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INDUSTRIAL JOINT VENTURES IN JORDAN

by

Nasim F. Barham

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1. Introduction

My paper deals mainly with Arab – Jordanian Joint Ventures and Arab wholly owned industrial enterprises in Jordan and based on field work conducted in the last two years (1998 – 2000). The field work included standardized questionnaire and an open interview with 91 investors.

The study concentrates on the evaluation of the Arab Direct Investments in the industrial sector in Jordan. The research has been undertaken from the point of view of " Development Discourse".

Due to the modernization theory, one of the dominant grand theories still acknowledged as a way to development, transfer of technology would enable the developing countries to catch up with the West. Foreign direct investments (FDI) have been considered as one of the main mechanisms for transfer of technology.

Research directed to joint ventures could includes different issues such as:

- Joint venture is a mean used by two or more partners to over come some weaknesses in the established or would be established enterprise. These weaknesses could be in the fields of technology, markets, management, finance, R&D, human resources and alike. In many cases more than factor could stands behind a joint venture.

- Partners lack to entry advantages which enable them (individually) to overcome the so-called "spatial barriers" of other countries turn to enter a joint venture (Hayter, 1998:271).

- Joint venture could be seen as an advanced stage of foreign direct investment in which risk has been eliminated or at least mitigated. This stage based, inter alia, on trust (Haas, 1998:54 ;Lynch, 1990:105).

Joint ventures were very controversial by most of the developing countries during the period 1950 - 1980. It was considered as a mean of imperialism and hegemony. Therefore acceptance of joint ventures is an essential factor to attract investment in a given country.

Nowadays FDI have been accepted and even welcomed in most Developing Countries, especially after the end of the Cold War and the end of ideological dispute between the two blocks, for the following reasons:

- Reduction of financial aid to the developing countries. This aid consists of less than 25 % of capital flows to the Third World.

- Shrinking of loans given to the developing countries after the Third World debt crises in the eighties.

- Instability and risk of portfolio investments.

- Collapse of the main development theories applied in the Third World.

Joint Venturing represents a particular strategy that emerges as response to economic, political and cultural factors. The compatibility of the mentioned factors is essential.

On enterprise level, the maturity of the technology of the products is of great importance.

2. Case study: Industrial joint venture in Jordan

The incentives given to foreign investments, advanced legal framework, well developed infrastructure and political stability attracted the foreign investors to choose Jordan as a location for their industrial enterprises. Enterprises with foreign and Arab partners numbered at the end of 2000 about 277 with a total investment of JD 383.7 million of which 62.6% are foreign capital.[1]

Most of enterprises with foreign investment are joint ventures (72.9 %) and the remainder is wholly owned either by Arabs or foreigners. Most enterprises in both types are medium and large.

Furthermore, foreigners and Arabs posses shares in 90 of the Jordanian shareholding companies working in the field of industry. Their share has reached at the end of 1998 about 88.6 million JD or 11.6 % of the whole value (10.3% for Arabs and 1.3 % for foreigners).

The origin country of the partners in joint ventures determines the ability to transfer advanced technology or innovation to the host countries. Joint ventures could bring Partners together from the following areas:

Core and periphery
Core – core
Periphery – periphery

In our case, only the first type leads to extension of advanced corporate model in term of technology and management.

By examining the origin of the foreign partners involved in the industrial joint ventures in Jordan, following remarks could be underlined:

- The share of enterprises with foreigners as partners is limited. It composes only 13.1% of all enterprises in the country (Table 1). Furthermore, most of the foreign partners are either Jordanians with foreign nationality or owners of a

[1] * The Jordanian share in the Jordanian-Israeli joint ventures is not included.

slight share of the enterprise and involved indirectly in the business. Jordanians seek such partnership for marketing promotion (prestigious reasons).

- Some foreign partners take part in joint venture with old machines.
- Very few partners transfer know how to the Jordanian enterprises.

Table 1. Partnership of industrial enterprises by nationality

Nationality	No of Enterprises	%
Jordanian – Arabs	122	46.6
Jordanian-Foreigners	35	13.3
Arabs – Foreigners	13	5.0
Arabs-Foreign. -Jordanian	12	4.6
Foreigners – Foreigners	12	4.6
Arabs – Arabs	8	3.0
Arabs (wholly)	44	16.8
Foreigners (wholly)	16	6.1
Total	262*	100

Source: Ministry of Trade & Industry, Chamber of Industry, Investment Corporation Board and Industrial Estate Corporation (different reports).
* 15 enterprises are not identified

3. Arab Investments

Jordan, as a part of the "insatiable" Middle East, was able since his foundation in the twenties of the last century to attract mainly Arab investors. More than 76.7 % of enterprises with foreign investments and 64.6 % of the invested capital are wholly or partially involved with Arabs.

It is worthy to mention that 7 Arab nationalities compose 91 % of the Jordanian – Arab enterprises. Most of them originate from levant states (Syria, Lebanon and Palestine) and Iraq. In case of wholly owned enterprises, business people from Iraq and Syria build the majority (70.4%). Egyptians, Saudis and Kuwaitis are less important partners (Table 2).

Time factor could be applied to determine the period in which Jordan become relevant location for Arab investors. In the same way time factor could be applied to examine the effectiveness of the Jordanian legal framework, regulations and offered investment incentives.

Syrian investments in Jordan belongs to the oldest ones. They started in the late sixties, halted in the seventies and gained momentum during the eighties reaching their peak in the nineties. Most Lebanese investments centered in the seventies and eighties as a consequence of the civil war. Iraqi investments in Jordan mounted during the nineties, after the II Gulf War. The Gulf War was the starting point for the Palestinian (who do not possess the Jordanian Nationality) investment. Most of them were employed in the Gulf Region and forced to leave during the war.

Table 2. Industrial FDI in Jordan by Nationality (2000)

Nation-ality	Joint Venture enterprises				Wholly Owned enterprises			
	No	%	Capital in million JD	%	No	%	Capital in million JD	%
Syrian	29	23.8	14.5	15.1	16	34.1	1.1	2.2
Iraqi	28	23.0	18.0	18.7	15	36.4	6.0	12.7
Lebanese	21	17.2	11.9	12.3	1	2.3	0.1	0.1
Egyptians	12	9.8	0.5	0.5	9	20.5	0.6	1.3
Palestin.	10	8.2	10.7	11.1	2	4.5	0.1	0.2
Saudis	7	5.7	8.7	9.0	-	--	- -	--
Kuwaitis	4	3.3	3.5	3.6	-	--	- -	--
Others	11	9.0	28.6	29.7	1	2.2	40.0	83.5
Total	122	100	96.4	100	44	100	47.9	100

Source: Ministry of Trade & Industry, Chamber of Industry, Investment Corporation Board and Industrial Estate Corporation (different reports).

This means that Jordan act as a refuge country in the region in comparison to neighboring countries. It seems that this advantage is not considered. Concentration on geo-politic instead of geo-economic factors could eliminate the situation Jordan enjoys. In rent seeking countries, such as Jordan, geo-politic factors are essential and have priority. Therefor, main Arab investments depend on the stability of their origin countries and not on the incentives offered in Jordan .This is the case faces Lebanese, Palestinians and Iraqi businesses.

Israeli Investments in the industrial sector of Jordan vary from those of Arabs. After the peace treaty between both countries, Israeli investors enabled to have access -for the first time – to Jordan. Relative cheep labour in Jordan and the proximity attracted Israeli labour- intensive industries, such as textile and clothing industries, to settle in Jordan. Monthly wages paid in Jordan are about 10% of that in Israel. Jordan offered through its cheap labour a golden chance for the Israeli business people to overcome the high competition faces clothing industry on international markets (Mansour,1997:231).

According to investment regulations in Jordan prior 1995, foreign investors were forced to enter joint ventures with Jordanians. After the "Investment Promotion Law of 1995", foreign investors may own industrial enterprise in full or in part. Non-Jordanians are conditioned *only* to invest at least JD 50,000. These regulations encouraged Non-Jordanians to own enterprises entirely which affected the growth of joint ventures negatively. It could means that Jordanian partnership is not necessarily required. Indeed 37 % of foreign wholly owned enterprises have been established after 1995. On the contrary, just 12.8 % of all joint ventures with Syrians, Lebanese ands Iraqi partners followed the year 1995. Most of them were with Iraqi partners.

Joint ventures with partners from USA, Europe and Japan are seldom and compose about 5.5 %. Chemical and food industries are dominant. High tech industries which could transfer advanced technology are not available. Previous studies revealed that investments follow national growth rate and not willing to cause it. Jordan faces since

mid eighties an economic crises which weaken the investment opportunities from the developed countries.

4. Main findings

Most countries in the region try to invite investors by giving generous incentives ranging from enhancement of easy entry to large exemption of fees and income tax. Furthermore, cheap labour is still considered as comparative advantage to attract foreign investors. It is of great importance to mention that both factors are nowadays insufficient. They are offered worldwide. Therefore, main foreign investments concentrate in the advanced post –industrial countries despite the too high labour wages.

Moreover, many countries put more emphasize on the investment framework rather than on the human capital (software).

Jordan with its limited market and unskilled labours could not be a main destination for investors. This situation urged the government to act and to create " man- made conditions". The "Qualified Industrial Zone (QIZ)" in different locations (mainly in Al Hassan Industrial Estate in Irbid) which enhances the free export to US markets and the newly established "Aqaba Special Economic Zone (ASIZ)" are some examples. In this context, geo-political aspects should be considered. The QIZ is associated with Israel. Some Arab countries ,such as Iraq, Syria, Lebanon ...etc, opposes the normalization process with Israel and lower theit economic cooperation with Jordan. Iraqi market- oriented industry in Jordan suffer.

4.1. The why of investment in Jordan

Nevertheless, the unpredictable and unsettled regional disputes in the neighboring countries reflect the importance of the political stability of Jordan. Stability and location were, therefore the most relevant factors attracting investors to the kingdom. Other factors are highlighted in the following:

Why do investors choose Jordan?

• Political stability	37
• Geographical location	31
• Investment incentives	13
• Jordanian market	10
• Labour wages	09
• The Iraqi crisis	13
• Social relationship	10
• Lebanon crisis	03
• Climate	03
• Easy entry	03
• IQZ	02
• Others	04

4.2. Structure of Arab Investments

Arab investors differ in many ways:

- Saudi Arabs invest in large enterprises; Iraqis and Syrians in large ones w they own the whole plant and in small ones in case of partnership (Table

Table 4. The Average capital invested per enterprise by nationality

Nationality	Average invest. Capital
Saudi Arabs	4.792.857
Syrians	615.833
Lebanese	408.000
Iraqis	371.307

- 46 % of Arab partners are absentees, mainly Saudi Arabs and other Gu investors.. They attend the board meetings once or twice a year. Th communicate with the Jordanian managers in necessary cases. Iraqis an Lebanese are residents in Jordan and act utmost as general directors.

Investors from Arab Countries have the following in common:

- They invest in conventional industries with less opportunity to transfer know how (Table 5). They invest utmost in new machines (Jordanians tend to buy used ones).

Table 5

Kind of economic activity	
Food Manufacturing	17
Chemical Industries	13
Metals Industries	18
Textile and wearing	9
Plastic products	8
Tobacco Manufacturing	4
Wood industries	4
Non-metallic	3
Others	4
Services	*10*

- Capital deemed to be the most important factor in the partnership. Managerial roles are distributed according to capital share.
- Management is still hierarchic and labourers are neglected.

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5. The Jordanian partners

In a small economy with limited market, traditional society and lack for advanced technology, foreign investment coupled with managerial skills are highly needed. Moreover different factors could explain why do Jordanians look for partners. Following reason have been given by respondents in the study:

To grow	26
Achieve profitability	25
Need for experience	15
Need for technology	11
Need for capital	10
Need for new markets	7

Success of investors in a given country depends, to a great extend, on their ability to create business network. Jordan government set up various corporations, boards and institutions to launch such networks. Investment Promotion Board is one of the most relevant institutions established in 1995 after the shift from inward to outward oriented industrialization in Jordan. It is responsible for creating linkages between national and foreign companies.

The attempt to examine the role played by different institution in bringing partners together revealed that both formal and informal channels were used to reach joint ventures. These channels were:

How do partners meet?

Through chamber of trade and industry	23
Through family and friendship	21
Through working abroad	21
Political arrangements	10
Through fairs	04
Through conferences	01

Institutions involved in joint venture have been evaluated through partners as follow:
How Partners evaluate following institutions

Marketing:

Excellent	6	7.8 %
Very good	13	16.8%
Good	25	32.5%
Medium	16	20.8%
Poor	17	22.1%

Investment Promotion Board:

Excellent	11	13.2%
Very good	11	13.2%
Good	34	41.0%
Medium	11	13.2%
Poor	16	19.3%

Customs:

	Excellent	6	7.5%
	Very good	10	12.5%
	Good	21	26.2%
	Medium	18	22.5%
	Poor	25	31.2%

Licensing Institutions:

	Excellent	13	15.1%
	Very good	16	18.6%
	Good	43	50.0%
	Medium	8	9.3%
	Poor	6	7.0%

6. Performance of joint venture enterprises in Jordan

It is early to asses Jordan efforts to shift from inward to outward oriented industrialization and in the process. There are sufficient achievements but the road is still long.

One of the main obstacles of the Jordanian industry is the limited local market and the lack of competitive products on the international markets. This dilemma force the business people to limit the quantity of their products far behind the economic scale. Joint ventures in Jordan were also not able to achieve progress in this issue. The following table demonstrates this problem (Table 6):

Table 6. Real production to possible capacity

Category	Frequency	%
Less than 20 %	10	14.7
20 – 40 %	11	16.1
40 – 60 %	18	26.5
60 – 80 %	14	20.6
80 and over	15	22.1

Despite this problem, foreign investments in the industrial estates of Jordan reached 1997 about 261.4 million JD (31.8%) and employed 4100 people (26.3%.).

Conclusion:

It seems that the era of cheap labour as an attractive factor for joint venture is over. This is why the investments in the developing countries are decreasing. What is needed now could be summarized in the following:

- High developed inputs in term of goods and services

- Economic growth capacity. Investors utilize the economic growth and are not concerned in its realization.

- Jordan gives good incentives to the new investors and neglect the locals. By providing too much incentives, the losses could outweigh the gains. Furthermore, Jordan policy concentrate more and more on the framework of the investments but do not enhance their substance.

- Effective institutions. There is a big lack for belonging, efficiency and togetherness.

These conditions could be reached through:

- Improving the educational quality
- Applying industrial education
- Upgrading the vocational training
- Qualifying of managerial occupations

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