab Emirates bilateral investment treaty	In force	15/04/2009	12/02/2010
Jordan - Portugal bilateral investment treaty	In force	17/03/2009	06/01/2015
Jordan - Qatar bilateral investment treaty	In force	28/01/2009	28/05/2009
Azerbaijan - Jordan bilateral investment treaty	In force	05/05/2008	25/12/2008
Jordan - Slovakia bilateral investment treaty	In force	21/02/2008	09/06/2010
Germany - Jordan bilateral investment treaty	In force	13/11/2007	28/08/2010
Hungary - Jordan bilateral investment treaty	In force	14/06/2007	09/03/2008
Jordan - Oman bilateral investment treaty	In force	09/04/2007	05/09/2008
Jordan - Russian Federation bilateral investment treaty	In force	13/02/2007	17/06/2009
India - Jordan bilateral investment treaty	Terminated (2020)	30/11/2006	22/01/2009
Jordan - Kazakhstan bilateral investment treaty	In force	29/11/2006	01/07/2008
Finland - Jordan bilateral investment treaty	In force	01/11/2006	18/12/2007
Bosnia and Herzegovina - Jordan bilateral investment treaty	In force	02/07/2006	25/11/2011
Jordan - Thailand bilateral investment treaty	In force	15/12/2005	25/11/2007
Jordan - Ukraine bilateral investment treaty	In force	30/11/2005	17/04/2007
Greece - Jordan bilateral investment treaty	In force	21/02/2005	08/02/2007
Jordan – Republic of Korea bilateral investment treaty	In force	24/07/2004	25/12/2004
Democratic Republic of the Congo - Jordan bilateral investment treaty	Signed	23/06/2004	
Jordan - Singapore bilateral investment treaty	In force	16/05/2004	22/08/2005
Belarus - Jordan bilateral investment treaty	In force	20/12/2002	22/12/2005
Jordan - Lebanon bilateral investment treaty	In force	31/10/2002	30/08/2003
Jordan - Lithuania bilateral investment treaty	In force	13/10/2002	05/05/2003
Bulgaria - Jordan bilateral investment treaty	In force	07/08/2002	19/04/2003

China - Jordan bilateral investment treaty	Signed	15/11/2001	
Jordan - Syrian Arab Republic bilateral investment treaty	In force	08/10/2001	11/05/2002
Jordan - Kuwait bilateral investment treaty	In force	21/05/2001	19/03/2004
Jordan - Switzerland bilateral investment treaty	In force	25/02/2001	11/12/2001
Austria - Jordan bilateral investment treaty	In force	23/01/2001	25/11/2001
Jordan - Sudan bilateral investment treaty	In force	30/03/2000	03/02/2001
Bahrain - Jordan bilateral investment treaty	In force	08/02/2000	05/06/2000
Jordan - Spain bilateral investment treaty	In force	20/10/1999	13/12/2000
Croatia - Jordan bilateral investment treaty	In force	10/10/1999	27/04/2000
Jordan - Morocco bilateral investment treaty	In force	16/06/1998	07/02/2000
Jordan - Netherlands bilateral investment treaty	In force	17/11/1997	01/08/1998
Jordan - Poland bilateral investment treaty	In force	04/10/1997	14/08/1999
Czechia- Jordan bilateral investment treaty	In force	20/09/1997	25/04/2001
Jordan - United States bilateral investment treaty	In force	02/07/1997	12/06/2003
Indonesia - Jordan bilateral investment treaty	In force	12/11/1996	09/02/1999
Algeria - Jordan bilateral investment treaty	In force	01/08/1996	05/06/1997
Italy - Jordan bilateral investment treaty	Terminated (2015)	21/07/1996	17/01/2000
Egypt - Jordan bilateral investment treaty	In force	08/05/1996	11/04/1998
Jordan - Yemen bilateral investment treaty	In force	08/05/1996	28/01/1998
Jordan - Tunisia bilateral investment treaty	In force	27/04/1995	23/11/1995
Jordan - Malaysia bilateral investment treaty	In force	02/10/1994	03/03/1995
Jordan - Turkey bilateral investment treaty	In force	02/08/1993	23/01/2006
Jordan - Romania bilateral investment treaty	In force	02/07/1992	16/03/1999
Jordan - United Kingdom bilateral investment treaty	In force	10/10/1979	24/04/1980
France - Jordan bilateral investment treaty	In force	23/02/1978	18/10/1979
Jordan - Switzerland bilateral investment treaty	Terminated	11/11/1976	02/03/1977
Germany - Jordan bilateral investment treaty	Terminated	15/07/1974	10/10/1977

Source: UNCTAD Investment Policy Hub, International Investment Agreements Navigator.

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