



The Textiles Sector in Jordan: How Can Jordan Maximize the Benefits from, and Increase Employment in the Sector?

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منتدى الاستراتيجيات الأردني
JORDAN STRATEGY FORUM



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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 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.



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@JSFJordan



/JordanStrategyForumJSF



Jordan Strategy Forum

Amman, Jordan



T: +962 6 566 6476



F: +962 6 566 6376



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1. Introduction

For many years, the deficit in Jordan's trade balance has been the Achilles' heel of the economy. Due to a lack of natural resources, and the relatively low industrial capacity, Jordan has always been dependent on imports. Indeed, since 1964, the country has never realized a surplus in its trading balance.

Since the 1990s, the textiles sector has been one of Jordan's most important exporting industries, and a home to over thirty-two international brands. Following the establishment of the Qualified Industrial Zones (QIZs) and the Jordan-US Free Trade Agreement, gross output of the sector has been mainly dependent on the manufacturing of wearing apparel.

Over time, and due to rising demand, the sector has increased its number of employees, including a large number of Jordanian female workers. The sector has also established the so-called "Satellite Units" (i.e. branch facilities and offices in different localities) to increase production, while simultaneously ensuring social inclusion of the local communities, where the units are located.

After years of effort and collaboration with the government and some external entities, the sector has managed to place the "Made in Jordan" label on the "Ethical Sourcing" map, whereby buyers are assured that the production of the final output is made in a healthy work environment, and compliant to the international standards set by the International Labor Organization (ILO).

In 2020, COVID-19 has imposed some unprecedented challenges to the Jordanian economy at large, as well as to the textiles sector. These challenges forced the industry to decrease the number of its overall employees, while others had no choice, but to shut down their operations.

The textiles sector proved to be resilient against the external economic shocks that Jordan has been exposed to over time. From the Iraqi War, to the Great Recession, going on to the refugee crisis and the truncation of the Egyptian gas lines. Throughout these shocks, national exports from textiles sector maintained an upward trajectory, to a large extent. The sector is amongst the largest industries that have taken advantage of the wide array of the Free Trade Agreements.

Within the context of the challenges that have arisen, due to the COVID-19 pandemic, the textiles sector should establish a new partnership with the government to increase the ease of doing business, and policy predictability, to promote inclusive and sustainable economic growth.

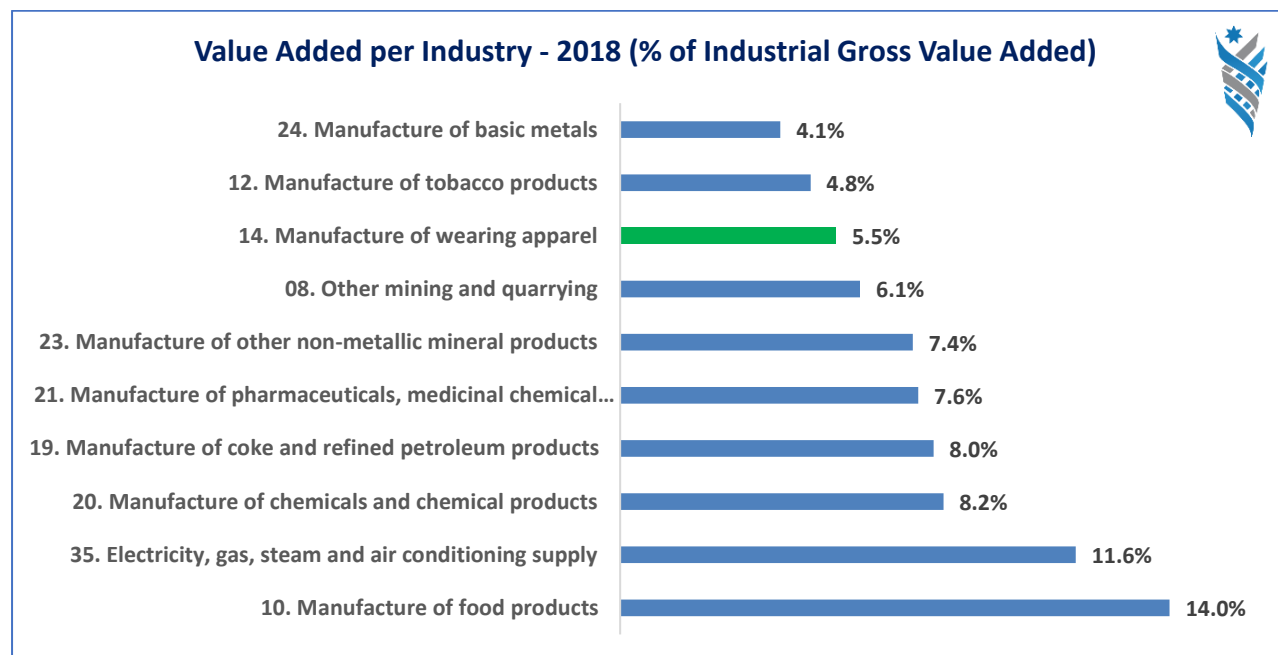
The purpose of this Policy Brief, issued by the Jordan Strategy Forum (JSF), is to explore the contributions of the textiles sector to Jordan's national economy and labor market, challenges faced by the sector, and the potential opportunities to promote the sector by attracting new investors and / or allowing existing investors to expand their operations.

2. Economic Contributions and Challenges

Below, we outline a myriad of contributions that emanate from the textiles sector. In addition, we raise some challenges facing the sector.

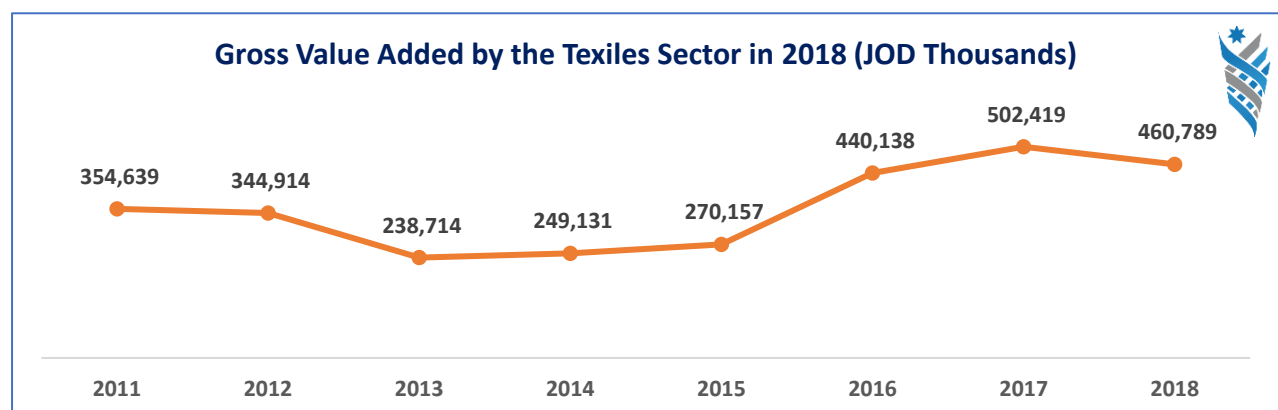
Gross Value Added

In 2018, the textiles industry contributed to approximately 7.74% of the total Gross Value Added (GVA) of the industrial Sector (World Bank, 2020). However, while the manufacturing of wearing apparel by itself constituted 5.5% of the Industrial GVA, the manufacture of textiles and leather products constituted 0.6% and 0.1% of the industrial GVA respectively (DOS, 2019).

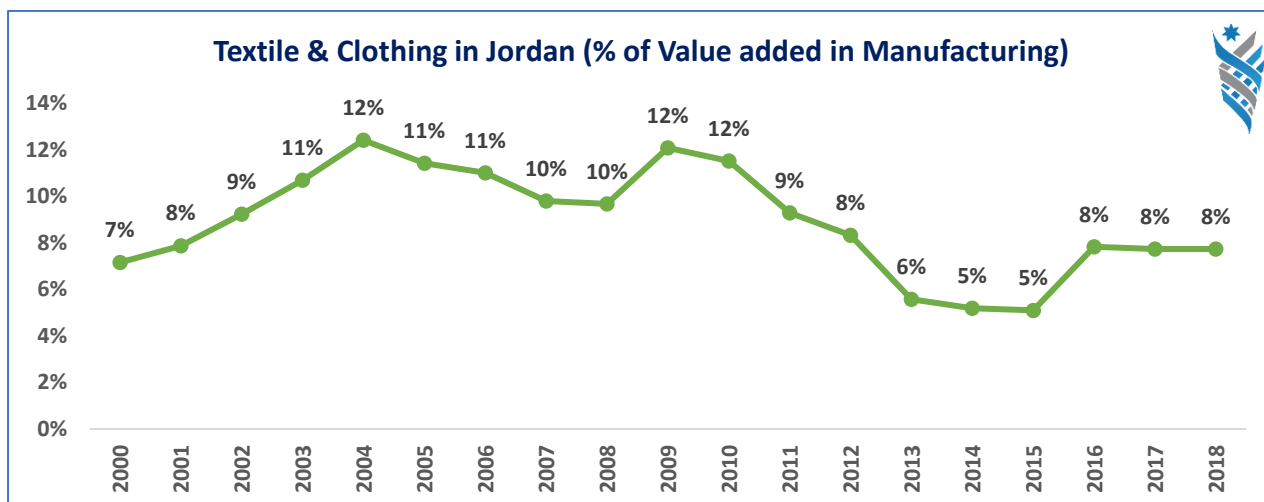


Source: Economic Surveys, Department of Statistics, 2018

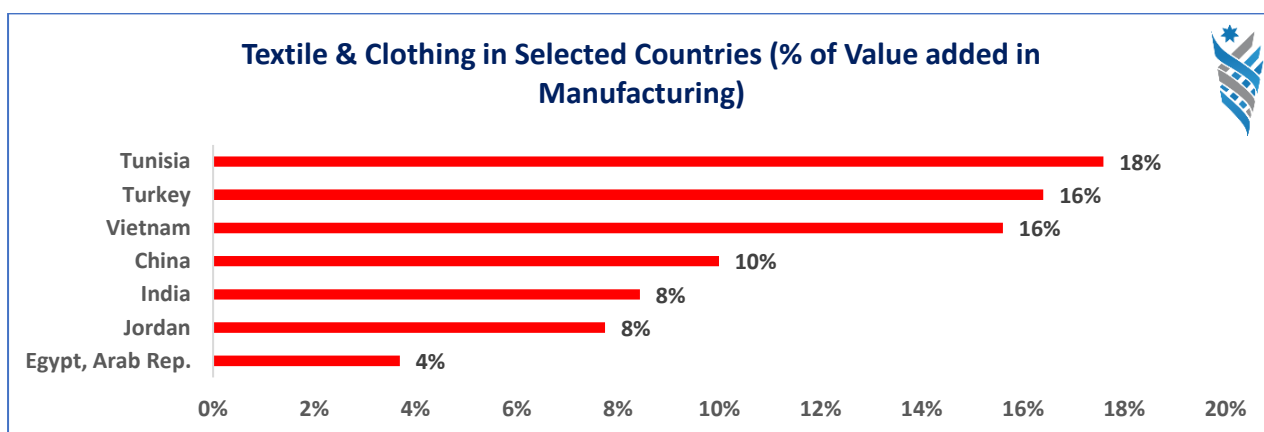
The domestic value added of the textiles industry was last estimated in 2011 at 36.9% which is compliant to the Jordan-US Free Trade Agreement. However, since 2011, the sector has experienced several fluctuations due external shocks including the increase of energy costs, along with bans on few imports from Jordan's textile sector until 2016. Therefore, it is quite necessary to re-evaluate the sector's domestic value added in order to gauge the sector's true contribution to the Jordanian economy.



Source: Economic Surveys, Department of Statistics, 2018



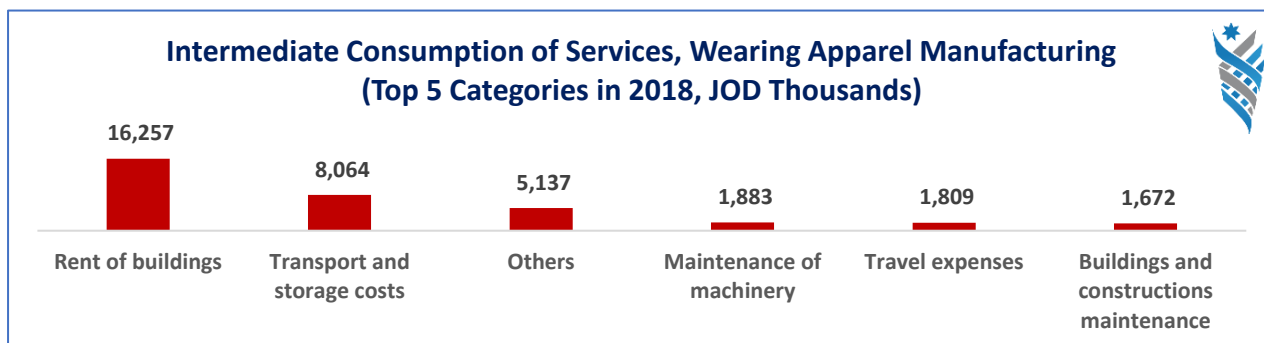
Source: World Bank Data, 2020



Source: World Bank Data, 2020

Inter-Sectorial Contribution

In 2018, the “manufacture of wearing apparel” industry had the 4th highest consumption in terms of intermediate services out of the 29 industries in Jordan, and the 5th highest intermediate consumption of goods used in production. It is also worth noting that the raw materials needed for production are mostly imported, and this fact exacerbates Jordan’s trade deficit, and increases the costs of production due to shipping costs. These observations imply that the sector faces greater difficulties than other industries in generating value on its products.



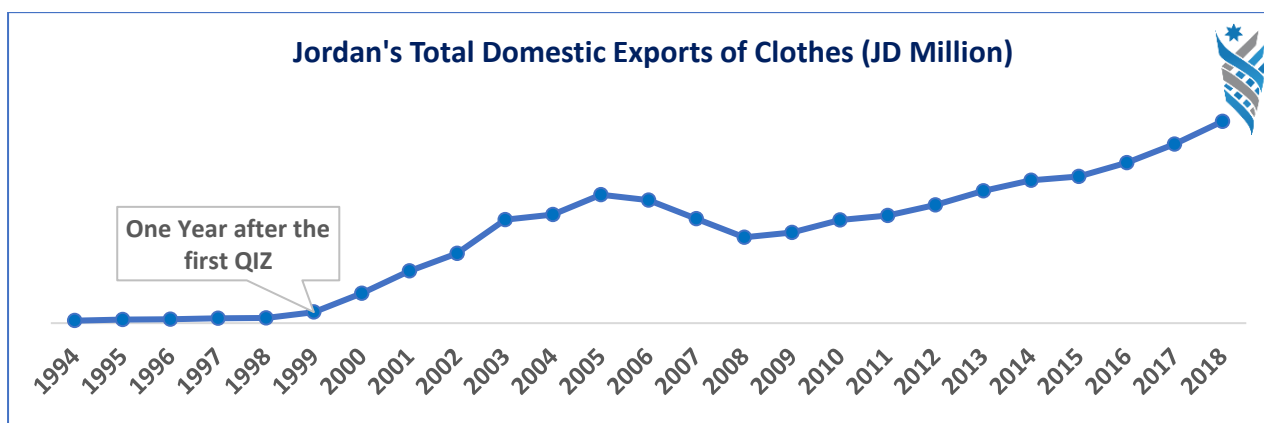
Source: Economic Surveys, Department of Statistics, 2018



Source: Economic Surveys, Department of Statistics, 2018

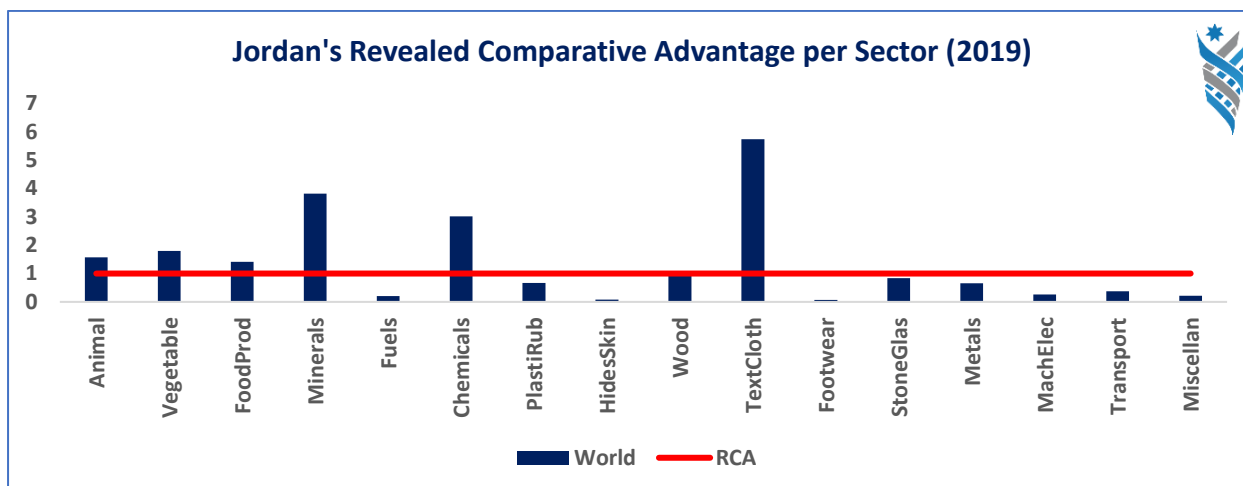
Exports: History and Future Potential

Since the 1990s, the textiles industry has been one of the top 5 exporting sectors in Jordan. The industry is among the few sectors that have taken advantage of the Qualifying industrial Zones, the Jordan-US Free Trade Agreement, Greater Arab Free Trade Agreement, EuroMed Agreement, and the Simplified Rules of Origin. The sector remains resilient against external shocks and maintains an increasing trajectory in national exports.



Source: Central Bank of Jordan, 2019

The strong performance of the sector made Jordan a global competitor in the textiles industry, which is a testimony to the sector's efforts to comply with international standards in production, operations, and labor conditions.



Source: World Integrated Trade Solution, World Bank, 2019

Given the presence of the afore-mentioned trade agreements, it is evident that exports of the textiles sector have been concentrated in the North American market. In other words, extra effort must be dedicated to take advantage of the existing FTAs and hence, increase Jordan's share in the European and Arab countries' markets. In addition, the fact that African countries, (Arab and Non-Arab), Eastern European countries, and Scandinavian countries have closer proximity to Jordan than the US makes them legitimate candidates for new potential markets.

Top 5 Trade Partners for the Textiles Sector in 2019 (% of total textile exports)

Region	Export Value (JD)	%Total
North American Countries	1,293,714,828	91%
Western Europe Countries	40,424,710	3%
Asian Non-Arab Countries	37,568,653	3%
Asian Arab Countries	26,471,115	2%
Middle American Countries	9,973,775	1%

Source: External Trade, Department of Statistics, 2019

Bottom 6 Trade Partners for the Textiles Sector in 2019 (% of total textile exports)

Region	Export Value (JD)	%Total
African Arab Countries	7,382,290	1%
South American Countries	4,171,421	0.3%
Oceanian Countries	3,109,675	0.2%
African Non-Arab Countries	320,877	0.0%
Eastern Europe Countries	268,418	0.0%
Scandinavian Countries	16,069	0.0%

Source: External Trade, Department of Statistics, 2019

The Jordanian textiles sector has been facing difficulties in penetrating the European market at a high level for several reasons, the core of which lies in the demand of customers. They prefer to import brands from North Africa that has a competitive edge in transportation costs. Moreover, the cost of unit price in Jordan is rather high in comparison to other exporters of the sector, posing a serious challenge to Jordanian companies that wish to expand to countries with no free trade agreements. Therefore, further enablers for the textiles sector may be

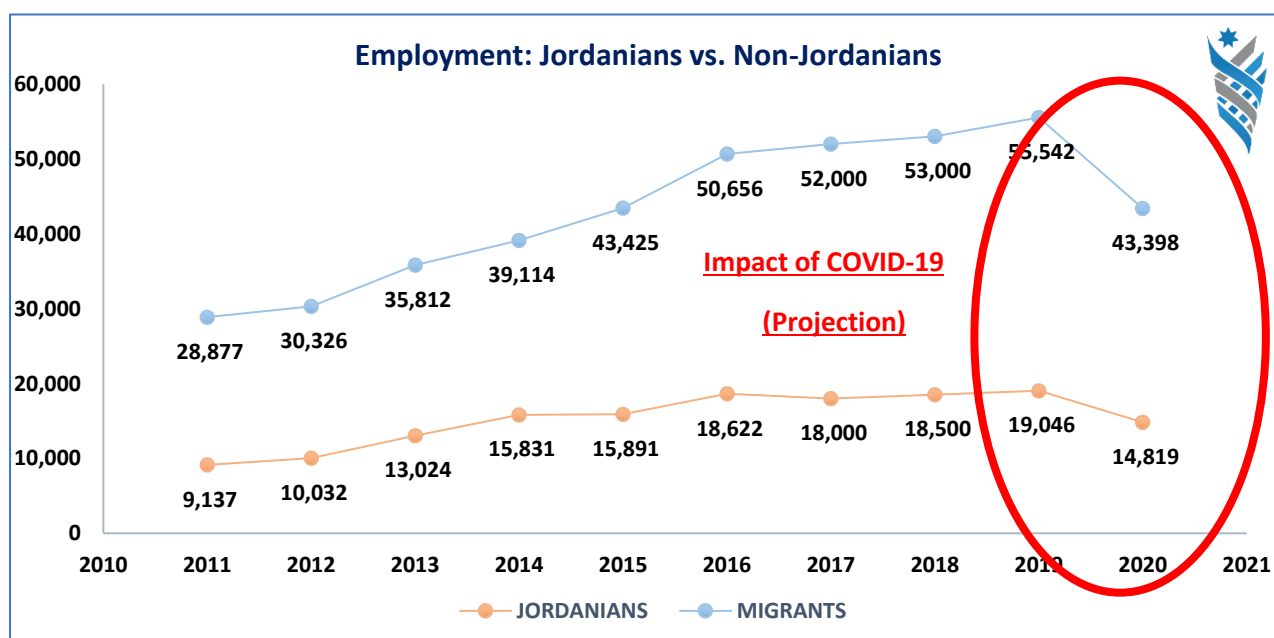
necessary, if Jordan wishes to capitalize on its global comparative advantage in the sector by diversifying the trade share in multiple regions.

Key Apparel Sourcing Countries – Unit Price (\$ per SME)- <i>US Dept. of Commerce</i>				
Country	2017	2018	2019	2020
World	2.96	2.98	3.03	2.79
China	2.38	2.35	2.25	1.8
Vietnam	3.21	3.28	3.43	3.35
Bangladesh	2.74	2.79	2.95	2.81
Indonesia	3.71	3.81	3.9	3.84
India	3.46	3.5	3.63	3.38
Cambodia	2.31	2.39	2.57	2.52
Jordan	5.75	5.77	5.37	5.15

Employment

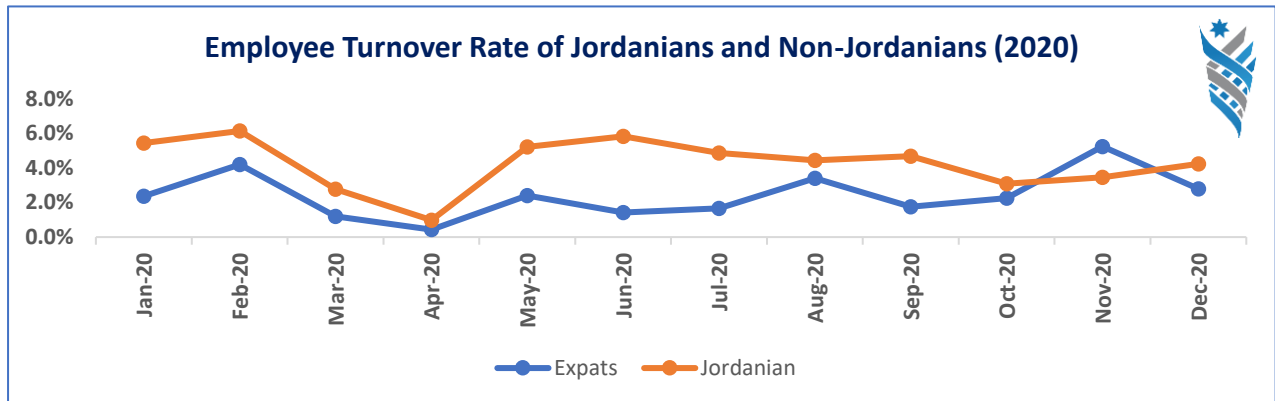
While the ratio of Jordanians to non-Jordanians is compliant to the multiple Free Trade Agreements, the number of Jordanians working in textiles has been rather low. While increasing since 2011, the number of non-Jordanians has been increasing at a faster rate. By the end of 2019, Jordanians working in the textiles sector constituted 1.4% of the total employment of Jordanians, and 2.3% of total Jordanians working in the private sector.

Due to COVID-19, the drop in employment seems to have affected non-Jordanians and Jordanians alike (22%). Nevertheless, the number of impacted non-Jordanians (12,144) is almost 3 times the number of Jordanians.



Source: Jordan Garments, Accessories & Textiles Exporter's Association, 2020

According to Jordan Garments, Accessories & Textiles Exporter's Association (JGATE), the textiles industry has committed to increase the ratio of Jordanians to non-Jordanians by 30%. In terms of gender, females constitute approximately 73% of all workers. In a sample of more than 23,000 employees, the ratio of female to male Jordanians is approximately 7.13 to 1.



Source: Jordan Garments, Accessories & Textiles Exporter's Association, 2020

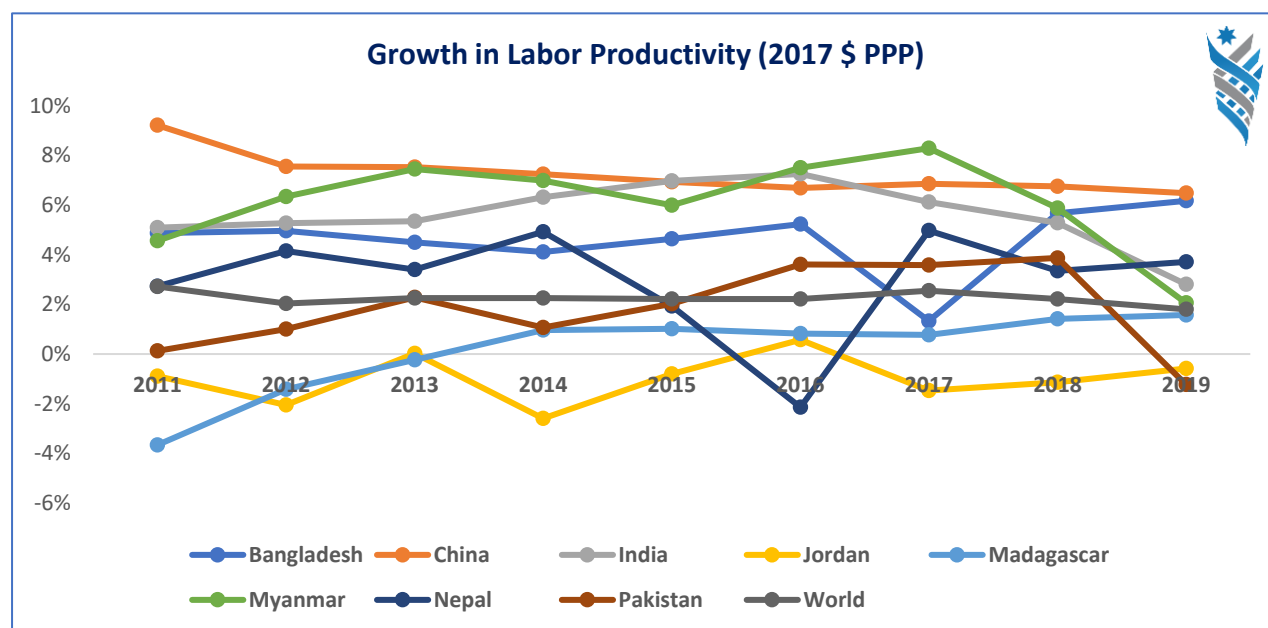
Using the same rate, it can be estimated that the number of female Jordanians was 16,374 by in 2019. This number represents around 13.6% of the total employed female Jordanians in the private sector, and 6.6% of the total employed female Jordanians in the labor force. Furthermore, the longevity of employees has been a serious concern for investors in the sector. In fact, the attrition rate of Jordanian employees has been significantly higher in the past years than that of non-Jordanians.

Labor Productivity

The presence of a high number of non-Jordanians poses a large financial burden on the sector. In 2018, residence fees and work permits constituted about 45% of the sectors total indirect taxes (JOD 14.3 Million) and this is in addition to the previously mentioned JOD 16.3 Million intermediate cost. The sum of these categories is equivalent to approximately 6.5% of the Value Added of the industry in 2018, and can certainly be reduced if the sector is enabled to secure more Jordanian workers in the long run.

As mentioned earlier, the migrant workforce constitutes 74.5% of the total workforce of the textile industry. Despite the fact that the sector has committed to increase the portion of Jordanian workers, it has been facing challenges in doing so. The income perspective is more favorable to foreign labor. From the investor's perspective, the productivity of the workforce is also a fundamental factor in employment considerations.

Labor productivity can be estimated by considering the growth in GDP per employed labor. According to the World Bank data, among all the nationalities of the workforce in the textiles industry, Jordan is the only country that is experiencing a decline in productivity growth consistently over the last 10 years. This is indeed supported by the reported figures above. While this measure does not represent the skillsets or the efforts of the Jordanian labor, it can certainly be a deterrent for new foreign investors, and a concern for currently existing local and foreign investors in the sector.

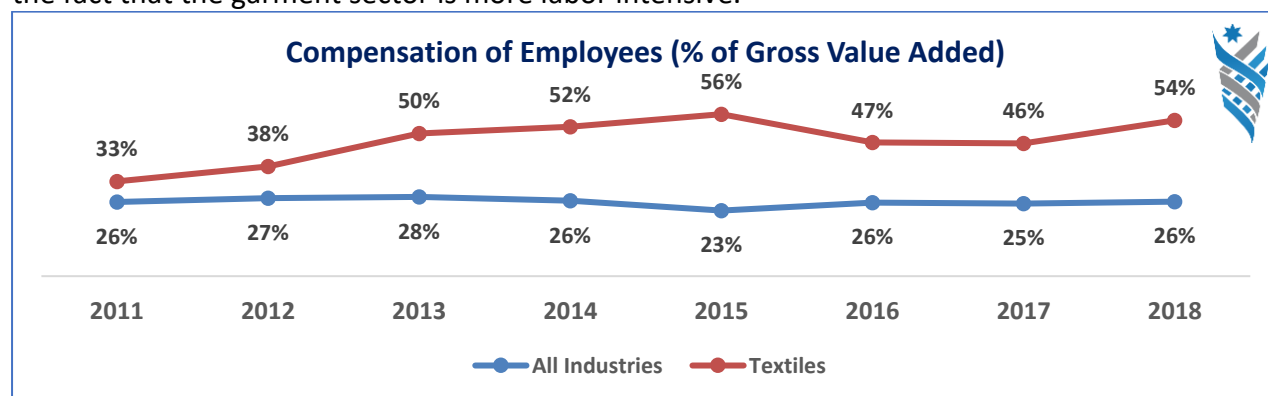


Source: World Bank, 2020

For a specific sector, labor productivity can be estimated by value of goods and services produced by the industry per input of man hour. For the textiles industry in Jordan, from a sample of approximately 23,000 employees, it was evident that labor productivity of expatriates and Jordanians are close to 80% and 65%, respectively. According to several studies in Bangladesh and India, the standard expected labor efficiency is close to 80%.

Wages

Unlike the overall industrial sector, compensation of employees in the textiles industry has been increasing with respect to their industry value added in the last 10 years. This is due to the fact that the garment sector is more labor intensive.

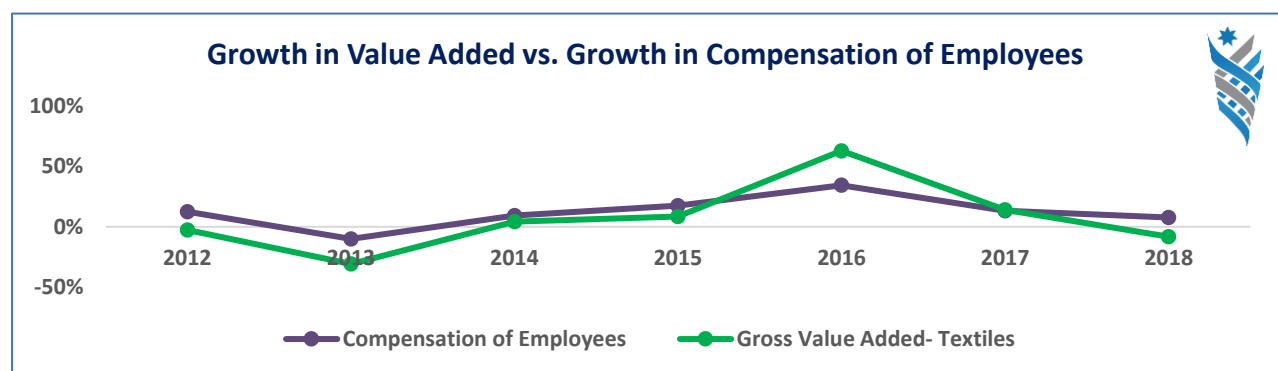


Source: Economic Surveys, Department of Statistics, 2018

The minimum wage for Jordanians is set at JD 220 for Jordanians, as per the collective bargaining agreement signed in November of 2019. Nevertheless, Jordanians are paid, on average, approximately JD 270 and this amount excludes the additional JD 50 for transportation, accommodation, as well as meals and other benefits. Given the number of Jordanians who work in the sector in 2019, it can be estimated that JD 64.8 Million are paid in wages and benefits per annum.

As far as the non-Jordanian employees are concerned, they are paid, on average, approximately JOD 250 per month. Just like Jordanians, non-Jordanians are granted compensation for over-time. Taking purchasing power parity into consideration, the paid salary to non-Jordanians in the textiles sector (with the exception of China and Sri Lanka) is deemed attractive relative to Jordanians since it is within high proximity to the Gross National Income of their respective countries.

Irrespective of nationality, recent years have shown that the growth in the wage bill of the textiles sector has a multiplier effect on the gross value added by the sector itself. In other words, the change in wages results in an even larger change in the GVA of the sector.



Source: Economic Surveys, Department of Statistics, 2018

It is clear that there are benefits that emanate from the garments sector in Jordan. These benefits include export promotion, jobs creation, use of utilities and facilities and buildings, and knowledge transfer. In addition, the fact that the industry contributes towards the making of the brand “made in Jordan” global, this can be used to further exports, either from the same sector, or other products that can take advantage of the FTA agreement between Jordan and the USA.

Satellite Units

The locations of the Special Economic Zones (SEZ), where the garment factories are located, pose a logistical challenge for Jordanians who come from the different governorates for work in the industry. The challenge imposes further compensation for transportation costs on employees. To remedy the issue, the government and the textiles sector established the so-called “Satellite Units”: Small-scale garment factories placed outside the SEZ’s and in multiple governorates. This decentralized approach allows the textile industry to employ more Jordanians.

In 2017, the government provided the following incentives for the establishment of satellite units (Better Work, 2019; JGATE, 2018):

1. Three- year rent exemptions.
2. Land for construction.
3. Subsidies of salaries for Jordanians for the first year of employment (JOD 110).
4. Subsidies on transportation costs (JOD 25).
5. Social security contribution (JOD 25).
6. Infrastructure services such as electricity and water (discontinued due to lack of funds).
7. Other incentives that are granted to the investor in Industrial and Development Zones

By 2020, twenty-seven (27) satellite units have been established, and these units employ 6,269 Jordanians, and 85.5% of these individuals are females. The hiring process is mainly based on social inclusion, such that the job applicant does not need prior experience to join the workforce. In fact, employees of all nationalities are subjected to a two-month training to get equipped with the necessary technical and soft skills for a more efficient manual labor.

In their current format, the Satellite Units are considered to be part of Corporate Social Responsibility rather than a profitable business model: While the premise of the satellite units is the promotion of inclusive growth, since 2016, they have been either breaking-even or ending their fiscal years with losses. This lack of profitability can be partially attributed to workforce-related challenges, including absenteeism and workforce turnover. By June 2018, for example, while employee turnover ratio in the satellite units reached approximately 4%, absenteeism reached approximately 6.6%. The amalgamation of both of these phenomena can be detrimental to operations in general, and to the cost of hiring and re-training in particular. Nevertheless, the improvements in both absenteeism and retention between January and June of 2018 led to an increase in the average production output and the level of quality (i.e., percentage of products passing through quality checks).

The opportunity offered by the satellite units is rather substantial considering the facilitated engagement in the labor force for males and females. The establishment of these units in the under-served communities is an exceptional model that reduces economic inequality, increases female labor force participation, and acts as a stepping stone for urban development of the rural areas.

Impact of COVID-19 on the Textiles Sector:

The main highlights of the COVID-19 Pandemic on the textiles sector include (JGATE, 2020):

1. Some companies are forced to shut down.
2. Some factories are closed, and the company was completely liquidated.
3. Shutting down production lines.
4. Moving production to other countries.
5. The garment sector was the first sector to start operations after the lockdown.
6. The garment sector supported the need of the government of PPE (i.e., masks & gowns).
7. The garment sector was the only sector that maintained employment for all Jordanians, even when they stayed at home with full payment of salaries.

8. All companies have been forced to downsize their operations.
9. Reduction in exports.
10. Reduction in Jordanian employment.
11. Reduction in migrant employment.
12. Reduction in value added.
13. Reduction in impact on the economy.

By the end of September 2020, the decrease in national exports from the textiles sector reached 13.2% in comparison with the same period in 2019. The gravity of this decrease is rather large: In hypothetical terms, holding other things constant, the drop in national exports from this sector can be translated to a drop of approximately 0.51% of the 2019 GDP. Countries like Egypt, Bangladesh and Vietnam (i.e. Jordan's main competitors) have provided their respective textiles sectors with a COVID-19 relief package, putting Jordanian exports at a deeper threat. Therefore, given Jordan's limited fiscal space, and the lack of capability for further bailouts and fiscal stimuli, the government should collaborate with the relevant stakeholders in the textiles industry to adopt a strategy that maximizes the industry's output, while leaving the sector's contribution to the industrial Gross Value Added intact.

3. Jordan Strategy Forum Recommendations

Given the aforementioned observations, the JSF recommends the following:

1. Together with the relevant stakeholders in the textiles sector, the government should construct a long-term strategy to ensure policy predictability that directly impacts investor confidence and investing appetite. The strategy should particularly address the sudden increase in indirect / hidden costs incurred in the sector, such as the increase in medical fees, penalty fees on import / export declarations, and others.
2. Given that the textiles sector has a high demand for intermediate goods and services, the stakeholders in the sector should collaborate with the Ministry of Industry, Trade & Supply to activate the role of small and medium-sized enterprises, particularly the enterprises that operate in the manufacturing areas (whether the Free Zones or the locations of the satellite units). The collaboration should look into promoting intersectoral collaboration with a primary focus on intermediate sectors supporting the production of textile products.
3. The textiles sector should conduct a detailed study to analyze the domestic value added of the sector to identify the areas where the government can incentivize the sector in a manner that results in increasing the impact on Jordanian welfare.
4. To increase the share of Jordanian employees in the sector, and given the sector's success in Jordanian female employment, the government should propose a legal framework, in collaboration with the sector's stakeholders, to ensure lower rates of attrition of Jordanians, and increasing the focus on employing Jordanians for middle management positions.
5. Given the labor-intensive nature of the sector, along with the high percentage of multi-skilled sewers, the sector should collaborate with the Ministry of Labor to post job opportunities on the Ministry's online platform "Sajjil". The sector should also continue to collaborate with technical training entities to obtain the maximum number of Jordanians with the least technical gaps.
6. By increasing the portion of Jordanian labor in the sector, extra savings can be generated and allocated to either increasing wages / incentives, or to increase production to penetrate new international markets.
7. The sector should collaborate with the government to construct a model in which Satellite Units can become more profitable, while addressing the issue of productivity and absenteeism by incorporating global best practices that reduce/eliminate unhealthy work environment factors.
8. The industry (textiles) should keep observing progress made in other countries to maintain the competitiveness of the sector vis-a-vis other countries, with a higher focus on the cost of production per unit.
9. Changing the perspective that this is a "migrant" sector that does not contribute to the national economy. Promoting the positive outlook can be done through promoting the local value added, introducing knowledge transfer mechanisms, and analyzing international markets to which Jordan can export aside from the US market. It is also quite essential to build and sustain long term partnerships with potential investors and trade partners.



منتدى الاستراتيجيات الأردني
JORDAN STRATEGY FORUM

فاكس: +٩٦٢ ٦٥١١ ٦٣٧٦

هاتف: +٩٦٢ ٦٥١١ ٦٤٧٦

info@jsf.org

www.jsf.org



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