

Global Value Chains Diagnostic – Country Deep Dive

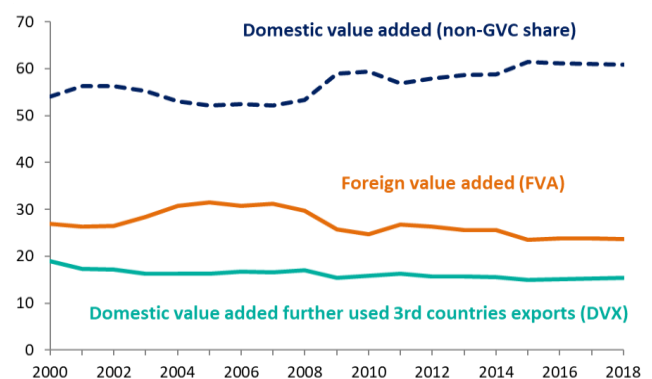
Jordan¹

- Jordan's overall integration into global value chains is low and has been further declining since 2008
- Relatively strong backward linkages with heavy reliance on foreign value-added inputs and intermediates for exports
- Key export goods are apparel and textile, mineral and chemical products
- A narrow production base, low competitiveness of domestic firms and conflicts in the direct neighbourhood worsen the opportunities for GVC integration

Mapping the integration in GVCs

At the world level, global value integration (GVCs) has stagnated in recent years, whereas most trade integration had happened before the financial crisis. Jordan experienced a similar trend with large foreign direct investment inflows and increasing integration in global value chains in the early 2000s. After 2008, value chain linkages started declining. They were among the lowest in the SEMED region in 2018, with around 40 per cent of exports via value chain linkages (Chart 1). Generally, Jordan has stronger backward than forward linkages, with around 25 percent of exports value being foreign inputs and 15 per cent being domestic value added exported to other countries used in further export production.²

Chart 1: Decomposition of gross exports (as per cent of total gross exports)



Sources: UNCTAD-EORA (2018) and authors' calculations

Jordan's strong backward linkages indicate that the country relies on an international network of suppliers of raw materials and intermediate inputs in order to be able to produce export products.

Such a high integration via backward linkages can usually be found among smaller and open economies. Having access to competitive and high quality inputs of foreign firms helps Jordanian firms to be competitive on international markets, with the downside that it

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² Global value chain integration is the sum of foreign value added (FVA) & domestic value added embodied in 3rd countries' exports (DVX). The residual part of exports value consists of domestic value added with no GVC linkages.

can result in limited value added in the domestic economy (i.e. low value added assembly tasks).

Overall, Jordan is an open economy, with imports outweighing exports. In 2018, exports accounted for around 17 per cent of GDP and exports via global value chains linkages made up 7 per cent of GDP. The export share in GDP shows a downward trend in the last decade, standing at 23 per cent of GDP in 2011. The subsequent trade slowdown partially resulted from external shocks to the economy stemming from regional conflicts and closed borders to neighbouring Syria and Iraq in the past years.

In terms of composition of the export basket, around half of the total export value is made up of consumer goods. Exports of intermediate goods accounted for 25 per cent, raw materials for 17 per cent and capital goods for 9 per cent in 2017. The export volume of goods has more than doubled between 2005 and 2012, but has stagnated around US\$ 14 billion since then.

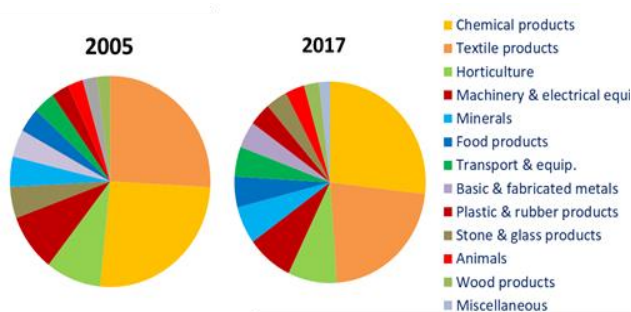
Generally, Jordan's most important export goods are chemical and textile products, accounting for almost 50 per cent of total exports (Chart 2). The remaining exports consist of horticulture and food products, electrical machinery, minerals and metal products. Overall, the export composition has barely changed in the last two decades and product diversification has remained limited.

In the absence of input-output data, which is usually used to analyse global value chain linkages between countries, trade in intermediate goods acts as a proxy measure to observe Jordan's integration in global value chains. Generally, Jordan is an exporter of industrial supply than can either be used as input in production of final goods or used as input in further production of exports (i.e. forward linkages in value chains). The country is also an importer of raw materials and industrial supplies, which are needed to produce exports of consumer goods (i.e. backward linkages in value chains).

Jordan's integration in global value chains has happened mainly via backward linkages in the apparel industry and forward linkages in the chemicals and mineral industry, where it possesses large natural resources (e.g. phosphate and potash). Out of the top ten most important export product groups in 2018, six were intermediate goods in chemicals, pharmaceuticals and minerals, and the remaining four consumer goods were in form of textiles, medicaments and tomatoes. In 2005, the most important export products were basic chemical ingredients and minerals linked to the fertiliser industries, whereas sporting apparel products moved to the top in exports volume in 2018.³

Jordan has different trading partners with regard to both imports and exports, and intermediate and final goods. In overall terms, the US is the most important export market for Jordan with almost a quarter of export share in 2018. The US is the main importer of Jordanian textile products, whereas Jordan imports the majority of total products from the EU. In terms of trade in intermediates, Saudi Arabia, the EU and China are all rather equal important partners (Chart 3). Jordan relies to an increasing extent on imports of raw materials and industrial supply from Saudi Arabia and China.

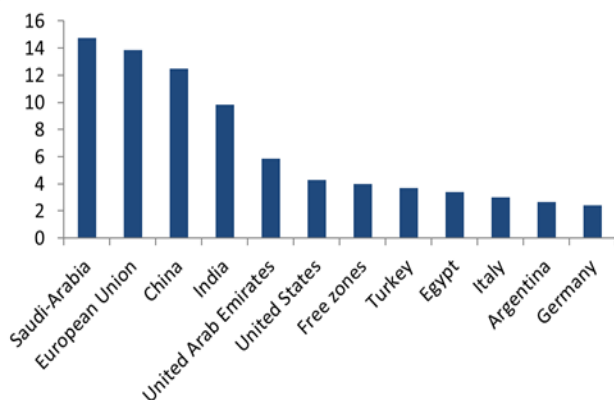
**Chart 2: Export basket composition
(as per cent of goods exports)**



Sources: WITS (2018) and authors' calculations

³ Based on six-digit Harmonised Classification product code level of goods exports.

**Chart 3: Trading partners in intermediate goods
(exports and imports as per cent of trade,
2018)**



Sources: WITS (2018) and authors' calculations

Trade and investment policies

Jordan is a small and open economy in the SEMED region, and the only country in the Middle East having signed a free trade agreement with the United States and the European Union (in form of an association agreement and following Compact agreement). The country has actively increased its network of regional trade agreements with Singapore, Canada and is both member of the Agadir group and the Pan-Arab free trade area.

Jordan has done significant progress in liberalising trade since its WTO accession in 2000, reducing the applied tariff rates on all stages of processing goods, but in particular of intermediate goods. Still, the progress has stagnated since 2008.

In terms of trade and investment, Jordan relies on a complex system of designated free and development zones, qualified industrial zones and a Special Economic Zone (SEZ) in Aqaba. Each of the different kind of zones follows certain objectives. The Aqaba SEZ is a duty-free, low tax development zone and is governed by its own authority to attract foreign investment and to promote exports. Public and private free zones are widespread across the country and are similar to the SEZ with favourable fiscal and customs regimes, no local content requirements and an open immigration policy (30 per cent of local labour force requirements).

The integration into global value chains of textiles and apparel has been primarily the result of the Qualified Industrial Zone (QIZ) agreement signed in 2006. It grants tariff free and quota free access to the US market for goods produced in QIZ zones with a small portion of Israeli input and a minimum 35 per cent value to the goods added to the finished product in Jordan (though the US-Jordan trade relationship has been further developed by a FTA in 2010). Due to flexible rules of origin of intermediates used in the production process and the permission of employing foreign workforce in the free zones, the country has been able to source inputs and labour from third countries and still benefit from duty-free access to the US ([GVC case study: Apparel – Made in Jordan](#)).

In addition to the association agreement with the EU, Jordan has signed the Compact agreement with the EU in 2016 in order to receive support with regard to the strong influx of Syrian refugees. The agreement simplifies rules of origin for Jordanian firms, covering 52 product categories until 2030. This offers local manufacturing firms the opportunity to use more foreign intermediate and raw inputs.

Obstacles and barriers

With the uprising of conflicts in the region, the economy and its exporting firms have been hit by various exogenous shocks in form of lost export markets in Syria and Iraq and slower export demand from the Gulf countries (due to weaker oil prices). However, the exogenous shocks also have highlighted the strong dependence on exports of apparel and textiles to the US and have underlined the low level of diversification of export products and markets. Despite having preferential access to the EU market, and even benefitting from relaxed rules of origin under the EU-Jordan Compact agreement, only a small number of firms (eleven by end 2018) obtained export authorisation under the new scheme and only three managed to export to the EU by 2018 (plastics and apparel products).

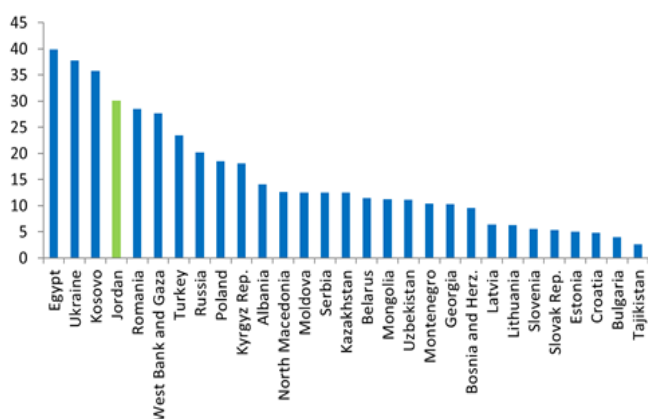
The underlying causes resulting in the rather poor trade performance are a general lack of compliance with international regulations and standards (EU regulations) and few business

experiences with firms abroad. Also, exporting firms are often operating in low value-added industries, where they face hard price competition on international markets. Generally, firms in Jordan have high production costs due to high labour costs, an unfavourable currency peg to the US Dollar, high energy costs and expensive logistics. The significant state presence in key sectors such as mining of phosphate and potash also results in inefficiencies, misallocation of resources and unexploited potential.

With no direct access to the Mediterranean Sea and only one port at the Red Sea, goods need to be transported via the Suez Canal or via expensive air freight, since regional conflicts effectively block land transportation routes. In-country transportation and getting to the border is also costly, with no railways, airports with low capacities and limited competition in the logistics sector. Firms also perceive customs and trade regulation at the border as major obstacle for their business operations (Chart 4).

In order to strengthen GVC integration, Jordan would strongly benefit from a more stable regional environment, which would support export growth to neighbouring countries. The country could also improve customs and logistics efficiency and help firms in complying with international standards in order to fully benefit from the preferential market access to the EU. Jordanian firms could also benefit from upgrading in existing value chains to higher value added activities, which would help Jordanian firms to compete in less price sensitive markets.

Chart 4: Firms reporting customs and trade regulations as major or severe obstacle (as per cent of total firms active in trading)



Sources: EBRD-BEEPS (2020) and authors' calculations

Further information is available to supplement this country factsheet:

- GVC diagnostic – The Southern and Eastern Mediterranean region
- GVC case study: Opportunities from diversification and promotion of resilience in GVCs
- GVC case study: Apparel – Made in Jordan