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Overview and Implementation Status
June 2018

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Photo on cover: Jordanian and Syrian workers in a garment factory exporting to the EU.

Source: Maha Katta/International Labor Organization.

INTRODUCTION

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In February 2016, as the Syria refugee crisis started to peak, the international community held a conference in London to discuss a joint response to the crisis: It heralded a decisive paradigm shift in European development cooperation and initiated

a reform of the development policy focus, away from short-term emergency aid to long-term strengthening of initial host country resilience. A core outcome of the conference was the Jordan Compact — an agreement between Jordan, the European Union and the World Bank — to improve both the livelihoods of Syrian refugees and vulnerable Jordanians. In return for grants, loans and a preferential trade agreement with the European Union, Jordan committed to improve access to education and legal employment for Syrian refugees. The Jordan Compact aspires to turn ‘the Syrian refugee crisis into a development opportunity’ for Jordan by promoting education, growth, investment and job creation, instead of short-term humanitarian aid. Its main focus is a trade deal with the European Union, foreseeing relaxed rules of origin for Jordanian exports to enhance job creation and investments.

About 660,000 Syrian refugees are currently registered with the United Nations Refugee Agency (UNHCR), accounting for almost seven per cent of the total Jordanian

population. The high number of refugees puts additional pressure on a country which is already suffering from a dire economic situation. Currently, in June 2018, Jordan is experiencing a wave of serious protests due to planned tax reforms and price hikes which are necessary to meet the requirements of an agreement with the IMF to reduce public debt. The protests led to the resignation of the Prime Minister and the cabinet.

In this context, this study, funded by the Konrad Adenauer Foundation’s office in Jordan, aims to give an overview on Jordan’s economy and to reflect on the progress of the Compact implementation two years on. In view of the tense economic situation in Jordan, it is crucial to highlight lessons learnt from the Jordan Compact and to give recommendations in order to enable further progress and to ensure the successful continuation of this new approach to strengthen not only refugee communities but also their host countries in the Middle East.

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June 2018

ABOUT THE AUTHOR

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LIST OF ACRONYMS

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LIST OF ACRONYMS

CBJ	Central Bank of Jordan
EFF	Extended Fund Facility
EPC	Economic Policy Council
FDI	Foreign Direct Investment
GCC	Gulf Cooperation Council
GDP	Gross Domestic Product
GGP	Green Growth Plan
GMP	Good Manufacturing Practices
GNI	Gross National Income
H1/H2	First half of the year/second half of the year
ILO	International Labor Organization
IMF	International Monetary Fund
JCI	Jordan Chamber of Industry
JD	Jordanian Dinar
JEDCO	Jordan Enterprise Development Corporation
JEGP	Jordan Economic Growth Plan
JEM	Jordan Economic Monitor
REACH	Registration, Evaluation, Authorization and Restriction of Chemicals
RoO	Relaxed Rules of Origin
SMEs	Small and Medium Size Enterprises
USAID	The United States Agency for International Development

SELECTED INDICATORS

Population¹		Trade⁵	
All,		Total Exports,	
in million, 2017	10.1	USD billion, 2017	7.5
Syrian ² ,		Total Imports,	
in million, 2015	1.3	USD billion, 2017	20.4
Economy³		Labor⁶	
GDP,		Unemployment	
(Current USD, billion), 2016	38.7	Rate, all, 2017	18.3%
GNI,		Males	15.8%
(Current USD, billion), 2016	37.1		
FDI ⁴ ,		Females	27.2%
(USD, billion), 2017	1.7		
		Labor Market	
		Participation,	
		2017	40.2%
		Males	62.7%
		Females	16.9%

1: Department of Statistics, Jordan Statistical Yearbook 2017

2: Department of Statistics, Census.

3: The World Bank. www.Data.worldbank.org.

4: Central Bank of Jordan.

5: International Trade Center, International trade statistics.

6: Department of Statistics, Employment and Unemployment Survey, 2017.

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Overview

Located in the Middle East, The Hashemite Kingdom of Jordan is bordered by Syria to the north, Iraq to the northeast, Saudi Arabia to the south and Palestine and Israel to the West. The country of Jordan occupies an area of 89,342 sq. km¹ with an estimated population of 10,053,000² with Amman as its capital, its most populated city as well as the country's economic, political and cultural center.

Located at the intersection of multiple conflicts, Jordan has weathered a multitude of geopolitical conflicts, since its independence in 1946. Compared to other countries in the Middle East, Jordan remains stable, despite its limited natural resources (phosphates, potash and shale oil) and its continuous ability to host the influx of refugees over the decades as a result of spill over from regional conflicts. Currently, Jordan hosts over two million registered refugees from Palestine³, over 660,000 registered refugees from Syria (the government of Jordan estimates an equal number of unregistered Syrian refugees) and over 82,000 registered refugees from Iraq, Yemen, Sudan, Somalia and other countries.⁴

Economic Challenges

Jordan's economy is among the smallest in the Middle East; its geopolitical situation coupled with insufficient supplies of water, oil and other natural resources as well as complete dependence on imported energy, resulted in the governments substantial reliance on foreign

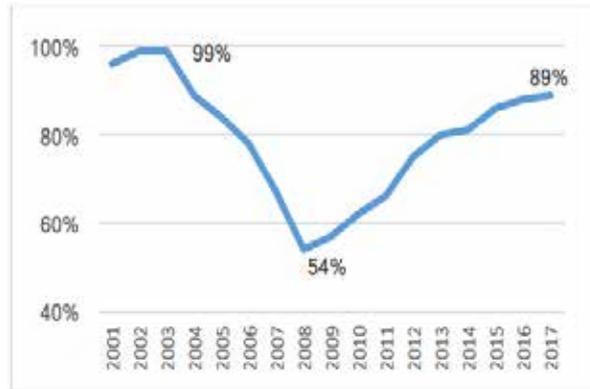


Figure 1: Public debt (% of GDP)

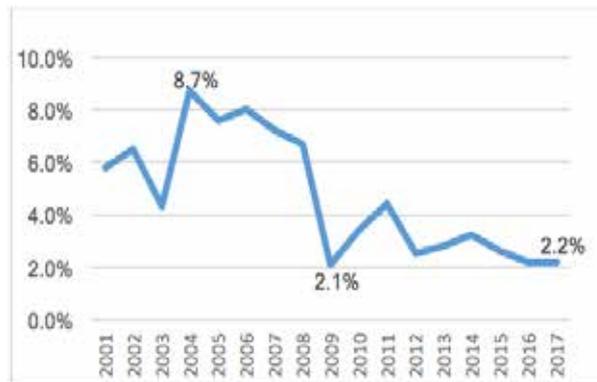


Figure 2: Real GDP at basic prices (% change)

Source: Monthly bulletin, Central Bank of Jordan, available on www.cbj.gov.jo

1 Central Intelligence Agency, The World Fact Book: Jordan. Accessed on May 27th, 2018. <https://www.cia.gov/library/publications/the-world-factbook/geos/jo.html>

2 Department of Statistics, Jordan Statistical Yearbook 2017. Accessed on May 27th, 2018. <http://dosweb.dos.gov.jo/DataBank/Yearbook2017/Population.pdf>

3 UNRWA – Jordan. Accessed on May 27th, 2018. <https://www.unrwa.org/where-we-work/jordan>

4 UNHCR Jordan Factsheet – February 2018. Accessed on May 27th, 2018. <https://reliefweb.int/report/jordan/unhcr-jordan-factsheet-february-2018>

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assistance. Jordan's main economic challenges also include dependency on grants and remittances from Gulf economies, high rates of poverty, unemployment and underemployment, budget and current account deficits, and government debt. As indicated in Figure 1 and Figure 2, public debt reached 89% of GDP in 2017 while GDP grew at a mere 2.2% in the same year. The major challenge faced by the Jordanian government is the need to stimulate growth and create jobs all while keeping control of the fiscal deficit.

Continuous political regional developments, particularly the Syria and Iraq crises, further challenge the Jordanian economy, mainly due to the "unprecedented refugee influx, in disrupted trade routes, and in lower investments and tourism inflows. The large number of Syrian refugees in the country is having a strong impact on the country's economy and social fabric."

Economic Developments and Reform Policies

The Jordanian economy has been and remains in low- growth development. The World Bank's Jordan Economic Monitor (JEM) report (Fall 2017) reported that real Gross Domestic Product (GDP) growth for 2017 is expected to reach 2.1% compared to 2.0% in 2016.

Limited growth in 2017 has been attributed to improvements in the tourism and mining and quarrying. Nonetheless, continued regional conflict, specifically in Syria, and Iraq, Jordan's main trade partners, remains one of the main challenges facing any real growth to the Jordanian economy coupled with economic slowdown in the Gulf Cooperation Council (GCC).

The government of Jordan initiated the implementation of slow paced fiscal and monetary policies in 2016 to achieve financial and economic stability. As part of fiscal consolidation program, adopted measures aim to improve Jordan's fiscal situation in the medium – term through commitments to remove exemptions on the general sales tax, income tax, and custom duties in line with the International Monetary Fund (IMF) Extended Arrangement under the Extended Fund Facility (EFF).

What is the Extended Fund Facility (EFF)?

The EFF was established to provide assistance to countries: (i) experiencing serious payments imbalances because of structural impediments; or (ii) characterized by slow growth and an inherently weak balance of payments position. The EFF provides assistance in support of comprehensive programs that include policies of the scope and character required to correct structural imbalances over an extended period

*Source: International Monetary Fund, Extended Fund Facility. Accessed on 3 June, 2018.
<http://www.imf.org/en/About/Factsheets/Sheets/2016/08/01/20/56/Extended-Fund-Facility>*

To stimulate the Jordanian economy and address the slowing macroeconomic environment and high unemployment, the Government introduced two cross cutting plans by adopting the Jordan Economic Growth Plan (JEGP) under the recommendations of the Economic Policy Council (EPC) which aims to double economic growth over 2018-2022 as well as launched the Green Growth Plan (GGP) to develop a national green growth strategy. According to the Economic Policy Council: i) A successful implementation of the IMF Extended Fund

Facility Program (EFF) along with the JEGP will put Jordan on a sustainable growth trajectory and ensure its economic resilience in the face of regional turmoil. ii) A successful implementation by the Government of Jordan of JEGP will double the economic growth of Jordan over the coming five years, at the minimum, in spite of ongoing regional turbulence.

The Government of Jordan's Crosscutting Growth Plans

The Jordan Economic Growth Plan 2018 - 2022 (JEGP)

Developed to recapture the growth momentum and realize Jordan's development potential and is comprised of economic, fiscal and sectoral strategies that outline the vision and policies pertaining to each sector.

It further identifies the required policy interventions, public projects and private investments that must be undertaken to realize these sectoral visions.

The JEGP addresses 19 areas and enabling environment by identifying 95 policy actions, 85 government projects that will cost USD 9.7 billion, and 27 private sector investments with a total value of USD 13.3 billion.

The Green Growth Plan (GGP) desired outcomes are:

Sustained growth for the Jordanian economy.

Maintaining and enhancing Jordan's biodiversity and ecosystems services.

Inclusive and equitable growth for Jordan's population.

Reducing greenhouse gas emissions from Jordan.

Ensuring Jordan's environmental and economic resilience into the future.

Sources: The Economic Policy Council, The Jordan Economic Growth Plan 2018 - 2022 (JEGP). <http://www.ssif.gov.jo/UploadFiles/JEGProgramEnglish.pdf>

A National Green Growth Plan for Jordan. <http://www.moenv.gov.jo/AR/Documents/report2017/%20الخطة الوطنية%20للنمو%20الأخضر.pdf>

The World Bank JEM report (Spring 2017)⁵ argues, "It is difficult to foresee an impactful jumpstart to growth unless strategic structural reforms are implemented at a quicker pace." The government of Jordan have been working to increase investments and expand economic activities through a number of improvements to the investment and business environment in addition to provisions of incentives to investors. Nevertheless, structural reforms to economies tend to be difficult and take time. The government is also facing resentment and lack of approval by the Jordanian public of the slow paced introduction of the reforms. Most recently, on May 30th, 2018, Professional Associations Council organized a public strike and one of the largest protests in Jordan for years protesting the governments' amendments to the income tax law. The strike included 33 Unionists, association's members, from teachers to doctors, as well as civil society organizations, private

⁵ The World Bank Jordan Economic Monitor, The Green Economic Boost, Spring 2017, p.7.

sector representatives and individuals.⁶ While the World Bank recommends, “The Government should consider combining further tariff reforms with targeted social protection measures to limit the impact on the poor”⁷, the recent strikes resulted in the resignation of the Prime Minister and the commitment of the newly hired Prime Minister to withdraw the proposed income tax law.

Output and Demand

The continuous regional crisis; namely the war in Syria and Iraq and the closure of trade routes, the influx of Syrian refugees as well as the financial crisis in GCC have impacted the growth of the Jordanian economy. The recent reopening of the Jordan and Iraq border, is expected to “revitalize bilateral trade, enhance prospects of developing the oil pipeline from Basra to Amman and Aqaba, and enhance investment sentiment”⁸ as well as a proposed joint industrial estate with costumes free access of certain goods. The drop in oil prices had a direct impact on Jordan due to the economic linkages with the GCC economies, namely an annual growth percentage average of 2.5 percent (2010-2017) far below the 6.5 percent average achieved in pre-regional crisis period (2000-2009)⁹. Economic linkages between Jordan and the GCC are mainly through exports of merchandise goods, tourism, remittances and financial inflows. Furthermore, with Jordan substantially reliant of energy imports, the Jordanian economy did not benefit from the rise in oil prices affecting its energy bill and its balance of payments.¹⁰

Jordan’s income per capita declined in 2017 (2016 GNI/capita (US\$) 3,920 used for 2017 classification) owing to the low growth of the economy and the upward revision of population estimates, which included refugees, in return, the decline reclassified Jordan down to the lower-middle income category.¹¹

Labor and Employment

Jordan’s unemployment rate remained stubbornly high during the past decade and the recent external shocks to the economy affected economic growth and consequently job creation. The high unemployment rate, as indicated in Figure 3, which stood at 18.3%, accompanied by low labor market participation at 40.2% in 2017¹², might be an indication of weak labor demand. Syrian refugees did not fare much better than Jordanians in the labor market; Jordan Labor Market Panel Survey indicates that the labor market participation

6 Middle East Eye, Jordanians strike against tax rises in largest protest for years, May 30, 2018. <http://www.middleeasteye.net/news/jordanians-strike-income-tax-law-draft-King-Abdullah>

7 The World Bank Jordan Economic Monitor, The Green Economic Boost, Spring 2017, p.7.

8 The World Bank Jordan Economic Monitor, Towards Stronger External Performance, Fall 2017, p.8.

9 The World Bank Jordan Economic Monitor, Towards Stronger External Performance, Fall 2017, p.9.

10 *ibid*, p.11.

11 *ibid* p. 9.

12 Department of Statistics, 2017, Employment and Unemployment Survey.

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rate among Syrians reached only 22% in 2016 while unemployment rate was 20% in the same year.¹³

Jordan labor supply increased in the past decade driven by population growth and influx of refugees.¹⁴ Research indicates that educational attainment of the labor supply is also improving; in fact Jordan Labor Market Panel Survey confirms the sharp reduction of illiteracy and the large increase of university graduates among Jordanians especially among women between the year 2010 and 2016. Illiteracy rate dropped from 10% to 6%, while university graduates increased from 12% to 15% during the same period (12% to 16% among women).¹⁵ On the other hand, the Syrians residing in Jordan are generally less educated than Jordanians, with an illiteracy rate double that of Jordanians.¹⁶

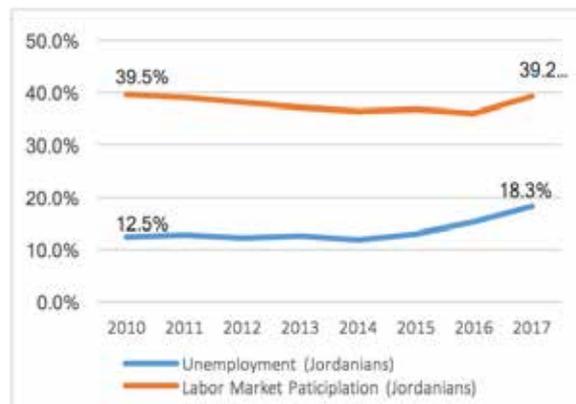


Figure 3: Key labor market indicators (Jordanians)

Source: Employment and Unemployment Survey, Department of Statistics, available on www.dos.gov.jo

The majority of Syrian refugees that reside in Jordan came from agricultural areas of Syria. Combined with their limited educational attainment, their lack of interest to obtain work permits that confines them to work with the employer who issues the work permit, resulted in a preference for informal employment.¹⁷ Several policy changes took place by the government of Jordan to assist in formalizing the employment of Syrian workers such as de-linking work permits in agriculture and construction sectors from the employers.

To capitalize on Jordan's human resources, several strategies are being implemented by the government of Jordan, namely, the Jordan National Employment Strategy¹⁸ and Jordan Human Development Strategy¹⁹. Both strategies are guiding government policies and interventions in relation to education, skill development and labor market towards talent-driven prosperity.

¹³ Economic Research Forum, Work Paper, 2018. The Composition of Labor Supply and its Evolution from 2010 to 2016 in Jordan

¹⁴ *ibid.*

¹⁵ *ibid.*

¹⁶ *Ibid.*

¹⁷ ILO, 2017, A challenging market becomes more challenging: Jordanian Workers, Migrant Workers and Refugees in the Jordanian Labour Market.

¹⁸ Jordan National Employment Strategy 2011-2020. Available on http://www.ilo.org/dyn/youthpol/es/equest.fileutils.docHandle?p_uploaded_file_id=171

¹⁹ Education for Prosperity: Delivering Results, A National Strategy for Human Resources Development 2016-2025. Available on <http://www.mohe.gov.jo/en/Documents/National-HRD-Strategy.pdf>

Fiscal Policy

The government of Jordan, in line with the IMF-EFF's support introduced fiscal measures that included removing tax exemptions from a larger set of products (effectively raising the Good and Services Tax to 16 percent on selected goods and services including internet (from 8 percent)), increasing custom duties on non-essential imported goods by 5 percent, increasing fuel prices by 3-8 percent, increasing taxes on telecom services from 8 to 16 percent, increasing fees on passports from JD 20 to JD 50, adding further taxes on cigarettes, and introducing a 10 percent tax on soda beverages.

Additional fiscal measures recently introduced by the government of Jordan

The removal of 2015 GST exemptions including on clothes, shoes, watches, jewelry;

Adding an extra fee for "transfer of titles" on used vehicles; and Reducing the depreciation allowance on used imported cars.

Expenditure-limiting measures include deducting 10 percent from civil servants' monthly salaries that exceed JD 2,000 and setting a cap of JD 3,500 on public sector salaries.

Adopting an electricity Tariff Adjustment Mechanism that took effect as of 1 January 2017

Policy changes including amendments to the income tax law.

Sources: The World Bank Jordan Economic Monitor, The Green Economic Boost, Spring 2017, p.17&18.

Despite the government's fiscal consolidation efforts, Jordan's fiscal balance in 2017 is expected to slightly deteriorate due to lower grants and low tax revenues. "Projected overall fiscal deficit, excluding (including) grants, in 2017, is forecasted at 6.4 (3.4) percent of GDP, compared to 6.2 (3.2) percent in 2016" Debt stock is estimated to reach US\$ 38.4 billion by end of October 2017 (95.8% of forecasted 2017 GDP). To sustain its debt, Jordan will require continuous donors support.

In efforts to further diversify its debt instruments, the Central Bank of Jordan (CBJ) sold its first Sukuk in May 2016. "The JD75m (US\$106m) tranche, which will provide a return of 3.5%, is modest in size but important in establishing Islamic financial products in Jordan, and will help to establish benchmarks for further private issuance."

External Position

In the first 9 months of 2017, the performance of trade-in goods balance resulted in the deficit widening by 11.2% compared to the same period in 2016. Total imports increased by 5.6 % and total exports decreased by 2.8%. Land route closures between Jordan, Iraq and Syria affected Jordan's domestic exports. Nonetheless, exports to Syria and Iraq slightly increased.

On the other hand, Domestic exports to GCC dropped by 10.1% for the same period. It is assumed that Jordan's export performance will improve due to the reopening of the Jordan Iraq trade routes and the lifting of UAE and Kuwait's three-month ban on Jordanian produce based on quality concerns. Both an increase

in potash exports and in the tourism sector is expected to support the services balance and widen the merchandise trade balance, thus driving an overall trade in goods and services balance. The improvement of the services balance is also expected to narrow down the overall current account deficit, which has narrowed to 6% of forecasted GDP in H1-2017 compared to 6.2% of GDP in H1-2016.

Monetary Policy and Finance

In 2017, consumer prices registered positive growth and were projected to average 3.1 % for the year. Twelve month headline inflation rate reached 3.3% in the first 11 months of 2017 while core inflation (excluding food, transportation and fuel) was recorded at 3.4% year on year average over the same period.

The Central Bank of Jordan adopted a contractionary monetary policy and raised its interests four times since December 2016, in line with the Federal Reserve Board hikes to maintain attractive risk premium and support exchange rate.

National Financial Inclusion Strategy 2018-2020 was announced by the CBJ to improve financing options for SME's, micro-finance services, support financial literacy and enhance consumer perception of the finance sector.

In 2017, Jordanian banks remained stable, profitable and adequately capitalized.

Overview

The Jordan Compact was adopted by the International Community and the Government of Jordan at the Supporting Syria and the Region Conference held in London in February 2016, to guide their joint endeavors to improve the living conditions of Syrian refugees and Jordanians in host communities. Since "Jordan has assumed a heavy burden due to its hosting of refugees and is carrying out a global public good on behalf of the international community", the Compact was introduced as a paradigm shift to addressing the impacts of the refugee influx on Jordan which "stretched already limited resources and imposed severe stress on Jordan's economy, fiscal position and public services". The approach aims to support Jordan's growth while maintaining its resilience and economic stability through three main pillars that bring together international actors and the Government of Jordan.

Three pillars of Jordan Compact to support Jordan's growth while maintaining economic stability

- *Turning the Syrian refugee crisis into a development opportunity that attracts new investments and opens up the EU market with simplified rules of origin, creating jobs for Jordanians and Syrian refugees whilst supporting the post-conflict Syrian economy;*
- *Rebuilding Jordanian host communities by adequately financing , through grants, the Jordan Response Plan 2016-2018, in particular the resilience of host communities; and*
- *Mobilizing sufficient grants and concessionary financing to support the macroeconomic framework and address Jordan's financing needs over the next three years, as part of Jordan entering into a new Extended Fund Facility program with the IMF.*

Source: Jordan's Statement from the London Conference on "Supporting Syria and the Region", The Jordan Compact: A New Holistic Approach between the Hashemite Kingdom of Jordan and the International Community to deal with the Syrian Refugee Crisis, 2016

In the Jordan compact, the Government of Jordan committed to improving its business and investment environment and continuing its fiscal adjustment and structural reform plans in line with national plans and the EFF program with the IMF. The Government of Jordan also committed to allowing Syrian refugees to work and providing school education access to all Syrian children. The EU committed to relaxing the Rules of Origin (RoO) for Jordanian products with the aim of boosting Jordan's exports and offering additional incentives to businesses. Humanitarian and development funding from the international community, in terms of grants, loans and concessional funding, was defined and partially committed, to support the implementation of Jordan's response plan to the Syrian crisis and contribute to Jordan's debt sustainability. These combined commitments are expected to improve the resilience of Jordan's economy and "could in the coming years provide about 200,000 job opportunities for Syrian refugees".²⁰

^vUnder the first pillar, the EU relaxed the Rules of Origin (RoO) for a 10-year period for 52 Jordanian products from 18 designated economic and development zones. The RoO agreement was put in place to stimulate

²⁰ *ibid*, p5.

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investment in Jordan and create jobs including 200,000 jobs for refugees.

Enterprises interested in benefiting from the RoO agreement have to be located in one of 18 development zones and industrial areas and employ at least 15% of Syrian refugees among their workforce, this share is increased to 25% in 2018.

Syrian refugees must be employed formally, on a full-time equivalent basis, and have received a work permit valid for a minimum period of 12 months. Once Jordan provides 200,000 jobs to Syrians, the RoO agreement will be extended to the entire country. Enterprises that meet the export criteria can apply for an authorization number to be used during the export process. The 52 product groups that are included in the EU-Jordan RoO agreement include paints, chemicals, cosmetics, apparel, cleaning agents, buses, furniture, aluminum products, electronic devices, among others.



Figure 4: Designated zones and areas that can benefit from the relaxation of rules of origin

Source: Export guide to the EU, Ministry of Industry and Trade, 2017, available on www.mit.gov.jo

Theory of Change, RoO as part of Jordan Compact

- *Relaxing applicable rules of origin would allow goods produced in Jordan to be subject to less stringent rules of origin, then,*
- *This will stimulate trade and investment in targeted development areas, thus,*
- *Contribute to improving economic and employment opportunities for Jordanians and Syrian refugees, consequently,*
- *Contribute to the overall objective of creating 200,000 jobs for Syrian refugees.*

Source: EU-Jordan Association Committee, 2016, Decision No. 1/2016 of the EU-Jordan Association Committee. Rephrased.

Progress on Export to the EU and Employment of Syrians

Between 2016 and 2018, the pace of exports to the EU has been slow. Until April 2018, eleven enterprises were granted an authorization number, of which four enterprises have exported to a number of EU countries, with a total shipments value of €2.298 million.²¹ These four enterprises are in the metal sector, the garments sector and the plastic sector.

²¹ Meeting with Jordan Compact Project Management Unit at Ministry of Planning and International Cooperation.

The enterprises that were authorized to export to the EU under RoO employ 750 workers of which about one quarter are Syrian nationals.²²

Syrian refugees are obtaining work permits. Since January 2016, around 100,000 work permits were issued to Syrian refugees, of which around 47,000 were issued during 2017 and about 17,000 in 2018.²³ Considerable and frequent changes to legislations affecting the employment of Syrians in Jordan took place since 2016, the most positive of these are the introduction of flexible work permits in the agriculture and construction sectors, the relaxation of employer's clearance to change employer and relaxation of skills certificate requirement.²⁴ The World Bank expects that these positive policies should continue to bear fruits in 2018. In fact, among the work permits that were issued to Syrian nationals in 2018, 50% are in the construction and agriculture sectors.²⁵ Nevertheless, very few Syrian women are participating in the labor market (4% in 2016²⁶) and only 3% of the work permits issued for Syrians in 2018 were for women.²⁷

Challenges

Although the theory of change of the trade agreement within the Jordan Compact is plausible, the time frame and the expected results defined by the international community and the government of Jordan is certainly optimistic. While the government of Jordan and the international community assumed that relaxing the rules of origin will quickly translate into trade and job creation, reaping the benefits of this agreement is yet to take place. In fact, growth of Jordanian exports to the United States was driven by a Free Trade Agreement that was signed in 2001, but export flows from Jordan to the United States, although started increasing significantly, it did not exceed USD1 billion until 2004.²⁸ This increase in exports to the United States was partially driven by significant Foreign Direct Investment (FDI) between 2004 and 2009, including investment in the manufacturing sector that benefited from the Free Trade Agreement. Consequently the benefits of trade agreements needs time and could certainly be supported by FDI.

The data available on investment made in Jordan between 2014 and 2017²⁹ shows small but consistent increases in direct foreign investment. These investments will need some time before they are translated into jobs and exports. Several initiatives and interventions are currently taking place to attract additional

²² *ibid.*

²³ *ibid.*

²⁴ Implementation and Status Results Report, January 2018, The World Bank, Economic Opportunities for Jordanian and Syrian Refugees P4R.

²⁵ Meeting with Jordan Compact Project Management Unit at Ministry of Planning and International Cooperation.

²⁶ Economic Research Forum, Work Paper, 2018. The Composition of Labor Supply and its Evolution from 2010 to 2016 in Jordan.

²⁷ Meeting with Jordan Compact Project Management Unit at Ministry of Planning and International Cooperation.

²⁸ International Trade Center, International trade statistics.

²⁹ Central Bank of Jordan.

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investments, and improve the business environment. The seriousness of these interventions is evident given that Jordan's ranking in the doing business report of 2018 improved by 15 ranks.

The target of job creation as a result of Jordan Compact, which is supported by the RoO decision, is creating 200,000 full-time job opportunities to Syrian refugees. This target is also very ambitious given that the Jordanian economy, even during periods of vast economic growth, did not create this many job opportunities. Furthermore, the labor supply indicators reveal low labor market participation among Syrians (only 22% in 2016)³⁰ combined with a preference to work in informal sectors such as construction and agriculture instead of manufacturing³¹. As will be indicated in the following section, the government of Jordan supported by international partners is implementing a number of labor-market interventions, including some that are considering the employment creation potential of exports to the EU.

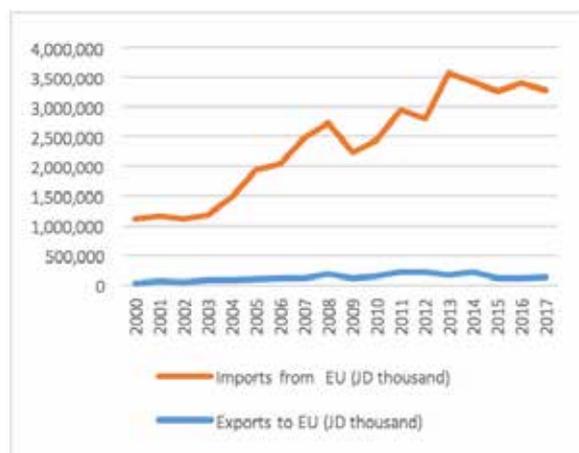


Figure 5: Jordan's exports to, and imports from the EU

Source: Central Bank of Jordan

Enterprises are not familiar with exporting to the EU market. Traditionally, Jordanian manufactures exported their products with other Arab countries or the US. On the other hand, a mere 3% of Jordanian exports were traded with the EU in 2015³².

A recent survey conducted by the International Labor Organization (ILO) and Jordan Chamber of Industry (JCI) captured the reasons for the limited historical export to the EU by Jordanian manufacturers³³. The survey indicated lack of financial support, unfamiliarity with the EU regulations, lack of qualified labor force and energy costs as the main reasons for low levels of exports to the EU³⁴. About one third of the surveyed manufacturers "cited the quality of their products as a barrier to exporting to the EU"³⁵.

30 Economic Research Forum, Work Paper, 2018. The Composition of Labor Supply and its Evolution from 2010 to 2016 in Jordan

31 ILO, 2017, A challenging market becomes more challenging: Jordanian Workers, Migrant Workers and Refugees in the Jordanian Labour Market.

32 Trade Map, International Trade Statistics, The International Trade Center, available on <http://www.intracen.org>.

33 International Labor Organization, A way forward: export and employment generation potential of the EU-Jordan trade agreement, 2017.

34 *ibid.*

35 *ibid*, P22.

Similar findings were indicated through enterprise-level assessments conducted by the Project Management Unit at the Ministry of Planning and International Cooperation. The factories assessed expressed their need for technical assistance to obtain product and production certifications required to export to the EU market such as the CE mark for electrical appliances, REACH³⁶ certification for chemicals and GMP³⁷ for cosmetics³⁸. Furthermore, the manufactures lack technical capacity to estimate the costs of entry to the EU market and understand market trends and preferences³⁹. Consequently, the Jordanian private sector that is dominated by Small and Medium Size Enterprises (SMEs), apparently neither has the incentive nor the know-how to benefit from Jordan's bilateral trade agreements.⁴⁰

Several years of economic slowdown have definitely affected the ability and the willingness of the private sector to expand and grow, and resulted in reducing its ability to invest quickly in improving its facilities and product quality to benefit from the RoO agreement.⁴¹ Given that these improvements also require time and enterprises will not start to reap their benefits shortly, the period of the RoO does not offer an appealing return of investment period.⁴²

Furthermore, between 2001 and 2010, Jordan has been trying to export traditional products to new markets rather than diversifying its product range or increasing its complexity.⁴³ As will be indicated in the following section, the government of Jordan, supported by international partners, is implementing a number of firm-level interventions targeting diverse and more complex sectors and products.

Jordan is still facing economic and fiscal challenges while funding commitments by the international community, were not all timely met especially concessional financing and budget support. In Brussels II Conference: Supporting the future of Syria and the region, the international community reaffirmed its long-term political and financial support to Jordan. The resulting Jordan Partnership Paper indicates that the international community will "seek to provide additional resources, preferably in the form of multi-year commitments, inclusive of grants and budget support, concessional finance as per [the Jordan Compact] commitments."⁴⁴ Although, grants and additional support was extended to Jordan during the past two years, funding for Jordan

³⁶ Registration, Evaluation, Authorization and Restriction of Chemicals.

³⁷ Good Manufacturing Practices.

³⁸ Quick wins pilot project, an initial overview of field research and findings, The Project Management Unit at the Ministry of Planning and International Cooperation, 2017.

³⁹ *ibid.*

⁴⁰ Ministry of Industry and Trade and Supply, National Export Strategy 2014-2019.

⁴¹ Meeting with Industrial Development Directorate at Ministry of Industry and Trade and Supply.

⁴² Meeting with Industrial Development Directorate at Ministry of Industry and Trade and Supply, and, meeting with the Project Management Unit at Ministry of Planning and International Cooperation.

⁴³ Ministry of Industry and Trade and Supply, National Export Strategy 2014-2019.

⁴⁴ Jordan Partnership Paper, Brussels II Conference: Supporting the future of Syria and the region, April 2018. p2.

Response Plan to the Syrian crisis reached two-thirds of requirements.⁴⁵

In November 2017, the German government agreed with the government of Jordan to allocate 275.17 million euros in new aid including grants, technical support, concessional loans to fund priority development projects and grants to support the Syrian refugees.⁴⁶

The Project Management Unit indicated that this support managed to reduce the funding gap and support the resilience of the Jordanian economy.

45 *ibid.*

46 Ministry of Planning and International Cooperation website. Accessed on 6 June 2018. <http://www.mop.gov.jo>

Although implementation of the EU-Jordan Trade agreement has been slow over the past two years, it is offering an exceptional opportunity to the Jordanian economy to grow its manufacturing sector by diversifying its products, enhancing its complexity and creating better and more jobs for Jordanians and Syrians. This opportunity is possible because of the unprecedented efforts that are taking place to expedite the implementation.

Once the RoO decision was made, significant research took place to assess the readiness of enterprises to export to the EU, and define the sectors and products that are likely to be exported to the EU. In addition to considering the trade dynamics between Jordan and the EU, these studies considered the technical barriers related to product quality and certification, lack of market knowledge within the enterprises, labor needs, products diversity and complexity. Consequently, the government of Jordan, USAID, the ILO and recently the EU are implementing enterprise-level interventions to provide the enterprises with the technical assistance they need to export traditional and new products to the EU market. The Jordanian Ministry of Planning and International Cooperation is launching a portal that will provide information on products imported by the EU to ease the access of Jordanian enterprises to market information. The ILO is supporting enterprises producing products of high complexity to expand the employment of skilled workers and improve the return to the Jordanian economy. Additionally, a major restructuring is taking place of Jordan Enterprise Development Corporation (JEDCO), which is a government agency tasked with emerging, small and medium-sized enterprises in Jordan by providing a comprehensive platform of technical and financial services. The restructuring aims to improve service provision as well as coordinate the multiple efforts taking place in relation to enhancing the ability of the Jordanian industrial sector to export to the EU.⁴⁷

The international community and the Government of Jordan are implementing a range of interventions aiming at improving access of vulnerable Jordanians and Syrians to the labor market. These interventions include creation of Employment Service Centers in camps and host communities, provision of mobile networks for the self-employed and the entrepreneurs, improving access to labor market information, job matching services and vocational training. Besides enhancing the employability of the job seekers, these interventions are actively engaging with manufactures interested in benefiting from the RoO agreement through Jordan Chamber of Industry. For example, the ILO assisted women residing in Zaatri camp in obtaining job opportunities at garment factories after providing them with the required training. A couple of these factories already obtained an export authorization number and one is already exporting to the EU. Indicating the strong commitment, from the international donors and the government, to improving the livelihoods of Syrians and Jordanians, these interventions still need further support.

These interventions could only bear their benefits if the enterprises are able to sell their products to buyers in the EU. This angle, although extremely important, remain less explored where business-to-business linkages need support and expansion. The business-to-business meeting that took place in Frankfurt late last year, did not succeed in attracting buyers from the EU to meet Jordanian manufactures.⁴⁸ Local efforts in Europe could enhance the success of these events by encourage buyers to source from Jordanian manufactures. Promoting

⁴⁷ Meeting with Industrial Development Directorate at Ministry of Industry and Trade and Supply.

⁴⁸ *ibid.*

Jordan as destination for European investments is also vital to enhance the flow of foreign direct investment especially in the sectors benefiting from RoO agreement.

The government of Jordan submitted three requests to the EU to increase the interest of enterprises to invest in product quality improvement and to attract additional investments in the sectors benefiting from the RoO agreement⁴⁹. The first request is to extend the duration of the agreement beyond 10 years given that this will provide better predictability to businesses and new investments. Second, expanding the geographical area under the agreement to the whole country to increase the number of enterprises that can benefit from the agreement. Finally, capping the share of Syrian workforce to 15% and assessing that based on the production line exporting to the EU rather than the enterprise as a whole. Given the concentration of Syrian workers in the traditional sectors of construction and agriculture, the sectors that they used to work in before relocating to Jordan, industries are still finding it difficult to find and hire qualified Syrian workers. Interventions providing vocational training services could slowly bridge this gap. All three requests appear realistic and could assist Jordan in exporting to the EU. The EU will respond to these requests in August 2018.

Similar to the additional support extended from the German government to Jordan in 2017, and in follow up to the outcomes of Brussels II Conference, extending additional financing and budget support to Jordan will support Jordan's economic and fiscal reforms, support economic growth and contribute to debt sustainability. Helping Jordan to cope with the refugee influx, and the economic downturn will ensure that the objectives of the Jordan Compact, as a whole, are met. Promoting economic development and opportunities in Jordan will benefit both Jordanians and Syrian refugees.

In the meantime, investments in creating short-term job opportunities remain vital to support the livelihoods of Jordanians and Syrians. Public works programs such as the Employment through Labor Intensive Infrastructure implemented by the ILO⁵⁰ (funded by the German Development Bank (KfW)) are creating short-term job opportunities that are supporting the incomes of the workers' households but also improving public infrastructure in the host communities. These projects are showing significant benefits to the workers and their households, and are improving cohesion among the refugees and the host communities. Extending further funding but also technical assistance to improve learning on the impact of these projects is vital.

49 Meeting with the Project Management Unit at Ministry of Planning and International Cooperation and meeting with Industrial Development Directorate at Ministry of Industry and Trade and Supply.

50 ILO. http://www.ilo.org/beirut/projects/WCMS_498958/lang--en/index.htm



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“ . . . this study, funded by the Konrad Adenauer Foundation’s office in Jordan, aims to give an overview on Jordan’s economy and to reflect on the progress of the Compact implementation two years on. In view of the tense economic situation in Jordan, it is crucial to highlight lessons learnt from the Jordan Compact and to give recommendations in order to enable further progress and to ensure the successful continuation of this new approach to strengthen not only refugee communities but also their host countries in the Middle East. ”

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