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JORDAN'S GARMENT AND TEXTILE SECTOR: CHANGES IN THE LIGHT OF PEACE AND OTHER REGIONAL AND INTERNATIONAL DEVELOPMENTS*

by

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I. Introduction

A. Background

World trade liberalization and regional change offer Jordan great potential for evolving a more dynamic pattern of economic growth and industrial exports. The challenge for the kingdom is to harness the opportunities provided by the system of trade and production which peace is introducing and which the European Partnership agreement and eventual accession to the World Trade Organization (WTO) would further accelerate.

In particular, industry, which has traditionally been a carrier of progress, is called upon to play its part in this process. And within Jordan's industry, garment and textile (G&T) manufacturing firms have been among the earliest and most dynamic Jordanian producers. Today, the G&T sector's approximately 1600 firms are increasingly looking at exporting as well as at competing with foreign products in Jordan's market.

In industrialization, the private sector has an obviously essential role, but it cannot meet the current challenges alone or exclusively within the local market. A more proactive part has to be played by the state. Market reforms and trade liberalization have been at the heart of the Jordanian economic stabilization and adjustment programs supported by the IMF and the World Bank, but success has been moderate when looked at from the point of view of industry. Development of the industrial sector as a whole is among the priorities of the government, but due to the limits of internal demand this can only be sustained by an expansion of exports and diversification of markets.

Divisions in Jordan over government policies are profound between the public and private sectors as a whole. The arguments on both sides have been the subject of debate for some time. What is different now is that the need for change is perceived as urgent in light of major regional and international developments, including peace with Israel, with the shorter-term factor of recession making the tone of the economic debate strident. (There has been no doubt for at least the past few months that the country is in recession and that local sales of manufactured goods in general have suffered. This situation is being taken seriously by industrialists, with the owners of factories increasingly demanding, for example, facilitation of customs procedures.)

Traditionally, Jordanian industrial products in general have not been especially competitive outside of the kingdom, except to some extent in Arab economies. And in 1990-91 the impact of the Gulf crisis produced a setback for Jordanian regional exports. Before the crisis, the Gulf Co-operation Council (GCC) states together with Iraq accounted for the lion's share of the total exports of the kingdom. Today, these markets are not as open.

Challenges to Jordan's industry are serious in light of the above and other major changes in the regional and world economies. In particular, foreign direct industrial investment into the country is limited. Foreign investment is a major tool to transfer efficient productive practices thus improving quality and boosting competitiveness. But the Jordanian investment climate suffers from, among other things, weak implementation of laws and their unjustified complexity.

B. Scope of Work

This paper will examine

1. The Jordanian government's policy towards the G&T sector including:
a. Incentives provided: subsidies, tax and/or financial incentives, export promotion etc.
b. State regulations governing the sector: entry barriers, licensing, trade regime etc.
c. Support institutions: marketing organizations, export centers, information network, extension and advisory services, standardization centers, design and R&D support, other facilities and support services.
d. State ownership of firms of the sector.

2. Performance of the sector and its competitiveness:
a. Major general problems.
b. Productivity in relation to labor costs, capital intensity, level of technology, value added, cost of raw materials and their sources.
c. Competitiveness in export markets: export performance, problems faced in export markets, value of exports as compared to production, and the position of firms in relation to major international competitors.
d. Competitiveness in the Jordanian market among local and against foreign products.
e. Subcontracting with foreign firms: volume, forms and conditions of subcontracting.
f. Competitive advantage over foreign products.

3. Perception of owners and managers of firms towards the present and future impact of peace.
a. Relations with Israeli firms as perceived by firms, in terms of competitiveness, technology transfer, market outlets in Israel, co-operation and subcontracting, etc.
b. Action undertaken or to be undertaken by firms to cope with peace: restructuring of the company, specialization, better production methods, partnerships, etc.

C. Methodology

In order to collect the relevant data, a survey of twenty Jordanian firms in the G&T sector was made. The firms were chosen to reflect broadly the country's G&T sector, but they do not by any means constitute a random sample. Interviews were carried out with owners or managers of these enterprises. Information was also obtained from other private sector organizations as well as from mixed and government entities.

Information in general and statistics in particular are often a problem in looking at the Jordanian economy. Traditionally, firms hide important details of their work from any outsider; this even applies to public shareholding firms who are obliged to publish annual reports. In the private sector, many were unwilling to give information. In the public sector, the information available was often not up to date. In particular, detailed statistics and other information on trade and other business relations with Israel was either unavailable or obtained with great difficulty.

II. Survey Results

A. Ownership Structure

All firms were private sector organizations. Of the twenty, five were public shareholding firms, with the government having a minority stake. In these five, an average of over 95% of shares were held by Jordanians. The remaining firms surveyed were mainly private corporations, along with two sole proprietorships and three partnerships. Ownership in all of these was almost exclusively Jordanian.

B. Level of Activity

Nineteen of the firms are in the production stage, while one is stagnant as a result of legal proceedings against its management.

C. Capital

The public shareholding firms had significant capital by Jordanian standards, with the biggest company's subscribed capital reaching in 1996 Jordan dinar (JD) 6 million and the largest market valuation at JD28.6 million (approx. JD0.71 = $1). The remaining firms ranged from multi-million dinar private shareholding entities to sole proprietorships worth a few thousand JD.

D. Personnel

The number of staff in each firm ranged between about 500 for the largest public entities, to a dozen for the smallest sole proprietorship. However, the bigger medium-sized firms tended to have a similar number of employees to the public shareholding firms, due to the greater capital-intensity of the latter.

In all but the smallest firms, a significant number of non-Jordanians were employed by the firms surveyed. These were mainly Syrian and Egyptian and averaged 15-25% of total personnel.

E. Main Items Sold

The main items the surveyed firms produced included spun yarn; natural, mixed and artificial woven textiles; knitted goods; ready-made sportswear, socks, clothes for children, t-shirts, underwear, trousers and suits for men, and ready made women's outer and undergarments; and carpets.

F. State Policy towards the sector

The Ministry of Industry and Trade is responsible for the overall trade regime, but other ministries, including Finance, also carry out functions which have an important bearing on the matter. Otherwise, there is a certain amount of scattering of authority concerning Jordan's industrial and export policies.

There were no Jordanian state incentives unique to G&T, and the government seemed "neutral" in this regard. Although the intentions of state officials were seen by some firms as having improved, the usual complaints were made about the general difficulties in the attitude of the Jordanian government.

1. Incentives

The response to the question on whether there were any incentives provided by the government to the industry was mainly negative, and some firms even went so far as to say that the state was actually hurting their business. No firms receive any subsidies or special financial incentives for G&T. However, G&T firms tended to profit like any other from tax breaks in the form of exemption of exports from Income Tax, and from similar incentives provided by the government under the Investment Promotion Law of 1995 (Law No. 16).

The abolition of income tax on exports in 1994 was particularly important to some G&T businesses. The result of this is that some firms have or intend to increase their production and investment for export. Some firms stated that they increased exports as a result of this incentive, sometimes up to a level of 25%.

Procurement policy by state organs was not a major issue, with the Jordanian government sometimes giving local purchases an edge over foreign articles but sometimes not.

2. Licensing and registration

Government regulations concerning the sector did not require the firms surveyed to get a particular license. Businesses were however largely unaware of the elimination of the requirement for "no objections" certificates from ministries as a step to facilitate the process of company registration. The delegation of authority for registration of business licensing to the Controller of Firms (without additional approval) was also not a reform of which firms were generally aware.

3. Trade restrictions

Regarding non-tariff barriers, firms complained that they suffered from some of these problems when exporting, but could not count on the Jordanian government's imposition of restrictions to help local firms compete against imported goods. All of the firms said that there are no trade quotas or non-tariff barriers like qualitative restrictions governing the imported goods competing against them. Some went further to complain about dumping.

Foreign requirements for ISO 9000 are hampering some exporters' activities; it and other non-tariff barriers impinging on quality were seen as a problem by a few firms.

4. Customs

Along with some other industries, G&T gets a certain amount of protection from the state through tariffs imposed on imports. But this help is outweighed by the government's continued attempts to apply onerous customs regulations in an inefficient way. Nevertheless, government policy has changed slightly over the past two years, and the problems G&T firms have with customs seem to have diminished somewhat. Some firms noted that average time for customs clearance of goods has decreased over the past two years, while others remarked that the quantity of required customs documentation per shipment has not decreased, but the number of required signatures has decreased. Firms however were generally not aware of some imminent or actual changes in Jordanian Customs regulations (e.g. proposed changes in the law requiring rationalization of the customs fines system, the development of an import/export guidebook by the Customs Department, and the new regulation allowing importers not to declare detailed intended use of goods upon importation). Regulation No. 74 of 1994 abolishing the requirement for import and export licenses for most products was viewed positively. Implementation of the Harmonized System of tariff nomenclature was also seen by some as having positively affected customs treatment.

5. Institutions Supporting the Industry

On the whole, firms complained that there were no serious attempt to create institutions specifically aimed at supporting the G&T sector. Nevertheless, three main institutions supporting industry as a whole were often cited by G&T firms as providing services of greater or lesser usefulness:

a. The Jordan Export Development and Commercial Centers Corporation (JEDCO) is the specialized institution in Jordan dealing with industrial export promotion. This organization is nominally controlled in equal parts by the Federation of Jordanian Chambers of Commerce (FJCC), the Amman Chamber of Industry (ACI), and the Ministry of Industry and Trade (MOIT). In fact, the minister of industry and trade in an ex officio capacity chairs JEDCO, and the state has the lion's share of influence within this organization. Some of JEDCO's programs help upgrade products and services to meet international standards. Some G&T firms appreciated JEDCO's attitude in this regard and considered it to be "proper thinking." Others were disappointed. For example, one garment firm noted that a style and design office for G&T manufacturers in Jordan was to have been set up by JEDCO, but that what has been promised has so far not been delivered.

b. The Amman Chamber of Industry (ACI) was established in 1962 as a non-profit private sector organization that groups all the country's manufacturing firms under one umbrella. The Chamber serves as a forum for the views and opinions of the country's industrial sector, with the aim of promoting economic development in Jordan. ACI cooperates closely with the Ministry of Industry and Trade and maintains regular contacts with all government ministries and departments that are involved in the country's economic planning and administration. ACI has an obvious interest in promoting manufactured exports and has been more active in the past few years. ACI tries to solve some problems with which the Jordanian government is connected (such as customs duties, power costs, etc.), but the impact of such actions is limited, partly because the FJCC, the Jordanian merchants' lobby, is very influential.

There was in the opinion of most firms no serious attempt by ACI (or others) to inform Jordanian firms about trade agreements and other aspects of international relations which might impinge on Jordan's business. Some information as well as advisory support were provided by organizations such as the FJCC. However, their impact was seen as limited.

c. The Investment Promotion Corporation (IPC) is directly involved in the application of Law No. 16 which provides an increased range of incentives. These are important to some in the G&T sector in Jordan. The customs exemptions under this law are potentially significant in their business, as are the law's provisions for tax holidays. The IPC says it is committed to encouraging the private sector to assume the main role in development, and that the government is consolidating the legal and investment environment to continue in that direction. This is complemented by a number of incentives and services which have been developed to encourage, promote and channel foreign and domestic capital into productive investments. Although many of the firms surveyed have never visited the IPC nor used any of its services, those few which had done so rated them as important. Locating an overseas partner is also seen as a significant service provided by the IPC.

G. Performance of the G&T Sector and Its Competitiveness

1. Problems faced by the sector

Firms were asked to rank various problems constraining production. The order in which problems are listed below reflects their overall seriousness.

a. Availability of skilled labor According to many firms surveyed, no serious assistance to the G&T sector is being provided by the state or others in helping to upgrade labor. Lack of adequate training was the major complaint; firms noted that it was especially difficult to find qualified people, and have tried to solve this problem through in-house or other private training. The state Vocational Training Organization was seen as of no help in solving problems associated with labor skills. There is generally a lack of trained staff with much dependence on foreign labor especially from Egypt and Syria.

Poor training coupled with possible lack of employee enthusiasm or ability to learn, were highlighted by many firms as a major challenge. On the other hand, many of these firms continue to use foreign workers whose skills will eventually migrate with them. So this complaint, though a major one, should not be seen as a straightforward problem. Rather, it shows the attitude of some Jordanian manufacturers towards questions of wages and productivity. ACI in particular sees Jordanian G&T's major problem as that of standards. As such, the ACI has in fact recommended that members of that industry should invest in training programs for workers in the factory.

b. Customs duties on competing finished products were seen as too low. In particular, duties were low compared to neighboring countries where the government protects the industry by adequate customs.

Some firms complained of high customs duties on imported raw materials.
Although the customs department has gone some way in cutting tariffs on raw

materials for Jordanian industry (for example pre-cut lining is exempt from customs), there are still many fabrics for the industrial manufacture of garments that have high customs. This means that there are still many raw materials that need to be exempted for Jordanian industry in order to make Jordanian products even more competitive in the local market. For example one underwear manufacturing facility exports to international markets, but has not sold in Jordan due to the prohibitively high customs imposed on some raw materials.

Temporary Admission and Duty Drawback (TADD) was a possible way around paying customs duties, but there were complaints about this being subject to too many procedures and controls. Jordan's TADD system was seen as problematic. For example, when excess raw material imported under Temporary Admission for production of an item for export is returned to the supplier, a two percent re-export charge is levied on the items by the Jordanian customs. Another problem with Temporary Admission is the requirement for a financial guarantee. These are expensive, and are a disincentive to exporters. On the other hand, the new TADD regulations authorizing commingling of imported material on plant premises, those allowing importers not to declare the intended usage of goods upon importation, and those allowing major customs houses to administer the application of TADD were felt to be an improvement by some firms, though some others, especially the smaller ones, were sometimes unaware of them.

The bureaucracy as usual was a target of complaint. For example, more than one firm said that Customs offices do not recognize letters that are sent to them, and rarely answer them. Action is only taken after laborious personal follow up via further meetings and telephone calls. Another firm believed that any changes in existing laws concerning Customs need to be communicated punctually and accurately as to avoid situations which compromise meeting customer commitments. Some firms called for better training for customs personnel. Others even noted that heads of Customs departments do not exert real control over their employees for fear of trouble in avoiding accusations of favoritism in press reports, etc.

c. Access to finance The need for medium- and long-term financing was noted.
There was a demand to accelerate the implementation of the law that allows banks to accept equipment as collateral for loans extended to industrial investors. Another problem was that Industrial Estates give rentals for properties on a short term basis, but banks do not recognize short term leases as collateral and only long term leases (for example for ten years) can be accepted.

d. Utilities (power, water, telecoms etc) These were seen as problematic in relation to industries in the Industrial Estates who are now forced into paying for electrical transformers. The Estates were also felt by some as not having adequate waste water treatment plants, and therefore they force investors to build their own facilities.
One firm said that Industrial Estates Corporation must invest more to improve the efficiency of the waste water treatments they have in order to be able to treat the water more efficiently.

e. Limited market demand and Foreign and Local Competition A small local base in terms of demand is also being partly satisfied by imported products which can be cheaper. This was a problem in the present context of recession at home, limited post-Gulf crisis sales to the GCC markets and Iraq, and the slow expansion into other foreign markets, coupled with competition from foreign products being dumped in the local market. These problems were illustrated by the manager of the first Jordanian garment company to export to the US market (in 1983). He said that before the Gulf crisis, the company was operating at high capacity, but today, it operates at half of its production potential. As a result of the Gulf crisis, exports almost stopped, and were resumed only a year ago. His case is typical of a situation which was bad for some firms in 1991-92 but has now improved somewhat.

f. Transport/Port services were not a problem for most firms.

g. Labor laws-social costs No firms saw this as a serious problem, probably made even milder due to the continuing hiring of illegal foreign workers who do not get Social Security.

2. Productivity

a. Technology and Machinery Firms import their machinery mainly from the US, Japan, Taiwan, Hong Kong, Germany and Italy. Some of the new machines are computerized and automatic. The bigger firms in the G&T sector receive know-how and technical assistance from several international manufacturers. Computerization is also making inroads in Jordan's G&T. One group of G&T firms is recruiting software needed in design, production, cutting and control of operations. An example of the increasing level of technology of some operations is a new factory producing bras. The production requires highly technical know how and expertise; this is provided by French specialists. A sister firm requires the continuous presence of Israeli technicians to assist workers in improving the quality of production. Another firm has brought in a number of skilled technicians from the West Bank to assist Jordanian garment factories with whom it is working in undertaking design, sewing, etc.

Given problems of labor productivity, a few firms would like to witness a greater level of automation and less labor-intensity. Some do however caution that there are many machines that are underutilized at the moment. For this reason, and concerns about spare parts, many managers only advocate the adoption of higher technology with caution. Most firms are anyway producing at considerably below capacity, with typical figures ranging from thirty to sixty percent of the total.

b. Material inputs The general lack of raw materials results in the need to import many essential goods. Japan, Taiwan, Hong Kong, Germany and Italy provide such items as fabric, lining and accessories. Most garment firms imported 30-55% of their inputs.

c. Human resources Productivity of labor is low. Problems such as absenteeism and lack of seriousness, interest and enthusiasm plague several firms. Employees are often paid in relation to the number of units produced, with no discrimination between men and women. At higher levels, a more professional approach is gradually emerging to the training of human resources. For example, one new joint venture (JV) has sent its senior people to be trained in Israel, and a public shareholding company's administrative staff underwent training in Italy.

3. Competitiveness in export markets

Jordan's G&T sales abroad are rising. The kingdom exported JD24.7 million of G&T manufactures in 1992, compared with JD39.9 million in 1995 and JD44.8 million in the first eleven months of 1996. Exports as a percentage of sales tended to be in the 25-45% range for those surveyed firms which did sell abroad. However, some, including the smaller entities, did not export at all.

Export markets were established by participation in fairs abroad, visits by foreign missions to Jordan, and independent missions by Jordanians to foreign markets. Markets for G&T have been developed in a variety of ways that showed the strength of the international network of the Jordanian private sector. The Gulf war does not appear to have weakened these connections. The independent initiative of many G&T firms saw them mainly going through Jordanian living in Europe, Arab countries, the US and elsewhere who acted as intermediaries. The surveyed exporting firms typically had sister firms, offices, agents and/or other intermediaries in places abroad, particularly the US. These tended to be in charge of marketing but sometimes performed other tasks. The Arab network of Jordan was also important, though it tended to rely more on visits to by independent Arab businessmen.

Firms export mainly to the Middle East, Europe and the US. Among the newer markets of Jordan's G&T are Russia, Greece, and Ukraine.

Firms which were not exporting cited several reasons for this. One firm mentioned that it was still working to get ISO certification before exporting. Weaknesses in marketing, uncompetitive prices, lack of finance, and international standards of products being different from Jordanian output were also cited as causes for lack of exports.

Major competitors in regional export markets were mainly Arab products as well as those from Turkey. But access to markets in some Arab countries is proving to be difficult. Access of Jordanian products to the Palestinian territories as well as Israel is also being hindered. On the other hand, Israel will provide Jordanian garments with a 20% tariff reduction; the Israeli tariff rate is currently 72% on imported garments; the tariff on Jordanian garments will thus be 57.6%. However, it should be noted that Israel started in 1996 to reduce the customs duties on imported products from other destinations at the rate of 10% per year, which means that by 1997, the tariff rate will be the same for Jordanian and foreign products. There are no quotas imposed by the US on Jordanian garments, but they pay customs of twenty percent. Israel and Palestine have free trade arrangements with the US.

Of the six G&T producers in the eastern Arab region (Egypt, Syria, Palestine, Lebanon, Israel, and Jordan), Jordan is the most underdeveloped. Some other countries were forced to develop their industries primarily by the non-availability of foreign currency and restrictions in import policies. By contrast, Israel has the added advantage of having free-trade agreements with the US and the EU as well as assistance from both of these.

Competitiveness in export markets appears to be a challenge for Jordan. First, unlike perhaps Egypt or Syria, Jordan lacks a reputation in G&T expertise. On a related note, buyers tend to want to know the potential of the country in terms of fabric. Exports out of Syria, for example, are produced out of well know Syrian cloth; Jordan is lacking on this front as well. Last, most countries tend not give a duty preference on Jordanian exports. For these reasons, in addition to others, Jordan is limited in regards to its competitiveness in foreign markets.

The little foreign business Jordan is receiving usually occurs where there are quota problems. Experiences are that this business comes from the Far East and usually in the second half of the year. Jordan also might receive business from foreign firms needing work done in a short amount of time and not demanding high order minimums. This helps Jordan to pick up some addition foreign business.

The case of a large Jordanian firm turning away from exports and concentrating on the local market is an interesting one. Founded in Amman as a family firm in 1949, this company was in the early 90s selling over forty percent of output abroad. But a change in strategy a few years ago began giving a somewhat higher priority to the expanding local market. The company has manufactured and retailed its own range of cotton-wear since the beginning and its brand image has traditionally been associated with quality menswear. But by the middle of the decade it began moving into youth fashions as part of a comprehensive expansion of its marketing activities. Jordan's demographics provide an argument for this since around sixty percent of the population is of school age or younger. The firm's intention to go for the younger generation also makes sense because the Jordanian market contains a gap in this age range. The company's junior product range -- designed for 12-to 18-year-olds -- was launched and a promotional campaign developed. The aim was to introduce the new junior range with an image of continuity. The firm now has three generations of Jordanian customers, with the youngest inheriting loyalty to the brand from parents and grandparents. Another part of the company's strategy is to open franchise outlets in Jordan. The company is intending to reach a total of thirty-plus outlets by next year. And some of this expansion is going to take the franchises out of the capital, with new sites currently being surveyed elsewhere in the kingdom.

4. Competitiveness in local markets

Several firms mentioned that Thailand, China, India and Turkey are dumping in Jordan. Some of them are willing to sacrifice profits for some time until the local initiative is killed so they can then freely raise their prices. Moreover, imported second hand clothing being sold as new is also posing a threat for local firms. Insofar as this is the case, the government's influence in this matter would then be urgently needed against such unfair trading.

Regarding Israel, a few felt that its firms cannot compete in Jordan, and that they are anyway not interested in a Jordanian market which is considered very small. However, others believed that Israeli firms may be involved in dumping garments in Jordan. According to the trade pact between the two countries, Israeli garments in Jordan will eventually enjoy a reduction of the tariff rate by fifteen percent. Israel has also made strides in penetrating the local Jordanian market. With large inventories, and sufficient sized samples, experts in dealing with customs issues, and a big tax advantage in exporting goods to Jordan, Israel is making a known its presence in the kingdom's market.

5. Subcontracting and Joint Ventures

Despite the existence of a few subcontracting arrangements and JV, most Jordanian G&T firms are not yet prepared for such relationships, particularly in the present atmosphere of increasing uncertainty regarding the regional peace process. Most firms do not show interest in subcontracting arrangements or JV with Israeli firms under the current conditions. Many believe that the disparities which exist in the size of operations in the two countries, coupled with Israel's exploitative tendencies, will result in scant benefit to Jordanian firms. The manager of one firm which has been approached by Israelis to undertake subcontracting but has refused to do so expressed the skeptical feelings prevalent among most people interviewed. Specifically, he believes that "subcontracting arrangements mainly tend to be to the benefit of Israeli firms exclusively." He describes such agreements as "an employer-employee relationship (with Jordanian firms representing the latter) and not the sought-after relationship based on mutual interests."

Nevertheless, some subcontracting arrangements between Israel and Jordan started shortly after the peace accord during a "honeymoon" period between the two countries. One of the reasons for this was the difficulty Israeli firms had in trying to supervise the work of Palestinian subcontractors, in view of the frequent closure of the Palestinian territories. Moreover, these closures sometimes resulted in unreliable supply schedules as shipments were often delayed for long periods. Another reason for Israel's eagerness to enter into subcontracting agreements with Jordanian firms stems from the relatively high wage rates of Israel. (And an attraction of Israel to Jordan is the latter's need for support infrastructure such as washing, dying, and finishing operations.) Thus, the alternative for firms has been to look towards Jordan to carry out the labor-intensive aspects of production, despite having specification standards below that of Israel, and to subsequently sell the items as "made in Israel" products.

The reluctance of many Jordanian firms to subcontract for Israelis is due to a number of reasons:

a. Vertical integration of existing Jordanian clothing firms. These are undertaking almost all production steps, including design, cutting, sewing and finishing, in addition to the import of raw materials and marketing of the final product. Under subcontracting arrangements, they are requested to carry out limited operations, which means additional costs for the company since the other units of a factory will not be operating. Subcontracting would be beneficial in case Jordanian firms are not producing at full capacity. (For example, one firm, which was not oriented towards subcontracting, nevertheless decided to use its spare capacity to produce small quantities of garments for Israeli firms.)
b. Inexperience of the Jordanian firms that are unable to produce high quality according to the Israeli specifications.
c. Resistance of the labor force in the Jordanian firms who are unwilling to work for

Israel (for political or cultural reasons).
d. Lack of risk-taking by Jordanian firms in the absence of Israelis' commitment to undertake regular and continuous business.
e. Inability to establish brand awareness, since the subcontracted work will be ultimately sold on the market under an Israeli name.
f. Fear last subcontractors are looked upon simply as laborers and not partners. Such relationships were sometimes established between Israelis and Palestinians, and can result in exploitation.

Israel's advantages of entering into subcontracting arrangements with Jordan include the following:
a. Wages in Israel are significantly higher than in Jordan.
b. Jordan's proximity to Israel gives businesspersons the opportunity to meet their supervisory responsibilities without the need to be out of the country for extended periods.

Three Jordanian firms operating under subcontracting arrangements were surveyed. However, their arrangements are still in a trial period. As of yet, no Israeli company has pledged a full commitment to a subcontracting arrangement.

Specific examples of subcontracting include:

a. A Jordanian garment firm established in 1995 which aims at producing high quality garment products for export. For that purpose, the firm said "it would be necessary to start operating with Israeli firms that have strong marketing ties with the West. By doing so, foreign firms will know better the quality of the Jordanian products; this will help to establish direct relation with foreign firms." This company is working mainly with the Israeli firm Castro which produces high quality fashion ladies garments for export to Germany (under agreement with the German firms). The Jordanian firm receives the orders from Castro, buys the fabric from Europe according to the required specifications, carries out the cutting, and subcontracts the sewing, finishing and packing to four Jordanian garment factories. The final product is exported directly from Jordan to Germany. (Exports from Jordan to the EU are exempt from customs duties when the fabric used has been imported from Europe.) A small part of this firm's work consists of undertaking the sewing and finishing of pre-cut fabrics which are then delivered back to Israel; this happens when the product is destined for the Israeli market. In this case, the orders are received from the Israeli company and the Jordanian firm operates as intermediary between the Israeli company and the Jordanian garment factories. This firm has also started in January 1997 working directly with a US company, and will produce trousers. The firm feels that the quality of its work is well known by the Israelis; strong business relationships have been built during the last twenty years between the mother company in Tulkarem (Palestine) and the Israelis. The firm has brought in a number of skilled technicians from the West Bank to assist the Jordanian garment factories in undertaking the work in design, sewing, etc. They are managing and controlling all operations in production, with the aim of securing high quality products. Technicians provide on-the-job training to the Jordanian workers, and undertake quality control in each step of the production process. Such assistance to the Jordanian garment factories is felt to be vital, in view of the low productivity which is stated as around twenty percent of that of a skilled worker in Tulkarem -- while the salary of a worker in Tulkarem is the double of that of his Jordanian counterpart. To this company, the low quality of the Jordanian garment factories explains the failure of many Israeli firms who tried to subcontract work in Jordan.

b. Another Jordanian firm engaging in subcontracting work for Israelis opened in 1995. It currently employs between 40 and 100 workers (depending on business), and has invested in some 140 machines. It has an output of approximately 3,500 units per day and mainly specializes in men's dress shirts. It recently began a knitted-wear line, producing t-shirt undergarments. It began its operations targeting the US and Israel as its main clients, and is currently engaged in subcontracting agreements with both countries, undertaking projects for such US firms as Timberland. The firm imports all of its fabric, mainly from Hong Kong, and assembles the garments, according to client specifications, at its Sahab Industrial Estate factory. The imported items enjoy a nine month customs duty exemption. The firm has recently undertaken projects for Israelis, mainly for dress shirts, but is beginning larger projects involving jackets. They maintain regular ties with Israeli firms through frequent visits by Israeli representatives. It feels that its subcontracting arrangements are not very profitable but that they justify participation because of the infant status of the company. Though paid between $1-1.50 per item produced, the firm also complains that subcontracting arrangement fails to introduce its name to the Israeli market since its labels are not placed on the garments.

c. A third Jordanian firm, established in 1972, is also active in subcontracting arrangements (with Castro). The Jordanian company receives the cloth cut in Israel, and undertakes the sewing and finishing. It processes around 15,000 pieces per month of ladies garments. Two-thirds of the finished products is exported directly to Germany, and one-third is sent to Israel. (Since the cloth used is from Germany, the finished products are exported exempt from customs duties.) The manager of the firm indicated that export to Germany is more advantageous. In fact, little profit is made when the Jordanian company has to send the finished products to Israel, in view of the high costs incurred (transport and taxes) and the bureaucratic and administrative procedures at the borders. The manager indicated that subcontracting is advantageous only when the company faces a recession. (Arrangements with the Israeli company are being made through a third party: the Palestinian firm from Tulkarem which was mentioned above.)

An interesting illustration of the subcontracting process is provided by yet another firm which has been approached on several occasions to engage in subcontracting arrangements. The general manager, however, does not want to enter into such agreements on current Israeli terms. These usually consist of Jordanian firms simply assembling imported, pre-cut fabric. This, as confirmed by most of those interviewed, simply does not benefit Jordanian firms greatly. Israeli insistence on such conditions hinges upon their customs structure. Items which are imported into Israel as finished goods are subject to a 55% duty, though only 14% is levied upon assembled goods.

However, this firm did recently export some men's slacks to Israel. The firm was engaged in three transactions involving some, 2,000 unit per transaction. Although it lost a small amount on the deal, the main goal was to build customer awareness in the

Israeli market. The items did carry its own label as well as a "made in Jordan" seal. The firm claims that transportation of goods to Israel was relatively easy, but added that there are strict prohibitions on delivering goods to the West Bank and Gaza.

Most of those questioned regarding subcontracting arrangements between Jordanian and Israeli firms clearly expressed an anti-subcontracting stance by saying, that they" are totally against the position of Jordan being a cheap source of labor for Israeli industry." But even some of those who were not against Israel's looking towards Jordan as a production base still felt that Jordanian businesses cannot handle such large deals. They felt that it was unfortunate that many Jordanian businessmen jump at the opportunity before thinking about the practicalities of handling big orders. In the words of a garment company owner "Checking quality on 2,000 units per day is far different from checking quality on 10,000 units." This weakness has led to some distrust (from a business stand point) from the Israeli side. And on the whole, Israel appears to be disappointed with developments concerning Jordan on this front.

In general, advocates of subcontracting believe that it does have some advantages: very low risk for the subcontracting party, and also allowing a smaller factory to gradually move towards mass production. One possible advantage for Jordanians specifically is that Israelis look to Jordan as a gateway to the Middle East. This is an extremely important market for Israel.

There have been several discussions since 1995 between Jordanian and Israeli firms regarding the possibility of JV, but only one of these has materialized. For a typical JV, Israeli firms are proposing that they will contribute the design and cutting of the materials, leaving to Jordan the sewing operations. According to some, the Jordanian firms will be at a disadvantage in such JV (another way of subcontracting). It should be noted that generally speaking Israel views the benefits of joint venture type projects in a neighboring country to be significantly greater than simply trading with the respective neighbor. For example, the Israeli company Baruch Fashion was considering the possibility of phasing out some of its production to Jordan. The company is currently producing 1200 shirts per day, and wants to move the production of 400 pieces to Jordan as a first step. However, there is not yet any agreement on such arrangements, nor is it seen as coming soon.

An underwear joint venture with the Israeli firm Delta, a subsidiary of the US firm Sara Lee, is currently the only Jordanian-Israeli JV garment manufacturing facility in Jordan. The project employs 260 Jordanian workers, and produces predesigned, precut underwear for a variety of brand names such as Banana Republic, Victoria's Secret, St. Michael, Polo, Ralph Lauren, and others. Within the expansion plans, the factory will employ 400 workers, with a total investment of $5,000,000. This JV has two factories: one producing underwear (men and ladies) and t-shirts; the second producing bras. The first factory began production in February 1996 and expanded continuously, from 200 to 300 machines; now the factory has 10 production lines and employs 350 workers (most of them women). There is only one shift of eight hours a day.

The Jordanian partner receives from Delta the pre-cut fabric, and then undertakes the sewing, finishing and packaging, and labeling ("made in Israel"). Quality control is undertaken on the production line, and on each unit of the finished product. After packaging, a quality control is undertaken on a sample. The quality control is carried out by Israelis, and also by representatives of Delta and Sara Lee who visit Jordan from time to time. The production is returned back to Israel and exported. Under the agreement, the Jordanian partner is paid cost plus overhead plus profit by the Delta company.

The JV intends to peruse vertical and horizontal integration. It will start soon to undertake the cutting of the fabric and is working today towards the production of fabric in Jordan. Very soon, the company will start to produce for the local market, by undertaking all steps of production: from the design to the finishing. It intends to produce high quality products (imitating the above mentioned brand names). The main customers will be more prosperous customers from west Amman. This is a first step towards producing for the Middle East market.

Under the JV agreement, Delta provides technical know how and the export market; the management of the joint venture is run by the Jordanian counterpart. The JV is considered by the Jordanian partner to be more profitable than subcontracting. Also, in subcontracting, transfer of technical expertise is lower than in joint venture.

Joint ventures with Israel are otherwise not being pursued. It is felt by most that Israel simply would like to substitute Jordanian low labor expenses in place of relatively high costs. The manager of one Jordanian firm indicated that he received many Israeli proposals for JV. He felt, as did others, that Israel is interested in penetrating the Gulf market through Jordan. The manager stressed that the only benefit from a joint venture is the access to export markets that can be facilitated by the Israelis. And the "cultural" impact of JV is still not known. Many Jordanian firms still fell a sense of reluctance in dealing with Israelis on such a basis.

6. Competitive advantage

The competitive advantages of Jordanian firms compared to foreign ones were seen as mainly centering around lower cost. An ordinary salary plus incentives typically do not exceed JD100 per month. (Medical services and transportation are often provided for workers.) This made Jordanian exports cheaper to produce and hence allowed them to compete more effectively with foreign products.

H. Impact of the Peace Process and Other Changes

1. Eventual Accession to the WTO

The response of firms to WTO accession was not strong. It was felt by many that the emergence of an economic order based on the WTO will mean that Jordan, given its present attitudes, may have a tough time adjusting to a plethora of new rules. Jordan's accession to the WTO was viewed with ignorance or skepticism by most firms, particularly the smaller ones. Those expecting a negative impact fear fiercer competition, the closing of new markets, stricter intellectual property requirements, and dumping. Many G&T firms expect such accession to damage their business.

2. Eventual Euro-Jordanian Partnership

There was a livelier response to the question about the impact of the Euro-Jordanian partnership agreement, which is increasingly in the news. A few of the bigger firms expect to reap benefits from the partnership agreement, but most others are concerned with the greater competition they will face. Some firms claim it will put obstacles in the face of Jordanian exports, like requiring quality certificates. Adoption by the EU of cumulative rules of origin towards Jordanian exports were mentioned as a needed step by more than one garment manufacturer.

3. Peace with Israel

The peace process has introduced a new economic partner into the region, and Jordan must deal with this change. In spite of political difficulties, economic agreements have been signed between Israel and Jordan. Trade between them has been growing slowly, though this growth is clearly influenced by fluctuations on the political scene. New forms of economic and industrial relations are being initiated between Jordan and Israel, including in particular the JV and subcontracting activities mentioned above.

Improvements in Jordanian-Israeli economic relations are still hindered by many practical problems, in addition to the political difficulties. These problems relate to trade barriers, controlled business activities, bureaucracy and complex procedures, non-tariff barriers and other restrictions. Economic and industrial relations are seriously hampered by non-economic barriers: cultural issues, the frequent closure of the occupied territories, and the slow rate of progress of the peace process, including the question of Jerusalem and of the Palestinian refugees.

The impact of the peace process on the G&T sector in Jordan will be determined by various factors, including those mentioned above as well as the reform program being undertaking to revamp economic and industrial policies.

The shape and the nature of the new economic and industrial relations that will develop in the future between Israel and Jordan was a subject of concern and uncertainty to most of those questioned. Many felt it may be too early to predict the depth of the impact on the technological updating and restructuring of the G&T sector. Other mechanisms of industrial relations and technology transfer may emerge as well, possibly leading to a new division of labor through subcontracting arrangements, JV, or the possible relocation of G&T industries into Jordan from Israel. The new emerging industrial patterns may mean that Israel will concentrate on selected high-technology products geared mostly to Western Markets and on the transfer of technology and know-how, while Jordan may continue to promote labor-intensive and/or less technology-intensive industries such as G&T.

The peace process will not only bring about changes in Jordanian-Israeli relations; it will also result in changes in the economic relations between the two countries and the outside world. Increased and/or new forms of cooperation are expected to develop, particularly with the US, the EU, and Japan, and these it was felt could easily happen in the G&T sector.

Existing trade relations with Israel are still at low levels. Israeli finished goods, including G&T, have "no chance of being sold" in the local market due to continuing negative national sentiment, according to one manager interviewed.
Jordanian G&T firms largely do not believe in rushing into their market due to the sensitive nature of national sentiment. One Jordanian garment firm has even sold items in the Israeli market without using its brand name.

The general feeling of most of the firms surveyed is that Israeli firms didn't show realistic behavior; they had high expectations on the absorptive capacity of the Jordanian and Gulf markets. According to some, the Israeli garment industry will phase out their production to other areas (including the West Bank, Gaza, and Jordan.) in the next five years. The Israeli firms will specialize in marketing only. In addition, since Jordan is being primarily used in a subcontractor capacity, the kingdom's factories will only be involved in the final stages of the product.

Finally, the cultural factor was prominent in G&T managers' remarks concerning Israel. It was felt that Israeli businessmen tend to have the upper hand over their Arab counterparts in that Israelis have an aggressive business nature. Second, Israelis tend to have more contacts in the international G&T industry and more experience in dealing with these contacts than their Arab counterparts. Third, international buyers tend to be more sympathetic towards Israel than any of the Arab countries.

4. Countries in the region which will affect the Jordanian G&T sector

Questions about which countries in the region will affect the Jordanian market indicated that most regional states will be influential in the local economy. Turkey, Lebanon, Syria, Israel, Cyprus, Egypt, and the United Arab Emirates (UAE) were the countries thought to have the strongest impact the market in terms of competitiveness. The transfer of technology will be affected by UAE, Israel, Cyprus, Turkey, and Egypt. The firms anticipate new markets to open in the Gulf countries, Iraq, Syria, Israel, and Palestine. And in terms of cooperation and subcontracting, Turkey was viewed as the region's main player. Regional states' such as Egypt have relaxed internal regulations regarding customs exemption on raw materials, and this favors the exports of these countries.

5. Actions that are and will be undertaken in light of peace

Most G&T firms surveyed do not view Israel as a threat. While some believe that Jordanian firms may have to invest more in quality control, they do not think that Israel will pose a serious danger.

One possible action which may have to be taken as a result of the peace process is to play 'the label game." This activity, which is being undertaken by Egypt and Israel, revolves around cutting production units to smaller sizes to cater to different foreign labels.

On the level of the sector as a whole, some firms advocated that the ACI lobby the government more strongly and effectively.

On the national level, the firms foresee that quite a bit of action will be undertaken to cope with the peace situation, including economic restructuring; specialization; better; new products; partnerships with other countries; and new business strategies.

6. Possible government action

Most of the firms felt that the Jordanian government could make the sector more competitive in a variety of ways. Almost every company wants the government to stop interfering with the industry. They object to the sales tax. They call for the reduction of customs duties on imported inputs; elimination of excessive bureaucracy in government departments; the promotion of Jordan as an exporter of G&T; the establishment of a body of quality and standards for G&T; aid to participate in international trade shows; and assistance in specialty training. Provision of data bases and support in marketing regional exports were also called for. Streamlining the TADD system was important to many firms, as was removing restrictions on foreign labor permits, and improving vocational training. Finally there was a demand from various firms that JEDCO should be developed.

III. Conclusion

In the Jordanian G&T sector, Jordan's government policy is largely viewed as ineffective. Incentive measures provided (such as subsidies, tax and financial incentives, and export promotion) are seen as weak. State support institutions such as marketing organizations, export centers, information networks, extension and advisory services, standardization centers, and the provision of design and R&D help are viewed by firms as inadequate.

On the other hand, the performance of the private sector and its competitiveness leave a lot to be desired. For purposes of serious regional and international competition, Jordan's G&T sector productivity (as gauged by labor costs, capital intensity, and level of G&T) tends to be low, output is small, and long-term financial capital is scarce. Expenditure on R&D is severely limited due to the absence of long-term planning.

These elements are obviously not entirely under the control of the private sector to deal with them as it wishes, but the weaknesses are anyway clear. Industry in Jordan is very clearly an outgrowth of the commercial sector, and it has been suggested that industrialists still retain an "immediate profit mentality" which impedes long-term thinking and defines their attitude in negotiation with the government. This is to some extent the case with G&T manufacturing.

Major problems to do with the aftermath of the Gulf crisis are still nagging industry in Jordan. Meanwhile, a recession which started last year threatens to become deeper, exacerbating structural problems. Productivity is inadequate. Competitiveness is threatened, and various problems are being faced by Jordanian firms in regional and other export markets. Competitiveness in local market with regard to imported foreign products is also problematic. Subcontracting is seen as a way out by some firms, but this process is still in its early stages.

Perception of managers of firms of the impact of peace are emotional and vague. Relations with Israeli firms are seen by few managers in terms of competitiveness, market outlets in Israel, specialization of the company, co-operation and subcontracting. Action undertaken or to be undertaken by the managers to cope with the peace situation, including restructuring of the company, specialization, better, partnerships, is limited. Some on the other hand believe that Israel will phase out its G&T industry simply due to not being able to produce at the right price and not being able to find neighboring countries to serve their purposes.

Standards and specifications are still not a subject of sufficient attention in the G&T sector in Jordan. This will become a major problem as standards such as ISO 9000 are being applied in other countries in the region, particularly Israel.

Jordanian firms should begin in earnest to seek joint ventures in the field of specialized manufacturing. More important, the G&T industry should focus on R&D and marketing arrangements with organizations that have a worldwide reach. Only by expanding the market, and integrating the country with the rest of the outside world can an advanced G&T sector be developed in Jordan.

Merging and integrating existing industries may be a necessity at the local level; and trying to merge at the Arab level is possible too. Increased production capacity as a result of merger will decrease the unit cost of products.

Among the major problems faced by the sector is low profitability due to the need to be "cheap and competitive in the absence of protection." But under WTO and EU rules, protection will fall still further. This will require a change in attitude by many G&T firms.

As Jordan is exempt from the G&T export quotas which many Western countries have set, countries with high production capacities and limited quotas could take advantage of Jordan's industry. Although the full potential that the kingdom has to offer to G&T producers and exporters has not yet been exploited, there are several joint ventures between Jordanian and foreign producers.

Another way out for Jordan's G&T sector is the JV, or at least new relations with international firms. An example of this is the new company that has just emerged as the second largest Jordanian knitwear exporter to the US. This facility is totally owned has made an exclusive strategic co-operation agreement with a major US company. But such deals are still few.

In conclusion, rapid change must be undertaken in several new directions by the kingdom's G&T sector. Otherwise, its relatively weak competitive advantage will be overwhelmed by others both within and outside the region.

Statistical Appendix

Table A: Major G&T Sector Indicators

	Textiles	Garments	Total
Total firms	309	1306	1615
Total workforce	3291	7122	10413
Output (JD1000)	51035	42038	93073
Intermediate goods (JD1000)	31902	24969	56871
Value added (JD1000)	19133	17069	36202
Gross fixed capital formation (JD1000)	5495	6669	12164
Total salary charges (JD1000)	3369	2521	5890
Depreciation (JD1000)	2430	104	2534

Table B: Cost of G&T Services (JD1000)

	Textiles	Garments	Total
Total	3579	3505	7084
Communications	513	1218	1731
Rent of buildings and equipment	218	222	440
Advertising & publicity	217	85	302
Accounting & legal fees	106	65	171
Other	2525	1915	4440

Source: state *Industrial Survey*, 1994