<table>
<thead>
<tr>
<th>Title</th>
<th>Economic and Trade Liberalization in Jordan: An Analysis of Policy Orientation in the 2000s</th>
</tr>
</thead>
<tbody>
<tr>
<td>Author(s)</td>
<td>Imai, Shizuka</td>
</tr>
<tr>
<td>Citation</td>
<td>Kyoto Working Papers on Area Studies: G-COE Series (2012), 125: 1-20</td>
</tr>
<tr>
<td>Issue Date</td>
<td>2012-01</td>
</tr>
<tr>
<td>URL</td>
<td><a href="http://hdl.handle.net/2433/155720">http://hdl.handle.net/2433/155720</a></td>
</tr>
<tr>
<td>Rights</td>
<td>© 2012 Center for Southeast Asian Studies, Kyoto University</td>
</tr>
<tr>
<td>Type</td>
<td>Article</td>
</tr>
<tr>
<td>Textversion</td>
<td>publisher</td>
</tr>
</tbody>
</table>

Kyoto University
Economic and Trade Liberalization in Jordan: An Analysis of Policy Orientation in the 2000s

Shizuka Imai

Kyoto Working Papers on Area Studies No.127 (G-COE Series 125)
January 2012
The papers in the G-COE Working Paper Series are also available on the G-COE website:
(Japanese webpage)
http://www.humanosphere.cseas.kyoto-u.ac.jp/staticpages/index.php/working_papers
(English webpage)

©2012
Center for Southeast Asian Studies
Kyoto University
46 Shimoadachi-cho,
Yoshida, Sakyo-ku,
Kyoto 606-8501, JAPAN

All rights reserved

ISBN 978-4901668-965
The opinions expressed in this paper are those of the author and do not necessarily reflect
the views of the Center for Southeast Asian Studies.

The publication of this working paper is supported by the JSPS Global COE Program (E-04): In Search of Sustainable Humanosphere in Asia and Africa.
Economic and Trade Liberalization in Jordan: An Analysis of Policy Orientation in the 2000s

Shizuka Imai
Economic and Trade Liberalization in Jordan: An Analysis of Policy Orientation in the 2000s

Shizuka IMAI

I. Introduction

In the 2000s, the direction of Jordanian government policy has followed a general trend of economic liberalization and globalization. This has produced good results for the national economy, contrary to the situation in the 1980s and 1990s, in which Jordanians suffered from high debt and occasional negative growth experienced from the 1980s to 1990s. Recently, Jordan’s economy has kept growing, and its real gross domestic product (GDP) in 2009 was 9.8 billion Jordan Dinars (JD). Its annual average growth rate is 6.7 percent, and the rate of 8.5 percent in 2007 was the highest since 1992.

Expansion of trade is one important aspect of globalization, and Jordan’s external trade has also increased parallel with its economic growth. The average annual growth rate of Jordanian trade in the 2000s is 15.3 percent, and its total trade value in 2009 was JD14.5 billion, consisting of JD4.5 billion in exports and JD10 billion in imports. Today, Jordan’s external trade has two main trends from the historical comparative perspective. One is an upward trend in dependence upon foreign trade. Trade value as a percent of gross national income (GNI) increased from around 30 percent in the 1960’s to almost 100 percent in the 2000’s. Another is the expansion of exports as a proportion of total trade with diversification—the rate of export value to total trade value has increased from 14 percent in the 1960s to 31.7 percent in the

---

* An earlier version of this paper was presented at G-COE/KIAS/TUFS Joint International Workshop of Transformation of Politics, Society and Culture in Eurasia (October 8-9, 2011 at Kyoto University). I would like to appreciate the G-COE project “In Search of Sustainable Humanosphere in Asia and Africa” to provide an opportunity to print this working paper.

** PhD candidate, Graduate School of Asian and African Studies, Kyoto University; Research Fellow of the Japan Society for Promotion of Science (DC)

Email: s-imai@asfas.kyoto-s.ac.jp

1 KOF Index of Economic Globalization, one of the major trackers of globalization progress using indicators of trade and investment, shows Jordan’s successful globalization and resultant growth after the late 1990s (Henry and Springborg 2010: 24).

2 One Jordan Dinar is US$0.701. GDP in 2009 is preliminary and based on the data of the Central Bank of Jordan.

3 Annual average GDP growth rate was 3.3 percent in the 1980s and 4.3 percent in the 1990s. Economic growth in 1992 was likely boosted by the construction boom brought by returnees from the Gulf countries after the Iraqi invasion of Kuwait in 1990 (Van Hear 1995: 367).
Although these outcomes in trade are unique among the Arab countries and considered to be special characteristics of Jordan’s economy, much works on the recent period in Jordan pay attentions to its foreign relations or on trade expansion with the United States. Moreover, current details of Jordan’s economic structure and trade have not yet been covered by academic work.

In order to supplement existing perspectives on contemporary Jordan, this paper first analyzes Jordanian economic and trade policy under globalization, especially focusing on a change made by the King Abdullah (r. 1999–present). Abdullah was Jordan’s first new king since 1952, and this facilitated progress in reforms. Next, details of Jordan’s trade transformation focusing on major trading partners and commodities are presented, based on statistical data. In particular, analysis of Jordanian trade with significant partners clarifies the characteristics of Jordan’s external trade in an era of economic expansion. Last, this paper focuses on the manufacturing sector, which has been a major driving force of economic development and a main supplier of Jordan’s export goods in the 2000s. By examining data on production and sales by export, how the manufacturing sector gains profit from trade is shown.

II. Policies towards Economic Liberalization

1. King Abdullah’s Approach to Globalization

From the late 1980s to the 1990s, structural adjustment programs by the International Monetary Fund were introduced in Jordan, and the Washington Consensus penetrated into the Middle East, including Jordan. Since that era, Jordan has reduced government intervention in economic activity, and although this did not contribute to

---

4 Nassif points out that export diversification is a function of export growth through a discussion on case studies conducted by the World Bank on export discovery in the five resource-poor countries in the Middle East and North Africa—Egypt, Jordan, Lebanon, Morocco, and Tunisia (Nassif 2009).

5 Studies of Jordan’s external trade in the 2000s mainly focus on the enforcement of trade relations with the United States. Their main interest is in the Qualified Industrial Zones Agreement, a series of free trade schemes that regulate exports to the United States, which began in 1997 (Gaffney 2005; Saif 2006) or trade as an area of foreign relations under the disciplinary framework of international political economy (El-Anis 2011).

6 The Washington Consensus is the standard reform package for debtor governments promoted by major donors like the IMF and the World Bank. The doctrines of the Consensus include tax reform, liberalization of financial systems and trade, secure property rights, and so on (Williamson 1994: 26–28). About practices in the Middle East, see Richards and Waterbury (2008: Ch. 9); Enteshami (2009: Ch. 6); Henry and Springborg (2010).
economic development, it succeeded in cutting public debt and decreasing the trade deficit. This is because interest groups formed during the long reign of King Hussein (r. 1952–99) were an obstacle to the effectiveness of the necessary economic and political reforms (El-Said 2002: 270). Therefore, the accession of King Abdullah in February 1999 was a unique opportunity to carry out economic policies corresponding to the needs of the new phase.

King Abdullah recognizes that cognizance of and alignment with the globalization trend is a key factor for economic development. He appointed his first prime minister on March 3, 1999, and in a letter of designation, he emphasized the need to encourage investment and tackle Jordan’s problems of poverty and unemployment (MEES, March 19, 1999). Under Abdullah’s initiative, new groups of intellectuals, upper class professionals, entrepreneurs, and others who saw free market reforms as having merit gained power. Actually, no prime ministers chosen by him had ever been in the role under Hussein’s reign, and none were appointed again during Abdullah’s first ten-year reign.

Abdullah’s economic policies promote liberalization by means of abolition of rules and regulations and rely on foreign direct investment (FDI) to push up the private sector’s growth, instead of large-scale projects supported by the government. Changes in political orientation and human resources practices introduced three major domestic reforms: the establishment of the Aqaba Special Economic Zone (ASEZ), the privatization of core state-owned companies, and the amendment in 2000 of the Investment Promotion Law of 1995. ASEZ was established in 2001 as the first special economic zone in Jordan, and it is independent from the central government financially and administratively. King Abdullah made ASEZ the symbolic target of his early policy, and the transformation of Aqaba into a SEZ was realized rapidly (Kanaan 2000). The selection of Nādir al-Dhahabī as the sixth prime minister under Abdullah, in office from November 2007 to December 2009,

---

7 Andoni points out that the old groups pushed to the back tend to be senior bureaucrats, large landowners, and tribal leaders, all of whom could lose their privileges if free market reforms undermine the existing patronage system (Andoni 2000: 89, n. 1).

8 From 1973 to the late 1980s, the Jordanian government carried out continuous four programs for economic and social development utilizing its own budget and foreign loans and grants. These programs succeeded especially in developing the necessary transportation infrastructure to enhance economic and social activity, but also created a serious debt problem. About the details of the plans, see (NPC n.d.a; NPC n.d.b; NPC n.d.c; MOP n.d.).

9 Aqaba has Jordan's sole port, and the first free zone in the country, established in 1973, was there. In late 1997, a project for transforming the Aqaba region into a “world class” free-port area by modernizing the port was launched, and the next year the Cabinet initiated a feasibility study for this purpose (Kardoosh 2005: 10).
was also supposed to be a reflection of Abdullah’s initiative, as al-Dhahabī was the first director general of ASEZ and first joined the cabinet at that time.

Privatization had been an issue in Jordan since the late 1980s. The process has been delayed regardless of its necessity. Since the succession of Abdullah, privatization has been promoted strongly, and the Jordan Telecommunications Company, Royal Jordanian Airlines, and other companies comprising Jordan’s main industrial base have been privatized since then.\(^{10}\) This caused a considerable reduction in the burden of public debt, and the debt-to-GDP ratio was reduced from about 105 percent in 2000 to 57.1 percent in 2009. As for the external debt, it decreased from about 90 percent in 2000 to 22.9 percent in 2009 (DPD 2011: 2). In July 2004, Jordan’s structural adjustment program imposed in 1989 was wound down, due to these and other improvements in the financial situation.

In the case of the Investment Promotion Law, it set out some preferential treatments, such exempting fixed assets of some projects from fees and taxes. It promotes investment in undeveloped areas and in leading sectors like industry, hotels, hospitals, agriculture, and transport. An investment project in a needier area can get a higher rate of exemption from income and social service taxes in the first 10 years. Between 2002 and 2009, investment benefits from this Law have increasing rapidly, from JD301 million to JD1.8 billion (JIB n.d.: 7; MOF 2011: 40).

2. Trade Liberalization and the Promotion of a Free Trade Agreement

The political principles of diminishing governmental involvement in economic activity are also obvious in Jordan’s trade policy. Jordan applied to be an affiliate of the World Trade Organization (WTO) in 1994, and its tariff system and some regulations on trade have been reformed as a result. For example, import licenses that functioned as a non-tariff barrier were an early target for reform and were gradually eliminated by 2001, except for licenses necessary to monitor imports subject to quantitative restrictions under bilateral trade agreements with neighboring countries or for reasons of health and security (al-Khouri 2000: 144–146; Wright 2005: 24–25). As for exports, subsidies for promotion were replaced by income tax exemptions on profits from all exports (except phosphate and potash) to non-protocol countries and territories from 1994 and the removal of tariffs on over 240 intermediate goods in May 2003 (Wright 2005: 27–28).

\(^{10}\) Discussions about privatization in the early phase are issued by Piro and Knowles (Piro 1998: Ch.5; Knowles 2005: Ch.7).
WTO affiliation was approved in April 2000, and liberalization schemes implemented to achieve it have helped Jordan negotiate free trade agreements (FTAs).\textsuperscript{11} Moreover, Middle East policies of the United States and the European Union have shifted to take more account of economic issues than before, and this has also given Jordan an opportunity to open its market to the world. The Euro-Mediterranean Agreement of May 2002 aimed for political dialogue to promote comprehensive cooperation and economic liberalization between the EU and Jordan. The agreement was drawn up to establish a free trade area over a transition period lasting a maximum of 12 years and to abolish the custom duties and quantitative restrictions on Jordanian exports to the EU immediately.

The United States had already approached Jordan after the conclusion of the peace agreement between Jordan and Israel in 1994. The “Qualified Industrial Zones” (QIZ) program was introduced by Jordan and the United States in 1996.\textsuperscript{12} This program designated some areas in Jordan as QIZs; products from these zones could be exported to the United States without tariffs or quotas under conditions that required a productive contribution from both Jordan and Israel. The main product of the QIZs was articles of apparel, because they could avoid the export limitation imposed by the WTO Agreement on Textiles and Clothing (ATC) and thus gain a comparative advantage in the United States. In 1998, Al-Hassan Industrial Estate in Irbid in North Jordan was authorized as the first QIZ and started operation. Since then, another two public industrial estates (IEs) and another 11 private zones have been authorized, and six of them are operating.

An FTA with the US was also concluded in October 2000, and access to the US market became easier. The agreement provides for a 10-year transitional period during which duties on almost all goods will be phased out (Ruebner 2001: 12). Besides these agreements, an FTA with the EFTA countries, Iceland, Switzerland, Norway, and Liechtenstein, was concluded in June 2001 and one with Singapore in May 2004. Both agreements provided for the immediate elimination of customs duties on exports from Jordan. In 2009, another FTA was signed with Canada.

\textsuperscript{11} Reference to the details of each agreement below is based on the texts is appearing on the website of the Jordanian Ministry of Industry and Trade.

\textsuperscript{12} The US had three purposes, as follows: to promote economic cooperation between Jordan and Israel by mandating joint commercial activity, to provide a catalyst for job creation and FDI within Jordan, and to provide certain sectors of the Jordanian economy with unfettered access to the US market (El-Anis 2011: 138). Egypt also concluded a QIZ agreement with the US in 2004, having once passed it up in 1996.
Free trade promotion efforts are also remarkable at the regional level. The Great Arab Free Trade Area (GAFTA) program was started in 1997 under the initiative of the League of Arab States. This program obligated member states to reduce their custom duties gradually and achieved a complete free trade area by 2005. In addition, Jordan also concluded an Agreement for Establishing a Mediterranean Free Trade Area, known as the Agadir Agreement, in February 2004. Morocco, Tunisia, and Egypt participated in this agreement. It has the same basis as the Barcelona Declaration of the Euro-Mediterranean Agreement and aims to promote free trade in the Mediterranean Arab region.

III. Transformation and Expansion of External Trade

1. Major Trade Partners and Class of Commodities

Historically, Jordan’s main trade partners have been the Arab Countries and European Countries. In the 2000s, 44.3 percent of domestic exports were to Arab Countries and 31.4 percent of imports were from them while 30.3 percent were from European countries. The rate of export to the Arab countries contributing to the increase in its entire export value was 56.3 percent from 2000 to 2009, and it is obvious that its expansion speeded up the progress of Jordan’s exportation. The total external trade value of intra-Arab trade for Jordan was 32.8 percent in 2007, while the average among other Arab countries was quite small at 9.3 percent. In 2009, Jordan’s main partners based on the total of the trade value are, in order from the largest, Saudi Arabia, the United States, China, Iraq, and India. The top five countries for import and export are listed in Table 1. The transition of trade value with them is shown in Figure 1 and 2.

<table>
<thead>
<tr>
<th></th>
<th>Import</th>
<th>Export</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Saudi Arabia</td>
<td>The United States</td>
</tr>
<tr>
<td>2</td>
<td>China</td>
<td>Iraq</td>
</tr>
<tr>
<td>3</td>
<td>Germany</td>
<td>India</td>
</tr>
<tr>
<td>4</td>
<td>The United States</td>
<td>Saudi Arabia</td>
</tr>
<tr>
<td>5</td>
<td>Egypt</td>
<td>United Arab Emirates</td>
</tr>
</tbody>
</table>

Source: Calculated by author from the data of External Trade Database of Department of Statistics

13 Calculated by the author based on the Database of the Arab Monetary Fund. Scale of intra-regional trade in the Middle East is less than the predicted level by the model, and the Arab Countries’ main trading partner until now has been Europe regardless of recent effort to promote internal trade (Miniesy, Nugent and Yousef 2005: 46,60-61).
The three largest imported commodities have hardly changed during the 2000s. The most significant import item is mineral products dominated by petroleum oil and fuels, and they consist of 12.4 percent of total imports (see Figure 3). Their value
was JD1.8 billion in 2009 and has increased consistently because of the supplier change and the rapid rise of the price. The second largest import commodity is machinery and mechanical appliances from Germany, China, and the United States, and its import value is JD1.5 billion. The third largest commodity is vehicles, aircraft, vessels, and associated transport equipment from Germany, Japan, and South Korea, and its import value is JD1.1 billion. About 15 percent of these two commodities are re-exported mainly to Iraq, Saudi Arabia, and the UAE. Besides these, base metals and articles made from base metals including mainly iron is also one of the major import commodities.

Jordan’s largest domestic export in the 2000s was chemical products and they were exported to about 80 countries in the 2000s. Their export value in 2009 was JD1.2 billion and it has increased 14.2 percent annually on average. It mainly consists of fertilizer exported to India and Indonesia, and pharmaceutical products to Saudi Arabia, Iraq, and Algeria. Chemical products make up 43 percent, but the share gradually decreased during the decade. Fertilizer is made from potash and phosphate mined in Jordan and its production and development had been supported by the government from the 1970s (Piro 1998: 51-52). Pharmaceutical products have been one of principle commodities exported to the Arab market from the 1980s.

The second largest export commodity is textile articles mainly consisting of articles of apparel and clothing accessories. Its value was JD610.2 million in 2009 and the main destinations were the United States and Israel. The total of goods exports of this category was less than 6% before the 2000s. However, this figure more than doubled from JD96 million in 2000 to JD226 million in 2001, and annual growth rate in the decade was 32.5 percent. Such rapid expansion of articles of apparel and clothing accessories is majorly due to the increase in exports based on the QIZ scheme. After the ATC was abolished in January 2005, exports of textile articles began to decrease, but it is still on of Jordan’s major exports.

The third largest export is mineral products mostly consisting of phosphate, which was the only export item except for agricultural products before manufacturing began to develop (Azhar 2000: 62). Its value was JD304.1 million in 2009 and the annual growth rate was 18.3 percent during the decade. The number of destinations is about 50 countries and the main destinations were India and Indonesia.

---

14 From 2003 to 2004, the import value of petroleum oil increased 57.4 percent although the volume of imports remained steady. On the other hand, a decline of crude price from 2008 to 2009 caused a 55 percent decrease in that value.
2. Trade with Iraq and Saudi Arabia

Iraq has been almost the largest trading partner for both imports and exports from the 1980s, and this was reflected by the fact that Jordan characteristically did a lot of
trade with the Arab region. In the late 1980s, trade with Iraq had consisted of the domestic export of pharmaceutical products, soap and detergent, plastic products, re-exported machinery and vehicles, and oil importation. Then the economic sanctions on Iraq in the 1990s limited the importation of goods, and the Iraqi share in Jordan’s exports declined from 25 percent in the 1980s to 11 percent in the 1990s.

In 2000 export to Iraq was still limited and only 14 commodities (HS 2 digit) consisting of mainly animal or vegetable fats and oil and pharmaceutical products were handled. But the next year, other kinds of commodities raised the number to 59 and the export value was doubled in a year. The main export items were chemical products including pharmaceutical products, prepared foodstuffs, animal or vegetable fats and oil, base metals and its articles, and machinery and electric equipment and parts thereof. Commodities other than chemical products and base metals, exported to Iraq accounted for more than half of the total export value of each commodity.

Thereafter, the export value to Iraq has increased with an annual average rate of 32.6 percent which is much larger than the increase rate of its total exports. Its share is 14.8 percent and has recovered from the sluggish situation in the 1990s. The Iraq War in 2003 brought a temporary reduction of exports, but the lifting of sanctions helped bilateral trade to return to the level before the sanctions so that Iraq functioned almost like Jordan’s domestic market. The unfavorable influence of the war has been more serious on imports from Iraq. Before 2003, almost all of the import commodities from Iraq were petroleum oil and fuels, and import value from Iraq was about 15 percent of total import value. However, the war greatly damaged Iraqi’s petroleum industry, and supply to Jordan in 2004 was only a tenth of 2003. It did not recover to the level before the war until 2009, although it has been increasing again since 2007. From 2004 to the present, the import value from Iraq has been less than 1 percent of the total.

Saudi Arabia has been its largest import partner since 2004, with a 20 percent of share of the total import value. Also, it became the main supplier of petroleum oil for Jordan after 2003, and about 80 percent has been imported from there. Petroleum oil has made up more than 75 percent of imports from Saudi Arabia, and the other 25 percent is made up mainly of plastic products, base metals, and prepared foodstuffs. Because of the rise of the import volume and crude prices, the import value from Saudi Arabia has increased rapidly since 2003 with an annual rate of 35.7 percent on average. The price in the international oil market has been applied to import from
Saudi Arabia, while Jordan had been importing petroleum oils from Iraq at a consensus-based special price.\textsuperscript{15}

Export commodities to Saudi Arabia include 70 classes. The largest one which occupies 40 percent of the total export value is chemical products mainly consisting of pharmaceutical products. Other major export goods are machinery and electric equipment and parts thereof, live animals and animal products, prepared foodstuffs, base metals and articles made from them. The annual average of increase in the decade was 15.6 percent.

Trade with these two partners is significant because not only was / is each of them a main petroleum supplier, but also they have accepted various kinds of Jordanian products. Both of them share a common border with Jordan and goods are transported by road. They are the most accessible external market from Jordan, and entry is comparatively easy, even for goods which have a strong comparative advantage. Moreover, the functioning of GAFTA has made the business environment among them better, thus trade with them, as well as other Arab countries, can be kept stable.

3. Export to the United States and India

Until the late 1990s, trade with the United States had been mainly the importation of machinery, vehicles, and agriculture products, while its share of exports to the US was less than 1 percent of total exports. However, the QIZ program changed the situation drastically. The export value in 2000 was JD44.8 million which was five times larger than the previous year. The value kept increasing until it peaked at JD907.8 million with a 31.0 percent share of exports in 2006. Such expansion has been caused by clothing exports based upon the QIZ agreement and this occupied 80 percent of the export value to the United States in the 2000s. Another 10 percent was articles of jewelry which also benefited from the QIZ program.

Chemical products, predominantly including pharmaceutical products which benefited from the FTA, are also increasing rapidly and the United States is the tenth largest market for these products from Jordan after the Arab countries in 2009. Commodities such as machinery and electrical equipment and parts thereof, and prepared foodstuffs have also enlarged the market there. Moreover, the number of

\textsuperscript{15} It was for Iraq’s compensation under the trade deficit from 1985 and Oil for Food Program starting in 1996 under the United Nation’s sanctions (Brand 1994: 219; Schenker 2005: 32).
commodities exported to the United States almost doubled from 42 in 2000 to 72 in 2009, though the transaction values of many of them were quite small.

India is a destination for 11.7 percent of Jordan’s total exports, and was the largest export partner in 2000 and 2008. The export value of trade with India is increasing constantly at an annual 19.5 percent rate on average. India has been Jordan’s main export destination for phosphate and fertilizers. 40 percent of chemical compounds largely from phosphoric acid, 40 percent of fertilizer, and 50 percent of natural phosphate were exported there in the 2000s.\textsuperscript{16} India’s importation from Jordan is made up of these three commodities, and the former two commodities occupy 65 percent of exports to India and 30 percent is natural phosphate. The other 5 percent is mainly base metals and related articles. About 20 kinds of commodities were exported to India through the decade, and this is quite a small number compared with other major export partners.

Export to these two countries is characterized by a concentration on commodities with a comparative advantage such as apparel and clothing accessories, chemical products, and phosphate. Efficient export of such products caused expansion of the entire trade with them, and contributed to improving Jordan’s trade deficit. On the other hand, they are attractive but difficult markets for the majority of Jordan’s exporters to enter, regardless of the size of their trade. The expansion of exports to the United States was based on a specific agreement, and originally it did not provide an opportunity for wider sectors. Although some sectors utilized the FTA, it is doubtful that the market of the United States was given priority over the more proven and less costly Arab market by other sectors. As for India, the pattern of exports has been fixed and there is a historical background for the trade of existing commodities, therefore while expansion in the transaction value would be possible, expansion in commodities is improbably.

**IV. Interaction between the Manufacturing Sector and External Trade**

**1. Development of the Manufacturing Sector**

Historically, the services sector has been at the center of Jordan’s economy, and the significance of the industrial sector has been comparatively small. From the 1950s to the late 1990s, the service sector contributed about 70 percent of GDP, while the

\textsuperscript{16} India and Jordan has a joint venture named The Jordan-Indo Chemicals Company founded in 1994, and there is a factory producing phosphoric acid with a certification as a Public Private Zone.
agricultural sector’s contribution gradually declined about 15 percent to less than 10 percent; the rest belonged to the industrial sector. The 2000s has been the first time that the manufacturing sector has grown more than any other sector. Manufacturing’s contribution to Jordan’s GDP was 12.9 percent in 2000 and rose to 17.7 percent in 2008; and it is the second-largest sector after the public sector. Its annual growth rate is also the second largest, after that of the financial intermediation sector, but its contributing rate of 23.2 percent is first, and it has been a driving force of economic growth in the 2000s (see Table 2).

Table 2. Real GDP and Other Indicators by Kind of Economic Activity

<table>
<thead>
<tr>
<th>Kind of Economic Activity</th>
<th>Real GDP (million JD)</th>
<th>Annual Growth Rate (%), 2000-2008</th>
<th>Contributing Rate (%), 2000-2008</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agriculture</td>
<td>281.5</td>
<td>7.7</td>
<td>3.5</td>
</tr>
<tr>
<td>Mining and Quarrying</td>
<td>238.1</td>
<td>6.6</td>
<td>2.9</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>1573.2</td>
<td>10</td>
<td>23.3</td>
</tr>
<tr>
<td>Electricity and Water</td>
<td>180.4</td>
<td>4.8</td>
<td>1.5</td>
</tr>
<tr>
<td>Construction</td>
<td>455.1</td>
<td>7.8</td>
<td>6.1</td>
</tr>
<tr>
<td>Wholesale and Retail Trade</td>
<td>880.6</td>
<td>7.7</td>
<td>11.3</td>
</tr>
<tr>
<td>Hotels and Restaurants</td>
<td>99.3</td>
<td>2.4</td>
<td>0</td>
</tr>
<tr>
<td>Transport and Communication</td>
<td>1367.2</td>
<td>6.5</td>
<td>15.3</td>
</tr>
<tr>
<td>Financial Intermediation</td>
<td>658.2</td>
<td>18.7</td>
<td>13.6</td>
</tr>
<tr>
<td>Real Estate</td>
<td>1105</td>
<td>4.4</td>
<td>9.2</td>
</tr>
<tr>
<td>Public Administration</td>
<td>1112.1</td>
<td>4.2</td>
<td>8.2</td>
</tr>
<tr>
<td>Other Services</td>
<td>427.5</td>
<td>-</td>
<td>5.4</td>
</tr>
</tbody>
</table>

Source: Calculated by author based on data shown by Central Bank of Jordan

Under the government-led development plans from the 1970s to the 1980s, the manufacturing sector had been the main target of investment and growth. Through public shareholding companies, a lot of large projects, such the construction of new cement factories and development of phosphate mines, were conducted, and structural change from service-led production to industry-led production was expected. However, in the late 1980s, growth of industry was not larger than planned (Fanek 1986: 21). After the 1990s, government industrial policy has moved toward offers of production environments and deregulation and away from direct financial support. Construction of industrial estates (IEs) has accelerated under the Abdullah
reign—and Al-Hussein al-Abdullah II IE in Karak in Middle Jordan was established in 2000, Aqaba International IE began to operate in 2005, and another began operation at Muwaqqar near Amman in 2009.

In these estates, companies can enjoy privileges such as two-year exemption from income and social service taxes from the date of production and full and permanent exemption from land and property taxes (JIEC n.d.a: 15). Growth of sales of manufacturers operating in these areas is not notable comparing with that of the entire manufacturing sector; however, the importance of their export sales has been growing.17 In particular, production in Al- Hassan and Al-Hussein IEs is distributed under the QIZ scheme, which promotes the expansion of export sales. As far as production in those areas goes, the reduction of export restrictions is supposed to be an important opportunity to enlarge sales created as an alternative to taking domestic measures. Other cases are examined below.

2. Contribution of Exports to the Manufacturing Sector

In the 2000s, Jordan’s manufacturing sector has 77 subsectors out of 120 possible subsectors based on the classification of ISIC Rev. 3 4-digit. The total gross value added (GVA) is JD29.6 billion, and the average rate of increase annually is 24.6 percent.18 All subsectors except for the preparation and spinning of textile fibers and tanning and dressing of leather have expanded production from 2000 to 2008. Major subsectors are the manufacture of cement, lime and plaster; the manufacture of tobacco products; the manufacture of apparel; and others (see Table 3). Note that many of the products of the former two subsectors as well as that of refined petroleum products are for the domestic market.

17 Although total sales in the industrial estates were JD952 million in 2008, growth from 2000 was gradual compared with total sales in the manufacturing sector. On the other hand, export sales grew from JD321 million in 2000 to JD773 million in 2008 (JIEC n.d.b).
18 Statistical data used in this section is based on the Industry Survey, and not including the productive activity in QIZs.
<table>
<thead>
<tr>
<th>Subsector</th>
<th>GVA (1000JD)</th>
<th>Annual Growth Rate (%), 2000-2008</th>
<th>Total Sales (1000JD)</th>
<th>Rate of Export Sales (%)</th>
<th>Contributing Rate of Export Sales to Total Sales Growth (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Soft Drinks, Production of Mineral Water</td>
<td>86941</td>
<td>11.9</td>
<td>209365</td>
<td>0.5</td>
<td>-54.1</td>
</tr>
<tr>
<td>Tobacco Products</td>
<td>203855</td>
<td>6.3</td>
<td>309306</td>
<td>18.1</td>
<td>-56.3</td>
</tr>
<tr>
<td>Wearing Apparel</td>
<td>243349</td>
<td>55.5</td>
<td>485547</td>
<td>34.5</td>
<td>96.0</td>
</tr>
<tr>
<td>Refined Petroleum Products</td>
<td>181509</td>
<td>20.6</td>
<td>2388480</td>
<td>0.0</td>
<td>0.0</td>
</tr>
<tr>
<td>Basic Chemicals</td>
<td>116981</td>
<td>17.2</td>
<td>216073</td>
<td>82.9</td>
<td>39.6</td>
</tr>
<tr>
<td>Fertilizers and Nitrogen Compounds</td>
<td>133300</td>
<td>89.1</td>
<td>500714</td>
<td>50.4</td>
<td>133.8</td>
</tr>
<tr>
<td>Pharmaceutical, Medical Chemicals and Botanical Products</td>
<td>185163</td>
<td>23.5</td>
<td>394169</td>
<td>69.3</td>
<td>49.6</td>
</tr>
<tr>
<td>Cement, Lime and Plaster</td>
<td>264868</td>
<td>26.9</td>
<td>392422</td>
<td>10.5</td>
<td>-57.6</td>
</tr>
<tr>
<td>Articles of Concrete, Cement and Plaster</td>
<td>94069</td>
<td>38</td>
<td>278709</td>
<td>0.4</td>
<td>-99.3</td>
</tr>
<tr>
<td>Basic Iron and Steel</td>
<td>145935</td>
<td>32.9</td>
<td>508868</td>
<td>6.7</td>
<td>-79.8</td>
</tr>
<tr>
<td>Pesticides and Other Agro-Chemical Products</td>
<td>8554</td>
<td>151.9</td>
<td>24646</td>
<td>78.6</td>
<td>65.5</td>
</tr>
<tr>
<td>Agricultural and Forestry Machinery</td>
<td>7183</td>
<td>65.6</td>
<td>20899</td>
<td>95.0</td>
<td>104.1</td>
</tr>
<tr>
<td>Other Special Purpose Machinery</td>
<td>2765</td>
<td>43.3</td>
<td>7670</td>
<td>88.1</td>
<td>110.3</td>
</tr>
<tr>
<td>Manufacturing Sector Total</td>
<td>2960113</td>
<td>23.5</td>
<td>9595254</td>
<td>25.2</td>
<td>26.6</td>
</tr>
</tbody>
</table>

Source: Calculated by author based on *Industry Survey 2000-2008*
In both 2000 and 2008, 69 subsectors sold their products abroad; the ratio of export sales to total sales in the manufacturing sector was 22.0% in 2000 and had slightly increased to 25.2% by 2008. In 44 subsectors, ratio of export sales rose during this period, and in particular 8 subsectors have grown due to the contribution of expansion of external sales, as shown in Table 3. These subsectors can be divided into two categories. One is small productive sectors from which emerge new companies specializing in products for export, and the other is sectors that have been producing Jordan’s major export goods.

The first category applies to the manufacture of pesticides and other agro-chemical products, agricultural and forestry machinery, and other special-purpose machinery. For these sectors, the domestic market is not the main target of production, and average ratio of export sales to total sales is over 85 percent; some have even reduced the amount they sell inside the country. These sectors had the opportunity to transform their trade with exports, while some sectors with similar productive capability have retreated from exporting and decreased their overall production.

The second category applies to the manufacture of basic chemicals, fertilizer, pharmaceuticals, and apparel. Products in the former three sectors are all chemical products, which are Jordan’s major export goods and have a large world market. With regard to pharmaceutical products, imported goods have met demand inside the country due to the progress of intra-trade, and Jordanian production is mainly aimed at Arab countries. Domestic consumption of fertilizer is limited due to the smallness of the domestic agriculture sector, and fertilizer production exhibits in intense form the characteristics of a sector specializing in export. Ratio of export sales to total sales in the fertilizer sector rose from 50.4 percent in 2000 to 87.2 percent in 2008. Production has been stable, and the main customer, India, has constituted a large proportion of the market for some time. These sectors have secure external markets; therefore, improvement in their trade environment will cause exports in these sectors to grow and enhance their presence.

Apparel manufacturing has also increased its export sales: 89.9 percent of sales were from exports in 2008, compared to only 34.5 percent in 2000. Apparel manufacturing has been the fastest-growing subsector in the 2000s, even if we do not take into consideration production from QIZs. Although the export value of textile articles from the country as a whole is decreasing since QIZ production lost its advantage in 2005, as mentioned above, export sales other than those from QIZs are increasing.
quickly. This fact shows that some producers have already succeeded in transferring their production from a QIZ to another area of the country such as an IE or are using other schemes for export; they also can benefit from further opportunities coming as a result of deregulation.

V. Conclusion

Under King Abdullah’s liberal economic policies, Jordan has experienced a reduction of trade burden and FTAs have prompted the further expansion of trade. Jordan’s main trade partners, such as the Arab countries, the EU countries, and the United States have FTAs with Jordan, and FTA policy can be seen to have great significance on the direction of the entirety of Jordanian trade.

Increase in imports during the past decade was highly influenced by the expansion of import of intermediate goods, because the growth of industrial activity required a supply of raw materials, many of which were not produced inside the country. On the other hand, exports have increased due to two main trends: one is the export of various commodities in small volumes to neighboring countries and the other is the concentration on the export to distant but large countries of commodities which have a comparative advantage. In particular, the rapid expansion of apparel exports to the United States would not have happened without the QIZ program, which enhanced Jordanian export by abolishing tariffs and quotas.

The manufacturing sector, which is the main producer of Jordan’s export goods, also has increased its presence in the national economy over the decade and has made its profits largely via trade expansion. Accordingly, as shown by the current paper, almost all subsectors of Jordan’s manufacturing are connected to markets abroad and more than half of them have experienced a growth in export sales. Especially for subsectors which have a comparative advantage in foreign markets and which are part of small sectors, export sales are the main factor for growth. Export-oriented growth had been an important factor in Jordan’s economic development and a major part of the policy agenda, and eventually the appropriate system began to consolidate.

With the success of its policies, Jordan’s dependence on external trade and export-oriented manufacturing is likely to increase further. It seems that Jordan accommodates and utilizes the conditions of economic globalization to increase trade,
which is an effective method for a resource-poor country to stimulate growth. However, recently, some negative factors such as the increasing trade deficits have also been observed. This increase is attributed to Jordan’s inability to stop importing products that are basic requirements of further production. In particular, a change in oil suppliers and the impact of international oil price volatility added to Jordan’s financial problems. In order to reduce this burden as well as government regulation, measures that are based on existing reforms need to be taken. While this paper reveals the short-term benefits of globalization, namely, good opportunities and prosperity, it also highlights the vulnerability that arises from dependence on external conditions that will have negative effects in the future.

References

Official Documents


Books and Articles


Middle East Economic Digest (MEED)


**Webpages**

Central Bank of Jordan, Yearly Statistical Series
http://www.cbj.gov.jo/pages.php?menu_id=136&local_type=0&local_id=0&local_details=0&local_details1=0&localsite_branchname=CBJ (30 September 2011)

External Trade Statistics, Department of Statistics

Statistics on the Foreign Trade, Arab Monetary Fund
http://www.amf.org.ae/statlist/141/127/Foreign%20Trade%20-%20Other%20Tables
(30 September 2011)