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

Country Report for Jordan

Executive Summary

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Prior to the global COVID-19 pandemic, Jordan experienced several years of economic growth. The gross domestic product (GDP) per capita grew, which contributed to an improved standard of living and reduced poverty. These developments were slowed by external shocks, such as the global financial crisis, the Arab uprisings and the influx of refugees from neighbouring countries.

Despite some noticeable socioeconomic improvements, Jordan is still confronted with multiple **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 relatively high incidence of unemployment and an underutilization of a large part of the workforce. Indeed, a significant share of the working-age population is not yet active. The labour force participation rate of women is among the lowest internationally, and many young people are not in employment, education or training. The educational and vocational training system does not equip the workforce (especially young workers) with the skill sets currently required by local and international labour markets. As a result, many workers – in particular women, young people and migrant workers – are left with no other choice than accepting a job or starting an enterprise in the informal and/or low-wage economy.

Jordan's entrepreneurial scene is vibrant and slowly expanding but remains small and male-dominated. High operating costs pose 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 economy, make self-employment less attractive. The growth potential of trading enterprises is further constrained by complex customs and trade regulations. The Government has initiated several reforms, but the policies still focus on large companies rather than small and medium-sized enterprises (SMEs).

The **COVID-19 pandemic** had significant economic repercussions for Jordan's workers and enterprises. Domestic demand and the value of total exports dropped considerably, which resulted in the GDP falling and the unemployment rate increasing rapidly. Women, young people and refugees were hit the hardest. Their vulnerability was further exacerbated by the lack of appropriate social protection, including access to health care and income security. Moreover, many SMEs, in particular informal enterprises, ceased operations, releasing thousands of employees into an unknown future. Trade and investment can support the recovery from the COVID-19 pandemic since they offer significant opportunities for economic development which may result in the creation of productive and decent jobs.

Jordan has intensified its **trade relationships** over the past two decades and entered several free trade and investment agreements. This made Jordan one of the most open economies in the region and led to a growth of both imports and exports. Jordan's exports can be considered to be "concentrated" in terms of both products and markets. 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. Textiles and chemical products are also 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.

In order to **better harness the benefits of external trade** relationships, Jordan needs to overcome several key obstacles. Existing non-tariff measures as well as complicated customs and certification procedures slow down export companies. In addition, improving the transport quality 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 the global value chain and, at the same time, enable local SMEs to access a larger market.

The inflow of **foreign direct investment** (FDI) could be harnessed to boost the Jordanian economy and drive structural transformation, especially considering the Government's limited fiscal space. In the mid-2000s, Jordan attracted substantial foreign direct investment, but the volume has decreased over time. However, these investments did not necessarily contribute to a structural transformation as they were concentrated in the real estate, construction and oil and gas energy sectors. Today, the service sector in particular faces difficulties in attracting investors despite its large growth potential. Targeted investments could also make a significant contribution to achieving Jordan's transition to a green economy.

The Government of Jordan has recognised the importance of trade, investment and employment for economic growth and has initiated several reforms to harness their potential. However, this potential has not always been fully exploited, often due to **institutional challenges**. The absence of a coherent framework aligning trade, investment and employment policies creates bottlenecks or even conflicting priorities in their implementation. Moreover, the implementation period is in most cases not followed by a clear follow-up and monitoring phase, which is necessary to further adjust and fine-tune the measures. Lastly, the full inclusion of social partners throughout the policymaking process would increase the legitimacy and ownership of policies, and therefore contribute to the sustainability of the implemented measures.

Guidance for policymakers

Focusing on policies that aim to improve the export of tradable sectors would increase the productivity and job creation potential of these sectors, contributing to the absorption of the increasing numbers of highly qualified workers entering the country's labour market. The focus on strategic sectors that could yield export expansion through effective industrial policies is therefore of high importance.

The following policy guidance is for the consideration of Jordan's policymakers. They are intended to create more productive and decent employment opportunities through targeted and coordinated employment, trade and investment policies.

Employment

Increasing employment opportunities: Intensifying 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 force participation rate of women.

Integration of migrant workers: Facilitating the access of migrant workers (including refugees) to the labour market as well as their equal remuneration (for example, through 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 important institutions 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 but also 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 and 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 greater focus on the needs of SMEs and promote their innovative capacity. Long-term strategies for SMEs are vital to enable an improvement in the quality of their products and 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 provision of 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 due to 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 further untapped by promoting labour mobility. This would also contribute to a better allocation of resources and knowledge exchange.

Trade

Identifying untapped export potential: Jordan has already proven to be internationally competitive for several products, some of which have good prospects of 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 similar to its current productive knowledge have particular potential.

Compliance with international product standards: Both realizing untapped export potential and diversifying the export basket require an improvement of product quality.

Compliance with international labour standards: In order to improve compliance with international labour standards, trade agreements should include labour provisions and have an explicit reference to the ILO Declaration on Fundamental Principles and Rights at Work.

Regional integration: A better integration into the region could help the country to climb up 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 to 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 as well as access to electricity and the internet.

Training exporters: Jordan lacks a national level programme to qualify Jordanian enterprises to benefit from the opportunities provided by investment and free trade agreements. This is currently conducted at small scale with a focus on large firms in the capital, Amman. Improving the quality of products to meet international standards should be a clear development goal.

Investment

Restrictions on foreign direct investment: Existing restrictions on foreign direct investment in certain sectors should be reassessed to allow for greater competition.

Ease of doing business: A business-friendly investment climate is key to attracting investors. This includes political and macroeconomic stability as well as transparency and simple administrative procedures.

Just transition: Investors are increasingly looking for more responsible investment opportunities. Jordan's just transition provides such an opportunity and could be further promoted among 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 the countries of 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 the training of workers.

Institutions

Alignment of strategies and policies: Jordan's Vision 2025 and Economic Growth Plan (2018–22) provide overall strategic guidance for employment, trade and investment. Policymakers should use this guidance as a yardstick when formulating policies. 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. Such coordination is essential for the better alignment of policies. In the context of employment, trade and investment policies, the Investment Council already plays a key role since it includes representatives from all three areas. However, this role could be 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, and the Sectoral Skills Councils.

Follow-up and monitoring: The lack of monitoring and follow-up mechanisms often compromises efficiency in the implementation of policies. The establishment of the reform secretariat at the Ministry of Planning and International Cooperation could represent a major step towards prioritizing reforms and monitoring and overseeing the implementation of trade, labour, and investment policies and strategies. The secretariat could play a significant role in reviewing policy constraints and could provide a platform for social dialogue on 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 would provide the basis for evidence-based interventions.

Social dialogue: Social partners continue to have very limited influence on the decision-making process. Policies related to trade, investment, and employment issues are strongly influenced by the Government and – to a lesser extent – by (large) employers. The voices of SMEs and workers are heard less. In addition, the role of civil society organizations is 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 in 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 in the Constitution and labour legislation, its application remains limited, which poses a great 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 as well as further labour provisions should become an integral part of all trade and investment agreements.

► 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 Africa¹ to incorporate an employment perspective into trade and investment policies. This will support the design and implementation of investment strategies that facilitate 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 Group² 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.

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.