



منتدى الاستراتيجيات الأردني
JORDAN STRATEGY FORUM

Manufacturing Sector

Jordan's Economic Vision Roadmap



منتدى الاستراتيجيات الأردني JORDAN STRATEGY FORUM

The Jordan Strategy Forum (JSF) is a not-for-profit organization, which represents a group of Jordanian private sector companies that are active in corporate and social responsibility (CSR) and in promoting Jordan's economic growth. JSF's members are active private sector institutions, who demonstrate a genuine will to be part of a dialogue on economic and social issues that concern Jordanian citizens. The Jordan Strategy Forum promotes a strong Jordanian private sector that is profitable, employs Jordanians, pays taxes and supports comprehensive economic growth in Jordan.

The JSF also offers a rare opportunity and space for the private sector to have an evidence-based debate with the public sector and decision-makers with the aim to increase awareness, strengthening the future of the Jordanian economy and applying best practices.

For more information about the Jordan Strategy Forum, please visit our website at www.jsf.org or contact us via email at info@jsf.org. Please visit our Facebook page at Facebook.com/JordanStrategyForumJSF or our Twitter account [@JSFJordan](https://twitter.com/JSFJordan) for continuous updates about Jordan Strategy Forum.



#JSFJo



@JSFJordan



/JordanStrategyForumJSF



Jordan Strategy Forum

Amman, Jordan



T: +962 6 566 6476



F: +962 6 566 6376

This is an expert opinion report based on discussions and focus group meetings held by the Jordan Strategy Forum (JSF). The overall objective of this effort is to analyze different sectors (14) of the Jordanian economy and their respective challenges, and come-up with practical solutions and initiatives to enhance their competitiveness. Throughout this exercise, the JSF facilitated the focus group meetings, and supported the work-stream managers with any needed research and logistics.

Acknowledgment:

The JSF would like to extend its appreciation to the following work-stream members of the **Manufacturing sector**, who contributed to the focus group meetings, and in editing the proposed initiatives and sectoral report:

Work Stream Manager:

1. Dr. Nael Hussami

Work Stream Members (In Alphabetical Order):

2. Mr. Alaa Abu Khazneh
3. Dr. Amer Khatib
4. Mrs. Deema Sukhtian
5. Mr. Fawaz Al Shakaa
6. Mr. Firas Abu Wshah
7. Mr. Ghassan Nuqul
8. Dr. Iyad Abu Haltam
9. Mr. Mohammad Shanti
10. Mr. Tamim Qasrawi
11. Dr. Wael Masarweh

Table of Contents

Introduction	5
Performance of the sector in the past 5 years & COVID-19 impact.....	7
Stakeholders' Mapping for the Sector: Linkages & Overlaps	12
SWOT Analysis	13
Objectives.....	14
Initiatives (projects).....	15
General Recommendations	19

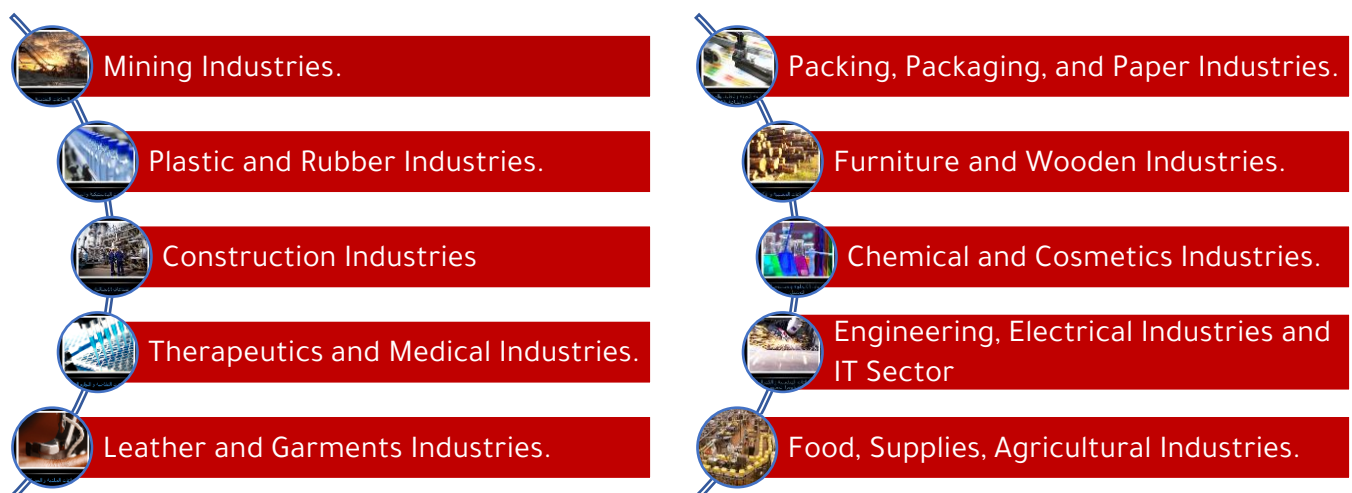
1. Introduction

The industrial sector is considered to be one of the major components of the Jordanian economy. This comes as a result of its contribution to the national economy which was around one-fourth during the last decade .

The total number of employees is around 20% of the total number of workers in Jordan, and this is considered one of the major sectors in terms of job creation. The figures of Jordan Investment Commission (JIC) show that the average investment in the industrial sector was around 80% out of the total investments that had been registered in the economy during the last decade.

The national accounts distribution divided the industrial sector in Jordan into three main subsectors; mining and quarrying, manufacturing and “electricity and water”. However, these sectors were contributing to the GDP in 2020 with around 2.4%, 19.7% and 2.2% respectively. These contributions were variable during the period of 2011-2020 due to the economy changes within the same period.

By a decision of the Council of Ministers, the industrial sector classified into 10 subsectors, as follows:



In spite of the relatively positive performance, the industrial sector in Jordan is facing pressing challenges to remain competitive. Over the past decade, the Jordanian industrial sector has become more vulnerable to outside competition due to external and internal factors. International pressures have been felt throughout the complete manufacturing spectrum, but particularly in labor and energy -intensive manufacturers.

The industrial sector in Jordan enjoys several competitive advantages related to the relatively high quality of production, the availability of raw materials necessary for some industries

(particularly phosphate, potash, Dead Sea minerals, olive oil ... etc.) and the existing distinguished human resources.

On the other hand, the sector's competitiveness faces major challenges that should be addressed to unlock its growth and development potential as they are limiting it from capitalizing on the above-mentioned advantages to strengthen industries. Major issues are related to the high production cost, lack of financing resources, lack of marketing capabilities & experience in international markets and the need for advisory services, while issues related to research and development activities, low levels of investment and governmental bureaucracy could be considered as less pressuring challenges.

The main observation regarding the sector's competitiveness is that it is revolving in a loop that is limiting its development and its ability to capitalize on its competitive advantages. The sector at the moment is putting forward traditional products with fairly good quality, and accordingly is faced by great pressure on the profit margin due to the high cost. Taking into consideration that it is functioning in a small market with price-sensitive consumers as well as aggressive competition from products coming from countries with large production capacities and low production cost.

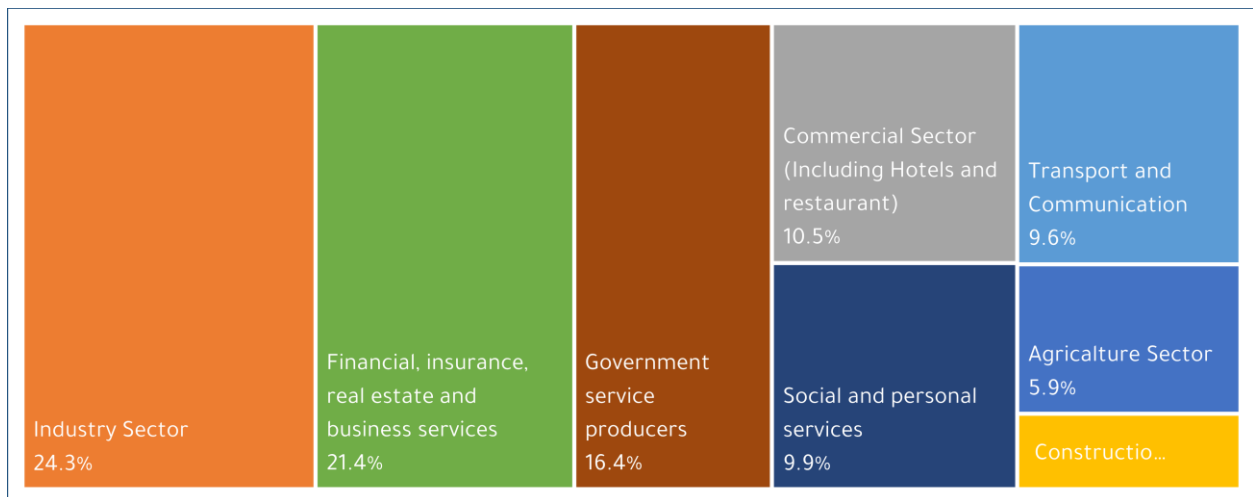
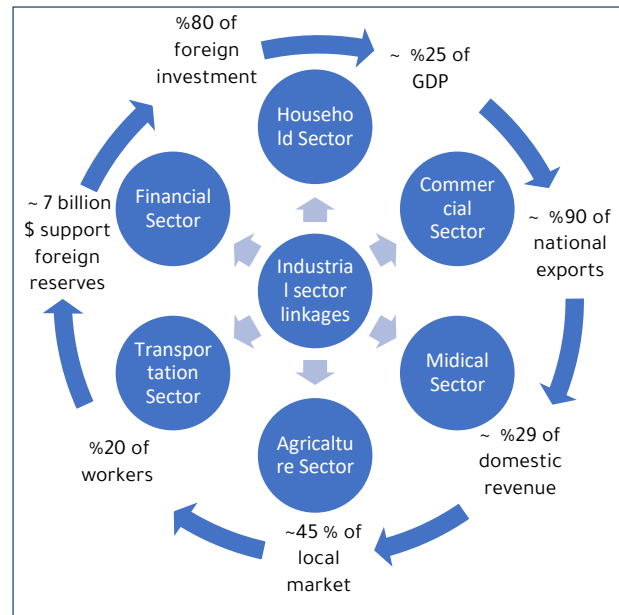
This significantly limits the sector's marketing abilities and prevents it from reaching the maximum possible production capacity as its markets fail to absorb high quality production in a viable manner with a good return on investment in technological development, and hence they remain hesitant to further invest and broaden their operations. Such investments will ensure efficiency in resource consumption and enable producers to provide high quality production with unique technical features, also they are able to penetrate markets and compete away from price basis, but the sector's hesitation to adopt modern production technologies, in addition to the weak research and development investments, is placing further pressure on its competitiveness.

This gets the sector back to square one as it will remain operational depending on traditional production methods, resulting in traditional products, achieving a very small profit margin and will be introduced to markets where it would compete on the basis of low price. Therefore, producers face difficulties in marketing such products in such markets both nationally and internationally. This again would leave producers realizing the importance of adopting the latest technologies and investing in research and development activities in order to achieve cost efficiency, but they would find themselves again faced by discouraging return of investment due to the limited market size, and thus the loop continues.

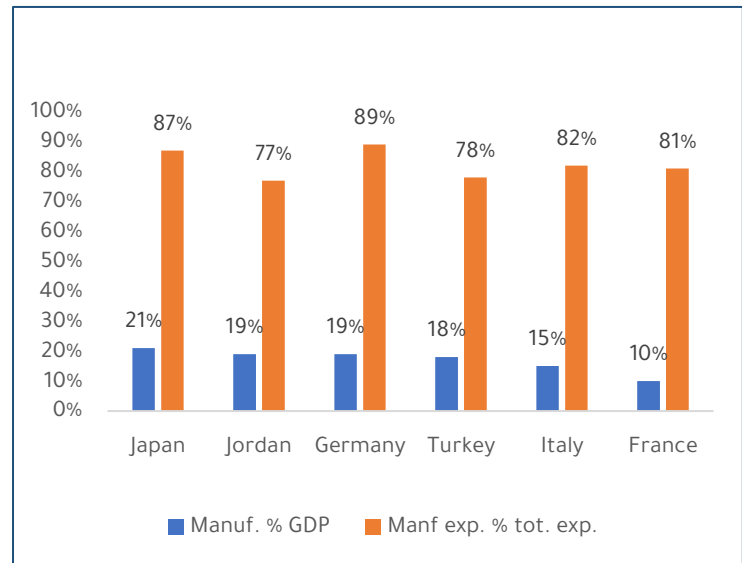
2. Performance of the sector in the past 5 years & COVID-19

impact

The industrial sector is one of the most important sectors in the Jordanian economy; its contribution to the GDP is about 24.3 as at the end of 2020, in addition to its indirect contributions with many other economic sectors such as transport, agricultural, banking, insurance and other sectors, which is an indicator of the great importance of the Jordanian local industry. For example, the transport sector is closely engaged with the industrial sector, due to its role in transporting goods and products from and to the factories, and cross borders and countries all over the world.



Despite the fact that some countries depend on the sectorial contribution to different economic sectors in the GDP as a direct indicator to describe the ongoing economic activity, yet depending on this percentage only would cause misleading results, where the economic structures become similar and this is what is shown by the data in the adjacent figure, which reflects the added value of the manufacturing industries in a number of countries in comparison to Jordan, in addition to the Jordanian exports as a percentage of the total goods exports.



The sector's contribution to boost the economic growth for less financial and social costs should be taken into consideration. A scientific study at the end of 2019 on estimating the interrelationships between economic sectors in Jordan based on the 2010 input and output tables, using the Leontief Input-Output Model, in order to determine the economic multiplier, direct and indirect, for the various economic sectors, identifying the leading sectors in the Jordanian economy.

The results of the study showed that the "manufacturing sector" came first among the economic sectors, in terms of its interrelationships and the value of the multiplier, as the total multiplier (direct and indirect) for this sector amounted to 2.166 per JD spent in this sector. The results also show that the "electricity and water" sector came in second place (total multiplier 2.033), then "restaurants and hotels" (total multiplier 1.968) in third place.

Therefore, the industrial sector (mining and quarrying, manufacturing,

electricity and water) are the main pillars for the economic growth and for its sustainability, which go hand in hand with the international and local public orientation and match with the

Rank	Sector	Multiplier (JD)		
		Dir. Impact	InDir. Impact	Total
1	Manufacturing	1	1.166	2.166
	Food Industry	1	1.550	2.550
	Tobacco Industry	1	0.864	1.864
	Beverage Industry	1	0.669	1.669
	Other manuf.	1	1.579	2.579
2	Electricity and Water	1	1.331	2.331
3	Restaurant and hotels	1	0.968	1.968
4	Agriculture	1	0.870	1.870
5	Construction	1	0.657	1.657
6	Transportation	1	0.687	1.687
7	Communication	1	0.600	1.600
8	Business and finance service	1	0.478	1.478
9	Retail	1	0.405	1.405
10	Mining industries	1	0.392	1.392
11	Contacting	1	0.049	1.049

interests of the industrial private sector, the government sector and the livelihood of citizens at the same time.

On the other hand, according to the competitive Industrial Performance report issued by the (UNIDO) Jordan ranked 71 internationally in the report issued last year, ahead with 15 grades in comparison with previous years, despite the increased number of countries in the report from 127 countries in 2000 up to 152 countries last year.

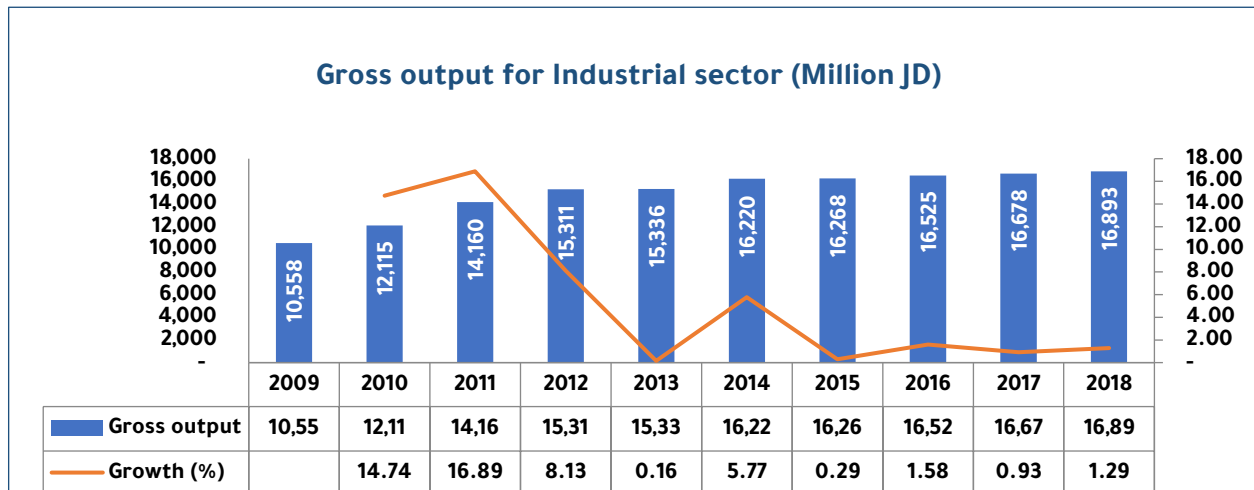
Taking a closer look at the sub-indicators, Jordan ranked first among MENA countries and 22th internationally in the index of the contribution of manufacturing value added to GDP, while it ranked 41th internationally in the index of manufacturing intensity, and ranked 55th internationally in the export quality index ahead of many Arab countries.

The industrial sector consists of 10 industrial subsectors (as shown in the table below).

Industry	Gross Output		Value Added		Local Sales		Exports	
	Ranks	%	Ranks	%	Ranks	%	Ranks	
Mining	4	8.1%	1	77.1%	8	39.6%	3	59.4%
Food	1	22.5%	5	41.5%	3	86.6%	8	12.1%
Wood and Furniture	10	2.5%	6	40.5%	2	90.6%	9	8.3%
Engineering	2	21.8%	2	48.6%	5	82.5%	6	16.4%
Chemical	3	18.3%	7	39.6%	4	83.0%	7	12.9%
Garment	6	6.7%	4	44.5%	10	23.7%	1	76.5%
Plastic	8	4.5%	10	30.0%	7	69.9%	4	30.0%
Packing	7	4.9%	9	36.1%	6	74.6%	5	22.7%
Pharmaceutical	5	6.8%	3	46.0%	9	37.1%	2	62.8%
Construction	9	3.8%	8	39.2%	1	95.2%	10	3.2%

Gross Output:

The data of the industrial survey, as shown in Figure No. (...), indicates a slowdown in the volume of the gross output of the industrial sector during the period (2013-2018), which amounted to about JD 16.9 billion in 2018, which increased by 1.3% in comparison to 2017 which amounted to about JD 16.7 billion, and the average growth during the period (2013-2018) reached 5.5%.

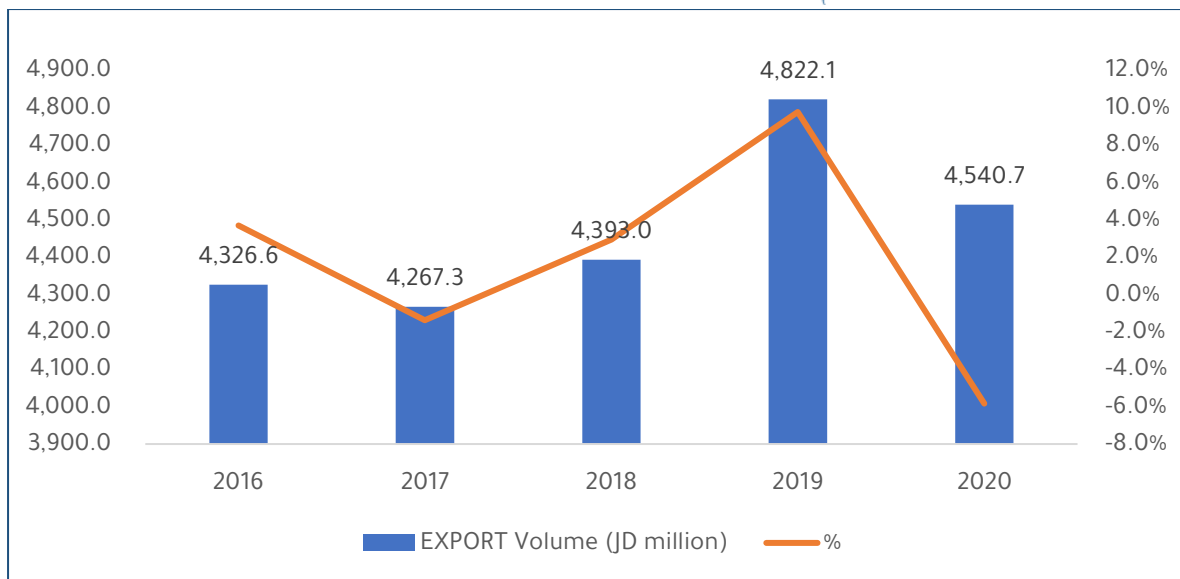


It's worth to mention that the proportion of intermediate consumption constituted on average about 54.5% of the total gross output, while the value added constituted approximately 45.5% of the total gross output, where 26% are exported compared to 74% of local sales.

Exports

The value of industrial exports reached JD 4,540.7 million at the end of 2020 [i.e., decrease by 5.8% compared with 2019]. Meanwhile, the average growth during the past 5 years reached only 1.8% due to various challenges mainly the conflicts in Syria and Iraq which have led to a significant decrease in Jordan's national exports, where the conflicts disrupted exports that depended on Syria as a major export route to other important destinations such as Lebanon, Europe, Turkey and Central Asia and the closing of remaining border crossings with Syria and Iraq in 2015 represented another blow to Jordanian exports (as shown in the figure below).

¹ Based on the available data issued by DOS.



Employment

The volume of employment in the industrial sector reached on average 250 thousand workers during the past 5 years, or 20% of the total number of workers in the public and private sectors, where the proportion of males constituted about 82%, and females about 18% of the total employment in the industrial sector.

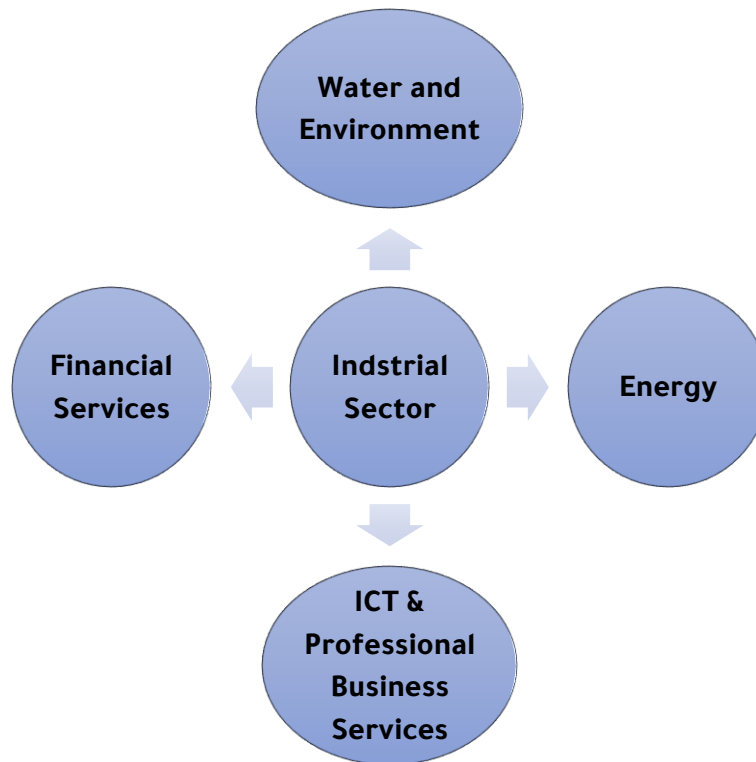
Thus, the industrial sector occupies the second place after the education sector in terms of the sectors that employ the most workers among other economic sectors. Where the male workers in the industrial sector constitute approximately 22.4% of the total male workers in various economic activities, and the share of female workers in the industrial sector is about 15.4% of the total female workers.

Despite the difficult conditions that the Jordanian economy is going through in general and the industrial sector in particular, the volume of employment has continued to rise as a result of its high ability to create job opportunities.

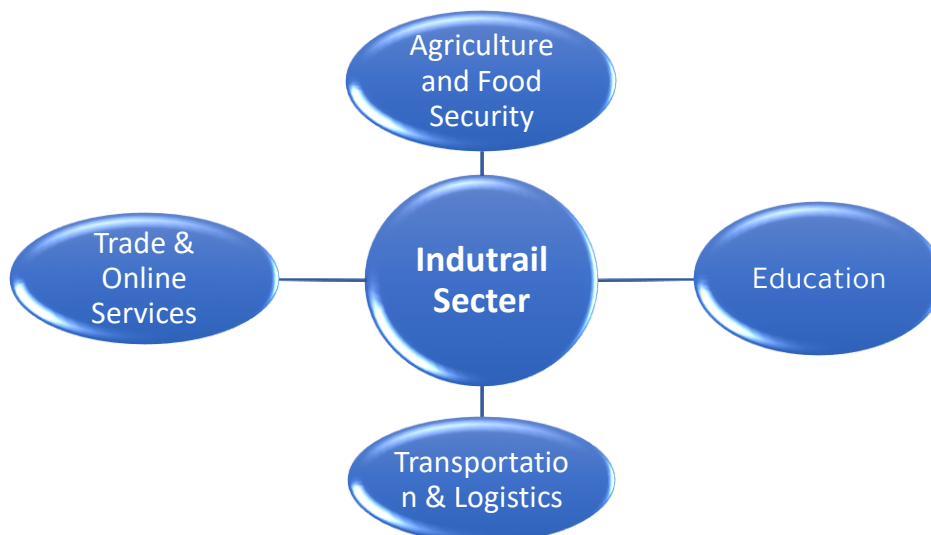
During the pandemic, the Jordanian industrial sector has proven its value to replace the imported goods, where no necessary or strategic goods have been missed from the local market. This mainly included food, chemical, pharmaceuticals, and face masks. The latter is considered as success story where the industrial production of masks jumped from 20 thousand masks in 2019 to reach 6 million masks a day in 2021.

3. Stakeholders' Mapping for the Sector: Linkages & Overlaps

Stakeholders (i.e., sectors with which there may be certain overlapping):



Industrial Sector overlaps with other sectors (i.e., sectors with which there can be a potential and mutual cooperation)



4. SWOT Analysis

Strengths	Weaknesses
<ol style="list-style-type: none"> 1. The availability of natural raw materials for some industries (mining and chemical) 2. Customs exemptions for final products and production inputs when exporting too many markets around the world due to the Free Trade Agreements. 3. The geographical location of Jordan and its proximity to several consumer markets 4. The availability of young and educated youth 5. Strong infrastructure in terms of availability and stability of electricity, communication and data networks, transport, air and sea freight. 	<ol style="list-style-type: none"> 1. High production costs (energy, finance, labor, transportation) 2. Shortage of technical and skilled labor 3. Difficulties in obtaining financing and grants 4. Restrictive and/or conflicting legislation (government bureaucracy) 5. The unfair competition in local market due to imported goods supported by advanced export support program.
Opportunities	Threats
<ol style="list-style-type: none"> 1. Job shortages in the European private sector for engineers and other fields. 2. Utilizing Export opportunities using the duty-free access available for Jordanian products to countries that Jordan signed free trade agreements with, also attracting immigrant\ investment capital, especially from Arab regions. 3. The increased role of E-Commerce and marketing due to the digital transformation. 4. The distinguished political bilateral relations of Jordan with various countries around the world. 5. The availability of energy resources and capacity charges. 	<ol style="list-style-type: none"> 1. The economic transformation program and the protection policies by other countries. 2. The instability status in supply chains at the international level 3. The high costs of keeping up with the technological developments. 4. Political and economic instability in the region. 5. The high costs of export directed to the non-traditional strategic markets (certificates, checks, etc.).

5.Objectives

Strategic Objectives	
1.	Developing the industrial Competitiveness
2.	Developing the small and micro industries
3.	Enhancing the capabilities and resources needed for the industrial sector
4.	Developing the business environment
5.	Increasing exports and expanding through other export markets

6. Initiatives (projects)

Initiative (1): Developing the industrial companies competitive advantages through reducing Production Costs

Strategic Objective: Developing the industrial Competitiveness

Short Description: Reducing production costs through reducing electricity and diesel prices for industries, which use such type of sources of energy, with additional advantages and reduction to this category of industries when investing in the governorates.

Developing the infrastructure and necessary networks to deliver natural gas from the Arab Gas Pipeline to cities and industrial clusters.

Following up the approvals for alternative energy projects for the industrial sector.

Expected Outcome: Increasing the total production of the national economy and thus increasing economic growth through helping the factories to face the competition for the imported products from which enjoy lower energy prices and export their products to Jordan exempt from customs duties due to the free trade agreements.

Initiative (2): Encouraging industrial investments with high added value

Strategic Objective:

Short Description:

Attracting and encouraging investments in the following fields :

- 1- Industries that depend on the exploitation of human resources available in the fields of advanced technology, creativity and innovation.
- 2- Manufacturing production inputs to enhance value-added on the supply chains and the interconnections between the various industrial sectors
- 3- Manufacturing products using raw materials and minerals, which are available in Jordan.
- 4- Manufacturing food products using Jordanian agricultural production inputs.

Expected Outcome:

1. Increasing the technological component in the national industries, strengthening the local component in a way that contributes to enhancing the industrial competitiveness.
2. Replacing imports with local production.
3. Establishing industrial clusters with competitive advantages.
4. Generating new job opportunities.

Initiative (3): Stimulating small and micro-industries to sustain and grow

Strategic Objective: Developing the small and micro industries

Short Description:

- Developing laws and legislations regulating the work for the start-ups and existing small and micro-enterprises to reduce financial and administrative burdens.
- Establishing a government national industrial bank/fund specialized in industrial financing and providing loans to small and micro industries.
- Creating a governmental unit specialized in small and micro industries through the Jordan Enterprise Development Corporation (JEDCO).
- Forming a committee consisted of representatives of various stakeholders from the public and private sectors, in addition to international donor organizations and agencies to follow up on the technical and financial support programs for small and micro industries.

Expected Outcome:

1. Launching a legal framework to define small and micro industries also to provide them with financial and taxes incentives.

2. Empowerment of micro and small factories in the following areas:

-Obtaining the necessary financing to run and develop its business and exports in accordance with easy and competitive facilities and conditions for commercial banks, based mainly on the foundations of industrial financing.

- Developing its machines and production lines to develop a partnership with medium and large factories, as well as developing its export capabilities.

3. Increasing the effectiveness of benefiting from grants provided from the technical and financial support programs through integration and coordination between various national agencies and international organizations.

4- Assisting them in obtaining the necessary certificates and requirements for export.

Initiative (4): Qualifying the Jordanian labor needed for the industrial Sector

Strategic Objective: Developing the resources needed for the industrial sector

Short Description:

Launching a national program of apprenticeship for vocational training and technical education .

Developing the industrial vocational training & technical education system, including the development of the various components of the system from partnership mechanisms with the private sector, the development of educational materials, the dynamic development of teachers, in addition to enhancing the educational equipment and workshops , also the needed infrastructure for vocational training centers and industrial schools.

- Expected Outcome:**
1. Linking vocational training and technical education programs with the needs of the labor market in the industrial sector.
 2. Enhancing the partnership between public and private sectors in planning and developing the various components of the vocational training technical education systems.
 3. Improving the outcomes of the vocational training and technical education and training system.
 4. Exporting skilled and experienced workforce to strategic markets

Initiative (5): Reform and update government legislation and procedures towards a competitive, developed and attractive business environment for domestic and foreign industrial investments

Strategic Objective: Developing the business environment

Short Description: One of the main drawbacks to the legislative environment in Jordan is the inflation of the legislative bloc in the state due to the accumulation of old legislation and the repetition of legislative amendments, which leads to confusion of application and creates a conflict in the texts and provisions of laws, especially economic ones. Whether it is between different legislation, or a conflict of powers between different government agencies

Expected Outcome:

Increase the competitiveness of the various national economic sectors by ensuring coordination and integration among the gov. institutions in common areas that constitute opportunities for development.

Restructuring government procedures, which hinder investors in various ministries and relevant departments.

Initiative (6): Developing industrial exports

Strategic Objective: Increasing exports and expanding through other export markets

Short Description:

1. Preparing a national matrix that defines priorities in terms of export markets and products.
2. Organizing technical and financial support programs dedicated for the development of the Jordanian exports to countries with which Jordan has free trade agreements and in cooperation with donor organizations and agencies from countries with which free trade agreements have been signed, in addition to participation of external experts with specialized sectorial experience in the target export markets, covering the stages of developing export readiness, Preparing and implementing an export plan and participating in promotional activities in order to achieve an actual positive impact on export performance.
3. Establishing Jordanian commercial offices in selected export markets based on the national matrix, with the aim of providing services to introduce export market trends and export opportunities, in addition to linking and finding trading partners who import the selected Jordanian products.
4. Assisting small and medium enterprises in obtaining certificates and export requirements.

Expected Outcome:

1. Utilizing the opportunities offered from the free trade agreements with which Jordan is associated.
2. Unifying agencies, grant programs, technical and financial support, and activities based on the priorities determined by the national matrix.
3. Developing export services to Jordanian exporters in market research to introduce them to trends and export opportunities, in addition to linking and finding trading partners who import their products.
4. Increasing export readiness of the enterprises, especially the small and medium enterprises.

7. General Recommendations

- Run the legislative guillotine to remove inconsistencies between the various legislations, which leads to reducing the number of legislations regulating the investment environment, defining and unifying the responsibilities between the various reference bodies.
- Activating legislation that contributes to solving industrial investment obstacles, such as but not limited to; the Security of Rights in Movable Properties to facilitate companies' access to credit, and the law on control and inspection of economic activities.
- Developing a legal framework to define small and micro industries and give them Customized incentives in the field of financial and tax aspects.
- Developing a results-oriented industrial policy and a detailed implementation plan at the sub-industrial sector level, (The necessary allocations should be allocated and approved in parallel with the approval of the policy).
- Developing industrial competitiveness by encouraging high added value industrial investments that enhance competitiveness by increasing the local component and developing interconnections between various industries in addition to encouraging competitiveness based on factors of creativity, technology, and scientific research, developing quality, and reducing production costs.
- Enhancing the capabilities and resources needed for the industrial sector in terms of qualified labor and the necessary financing, in addition to establishing sectoral technology centers to provide an integrated package of specialized technical services.
- Increasing the share of the local industry in the Jordanian market and building a positive stereotype regarding the Jordanian products, by increasing the share of the local component in government bids, procurement, and contracting projects.
- Directing technical support programs to raise the competitiveness of industrial companies interested in exporting, especially in the areas of product quality standards, networking, and opening marketing channels, emphasizing the importance of increasing export readiness through obtaining conformity certificates, which are a major obstacle to access to European and American markets.
- Activating export credit programs to ensure greater access especially to African and Latin American markets.
- Launching a return export burdens program, that aims to provide financial support that contributes to developing the export capabilities of local industries, including the shipping costs.



منتدى الاستراتيجيات الأردني
JORDAN STRATEGY FORUM

www.jsf.org

www.jsf.org  /JordanStrategyForumJSF  @JSFJordan