International Labour Organization

METI

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Policy Brief for Jordan

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

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▶ The Nexus Between Trade, Investment, and Employment

Jordan, located in the heart of the Middle East, is renowned for its rich human capital and strategic geopolitical significance. The demographic landscape of Jordan is characterized by a sizable and youthful population with distinct gender proportions.

Despite socioeconomic progress, Jordan still faces numerous **labour market challenges**. The working-age population is growing, but job opportunities remain limited. Traditional gender roles persist, and employment opportunities for highly qualified workers are insufficient. Consequently, unemployment rates are relatively high, and a significant portion of the workforce remains underutilized. Moreover, the education and training system does not adequately equip workers with the skills demanded by the labour market, forcing many into 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.

Trade and investment offer significant opportunities for economic development to 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 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. 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 the 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.

▶ Sectoral Approaches to the Development of Export-Oriented Value Chains and Industries

In 2022, the METI programme established a **policy working group** in Jordan to guide the project at the national level and to provide a space for social dialogue and cooperation. Following several rounds of consultations, the working group decided by consensus to focus on the engineering products and services sectors.

The **value chain assessment** carried out under the METI programme aims to identify bottlenecks and opportunities for expanding markets and exports in order to create more and better jobs. These will inform the support needed from governments and workers' and employers' organizations to enhance the sector's competitiveness and exports, and to equip workers with the required skill sets.

The **engineering sector** in Jordan is a vital component of the national economy, encompassing a wide range of industries, including manufacturing, construction, and specialized services. It contributes significantly to both gross domestic product (GDP) and employment and benefits from a highly skilled workforce and access to regional and international markets through various free trade agreements. Despite its growth, the sector faces challenges, including gender disparities in the workforce and underrepresentation of women and youth in key roles.

Opportunities

- **Export potential**: The rising global demand for energy-efficient and advanced climate control solutions provides a strong opportunity for Jordan to enter international markets.
- **Competitiveness and market opportunities**: Jordan's engineering products and services demonstrate clear comparative advantages across national, regional, and international markets.
- **Skilled workforce**: Jordan has a well-educated workforce, and its adaptability to emerging technologies contributes to Jordan's reputation as a hub for engineering excellence.

Challenges

- **Skills shortages and workforce development**: Despite the highly educated Jordanian workforce, the retention and further training of skilled workers remain a challenge for many firms, especially SMEs.
- **Financial and operational challenges**: The engineering sector faces significant financial constraints, particularly for SMEs.
- **Technological and logistical gaps**: The ability of the sector to maintain competitiveness is hindered by the slow adoption of advanced technologies, such as 3D printing and automation, among SMEs.

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Recommendations for Strengthening Jordan's Engineering Sector

Align education and training with industry needs	• Foster industry-academia partnerships • Update curricula to include emerging technologies • Promote science, technology, engineering, and mathematics education
Address recruitment challenges	• Improve working conditions to reduce turnover and attract skilled professionals • Diversify the workforce to attract underrepresented groups, such as women and youth, into the engineering sector • Enhance employer branding to position engineering firms as attractive workplaces for top talent
Ensure continuous skills development and upskilling	• Establish specialized training centres to meet specific industry needs • Develop certification programmes to ensure that employees stay competitive • Integrate training in SMEs to support the continuous professional development
Strengthen technological competence	• Subsidize technological upgrades to support the adoption of advanced technologies • Promote innovation through tax incentives and collaboration with academic institutions
Expand market access	• Leverage free trade agreements with key markets to boost exports • Help businesses comply with global standards to increase market penetration • Organize trade missions to explore regional and international markets
Foster sustainability and innovation	• Encourage sustainability practices by providing grants and training • Promote a culture of innovation to support start-ups and foster new technologies in the sector
Streamline regulatory processes	• Reduce bureaucratic barriers to ease the operational burden on engineering firms and support growth • Improve supply chain integration by using digital tools to strengthen supply chain management

▶ Analysing the Investment Requirements to Boost Trade and Decent Employment in Jordan's Engineering Sector

Building on the value chain assessment's findings, and in an attempt to unlock the potential of Jordan's engineering products and services sectors, a **study on productive investments** in the sector was conducted. The analysis found that Jordan's investment framework presents significant barriers to foreign direct investment (FDI) and SME integration, limiting its potential for integrating into global value chains. Current policies prioritize large-scale FDI, sidelining medium-sized investors crucial for value chain development. High incentive thresholds, frequent regulatory changes, and limited transparency deter investment and delay projects, creating uncertainty for investors. These challenges are compounded by SME structural limitations, including weak governance, limited access to certifications and quality raw materials, and insufficient integration with multinational corporations. SMEs also lack collective representation and government support programs, isolating them from FDI-driven opportunities and reducing their role in strategic sectors. The lack of disaggregated data on the engineering sector limits in-depth understanding and, thus, targeted policy interventions, hindering informed decision-making for future growth.

Recommendations for improving the investment climate

Investment Policy Reforms	Refine incentives to attract medium-scale and high-value FDI in skill-intensive sectors, such as R&D and services, aligning with Jordan's growing workforce capacity.
Regulatory Stability	Establish transparent, consistent regulatory frameworks and streamline approval processes to build investor confidence and accelerate project timelines.
Facilitate SME-FDI Partnerships	Encourage partnerships between local SMEs and foreign investors to enhance supply chain integration.
Address Data Gaps	Conduct specialized surveys and collect data on investor motivations in the engineering products and services sectors.
Establish Collaboration Platforms	Create formal platforms such as trade fairs, industry-specific forums, and online portals where SMEs and larger firms can connect.

▶ Employment and Potential Trade Effects of Infrastructure Investment

The **employment and trade impact assessment** of the Wadi Al Arab Water System II Project in Jordan utilized both quantitative and qualitative analyses to evaluate the project's effects on employment and trade. Given that Jordan is one of the most water-scarce countries globally, the findings are highly relevant for policymakers seeking to align water-related investments with sustainable employment growth and enhanced trade competitiveness in a water-constrained environment. The study also underscores the labour dynamics of the construction sector—a labour-intensive, male-dominated sector often marked by poor working conditions and limited inclusion of women and youth. Understanding these employment effects is essential to aligning infrastructure investments with Jordan's employment priorities and broader development goals.

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Key findings

- **Total employment:** The Wadi Al Arab Water System II Project generated 1,134 direct jobs and 5,425 indirect and induced jobs, contributing to employment growth across key sectors.
- **Youth employment** (48% of direct jobs) highlighted opportunities for those aged 18–29, with most contracts formalized.
- **Women's participation** in direct employment (4%) exceeded the national construction average (1.2%), signalling progress in gender inclusion.
- **Foreign workers** (41%) dominated during construction, while **locally recruited workers** (56%) adhered to Jordanian labour policies.
- **Skilled employment** accounted for 70% of direct jobs, though wage structures favoured foreign workers and skilled professionals.
- **Informal employment** affected 13% of workers, with women particularly impacted, highlighting the need for labour inspection and strengthened labour protection policies.
- **Indirect and induced employment** effects showed a bias against skilled and formal jobs but demonstrated a positive impact on female employment.
- **Trade**: By improving access to clean water in Irbid Governorate, the project reduces Jordan's water dependency and industrial production costs, contributing to economic resilience.

Policy Implications

Skill Mismatch and Employment Quality: Despite high levels of education, a significant mismatch between workforce skills and job demands persists, limiting opportunities for Jordanian workers, especially in specialized roles.

Gender Inclusion: Low female participation in construction signals societal barriers and limited job inclusivity.

Informality and Social Protection: Informality undermines job quality and access to social protections, especially for women and youth.

Economic Spillovers: Greater use of local materials and businesses could enhance economic multipliers.

Recommendations for promoting more and better jobs in infrastructure investment

The following recommendations were arrived at through consultation with the Policy Working Group members in Jordan.

Enhancing Skills Training	• Collaborate with training agencies to provide skills aligned with project demands, focusing on youth and local workers. • Subsidize training programs through public-private partnerships to reduce employer costs.
Improving Gender Inclusivity	• Launch public awareness campaigns to address cultural biases and stereotypes about women in construction. • Set quotas or incentives for hiring women in both skilled and leadership roles.
Reducing Informality	• Strengthen labour inspections to enforce contract requirements and ensure adherence to labour laws. • Provide incentives for employers to formalize jobs.
Leveraging Local Resources	• Mandate higher use of local materials and suppliers in public procurement contracts to stimulate domestic economic activity. • Promote investments in sectors with strong backward linkages, such as metals and electrical equipment, to boost job creation.
Enhancing Water-Trade Synergies	• Integrate water management strategies into trade and industrial policy to capitalize on reduced production costs for export goods. • Support further investments in water-saving technologies in industrial zones.

About METI

"Mainstreaming Employment into Trade and Investment" (METI) is a four-year regional programme, funded by the European Union and implemented by the International Labour Organization. The overall objective of the programme is to enable policymakers in the Southern Mediterranean region to incorporate employment issues into trade and investment policies, and to design and implement interventions that ultimately optimize the quantity and quality of employment created in the region.

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