



USAID
FROM THE AMERICAN PEOPLE

ASSESSMENT OF TRADE POLICY IN JORDAN AND RECOMMENDATIONS FOR REFORM

A STUDY TO SUPPORT THE DEVELOPMENT OF JORDAN'S
NATIONAL TRADE STRATEGY

FINAL REPORT

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TRADE POLICY IN JORDAN AND
RECOMMENDATIONS FOR REFORM

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The author's views expressed in this publication do not necessarily reflect the views of the Government of Jordan, the United States Agency for International Development or the United States Government.

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FORWARD/PREFACE

At the request of Jordan's Ministry of Industry and Trade (MIT), this document provides an assessment of Jordan's current trade policy regime and recommendations for the development of an integrated and comprehensive National Trade Strategy for Jordan. This document was developed by the USAID-funded SABEQ Program with inputs from MIT and a wide range of Jordanian trade-related stakeholders.

This report provides a broad analysis of Jordan's trade policy environment, including domestic (unilaterally determined) trade policies, policies and market access emanating from international agreements, and complementary policies that support the trade environment, as well as institutional factors that impact trade policy formation in Jordan. The analysis provides the basis for the development of proposed recommendations and actions to improve the trade policy framework in Jordan that will better promote the National Agenda's goals of sustainable export-led growth, economic diversification, and increased job opportunities for Jordanians.

EXECUTIVE SUMMARY

The Government of Jordan (GoJ) is firmly committed to the goals of private-sector led growth, development, and poverty reduction. As a small country with limited natural resources, Jordan is highly dependent on trade to sustain its economic development—for the import of raw materials, intermediate inputs, capital equipment, as well as consumer goods, and for the export of its agricultural, commodity, and manufactured goods. Trade opens the Jordanian economy to both competition (both domestically and in third country markets) and to new opportunities to build economic scale and exploit existing comparative advantages. A coherent and integrated trade policy strategy will play an important role in shaping the market signals that will ultimately determine Jordan’s competitive positioning and its ability to promote sustainable private sector led development.

In general, the Government of Jordan has made enormous strides in liberalizing its trade environment. Jordan’s accession to the WTO assisted in the modernization of its policy framework and progress toward adopting international standards across a wide range of trade policy related disciplines. In parallel, the GOJ has entered into a number of regional trade agreements that have enhanced market access. Together, these policies have enabled a rapid expansion of trade, though, with the exception of garments exports to the US, little has been achieved in the way of export diversification, particularly towards high value-added, more sustainable export production.

Further refinements to Jordan’s trade policy environment could help facilitate this shift. This document outlines some important ways in which policies could be refined to better enable the private sector to take advantage of these opportunities.

INTERNAL TRADE POLICIES

These national policies are directly under the control of the GoJ and, if properly formulated, can create a business environment wherein the private sector can take advantage of opportunities to expand and diversify exports. The recommended internal (unilateral) trade policy reforms are therefore designed to maximize the potential allocation of Jordan’s scarce resources towards those activities that will provide the greatest welfare impacts through job creation and consumer welfare and to better facilitate the movements of goods and services to realize that potential.

Trade Policies related to Agriculture and Manufactured Goods

Trade in merchandise, i.e. agriculture and manufactured goods, accounts for 66 percent of Jordan’s total exports. Agriculture and processed foods and beverages account for 10 percent, mining accounts for 8 percent and manufactured goods, close to 48 percent. Jordan has the potential to substantially expand its exports of both agricultural and manufacturing goods and designing an appropriate trade policy regime will greatly enhance Jordan’s capacity to realize this potential. Given the growing importance of cross-border production networks, Jordan’s potential for expanding merchandise exports, especially manufactured goods, can only be achieved through the liberalization of both imports and exports.

Import Measures

Policies related to merchandise imports have the most direct impact on the allocation of resources in Jordan. The rationalization and liberalization of import measures can therefore reduce distortions that otherwise prevent full exploitation of Jordan’s comparative advantages and market access, and therefore the Jordanian economy’s ability to promote the export-led development and diversification that is required to generate new opportunities and reduce the incidence of poverty.

- **Tariffs and Other Import Taxes.** The GOJ has made substantial efforts in recent years to reduce tariff barriers. Jordan’s simple average tariff was reduced from 19 percent in 2000 to 11.5 percent in 2006. Given the recent rounds of zero-rating for non-dual use intermediate goods, the simple average tariff, particularly for manufacturing goods, is likely to be even lower. While barriers to imports are not particularly high, the overall tariff structure retains a number of distortions—including high dispersion and tariff escalation—that prevent the more efficient allocation of scarce resources, which may be more appropriately allocated toward more skill-intensive “intermediate” stages of productions (versus final assembly, which is often lower skills based). The realization of Jordan’s export potential can be best promoted through the reduction in dispersion and escalation in tariffs in concert with ongoing efforts to lower tariff rates more generally. This may be realized through a 3-prong approach that reduces the number of tariff bands (and exceptions to those bands) to perhaps four, and, at the same time, reduces both the simple average tariff and the differences between bands.
- **Contingency Trade Remedies.** As Jordan continues to lower tariffs and encourage competition, imports will become increasingly visible and put pressure on less competitive firms and industries in Jordan. This in turn will undoubtedly lead to legitimate pleas for protection (“trade defense measures”) from Jordanian firms confronted with sudden surges of imports, or with unfairly priced or subsidized imported goods. Jordan has codified such remedies in legislation governing the use of safeguards, anti-dumping, and countervailing duties, which is administered by the National Production Protection Directorate at MIT. The GOJ should closely review its application of contingency trade remedy rules to ensure that they not only conform to WTO requirements but also are truly in the interest of the Jordanian economy. In its application of contingency measures, the GOJ should consider not just the minimum criteria required by the WTO but the economy-wide impacts, both positive and negative, both for the competing domestic industry and consumers. In order to do effectively, the NPPD requires additional capacity building, particularly with respect to anti-dumping. This needs to be coupled with increased awareness, by both the private sector and the judiciary, of the role and limitation of contingency trade measures and the need to apply them judiciously.
- **Non-Tariff Barriers.** While tariffs and other taxes on imports are the most easily identified and quantifiable trade costs, non-tariff barriers can impose both direct and indirect costs that raise the price of imports and can discourage imports, as well as the exports that depend on imported inputs.

While the Government of Jordan does not excessively rely on import licensing—the majority of these items are restricted for legitimate reasons (i.e. national security, public health and safety)—some of these approvals may be redundant and/or unnecessary and therefore could easily be reduced without compromising such concerns. This would also free up these agencies’ scarce resources to focus on controlling the import of those items that truly need to be restricted to address such concerns.

With respect to standards, Jordan has aligned its legislation and institutions to meet the requirements of the WTO Agreements on Technical Barriers to Trade and Sanitary and Phytosanitary Standards. JISM, the primary institution involved, as well as the JFDA have benefited from considerable capacity building in this respect. Moving forward, an audit of ongoing capacity building and technical assistance needs within JISM and JFDA should be conducted to ensure that they are able to capitalize on and sustain the forward momentum. Some specific areas that have been raised at the conclusion of the EU Twinning Program with JISM include the passage of the

amended Law on Standards and Metrology, the passage of the draft Accreditation Law that will embody the mandates of the JISM Accreditation Unit and establish its independence, fully establish a National Notifying Authority for notifying conformity assessment bodies, and the establishment of the National Market Surveillance Council to implement the market surveillance program.

- **Border Procedures.** Several entities in the GoJ have border responsibilities including the Customs Department, the Ministry of Agriculture (MoA), Ministry of Health (MoH), and Jordan Institute of Standards and Metrology (JISM). Past efforts have sought to coordinate the various roles; for example, a committee comprising officials from JISM, MoH, MoA and Customs department carry out inspections of food and agriculture products at the border. Customs has also developed standards for certifying operators to implement the WCO Framework of Standards to Secure and Facilitate Global Trade through the “Golden List” program, established in 2005. This effort should be enhanced and the operator/product coverage expanded. In progress are efforts to establish a one-stop shop for imports. A number of agencies have already delegated their border responsibilities to Customs, though it is expected that JISM, JFDA, and MoA will retain their roles in a more streamlined environment that will ensure information-sharing between them. There is widespread support to continue with the Golden List and one-stop shop initiatives and these should be supported to ensure their success. Also to be addressed are the ongoing difficulties associated with the presence of two different customs organizations at the Aqaba Port—a solution needs to be designed to bring customs operations under a single umbrella and the facilitation of the movements of goods to the domestic customs territory.

Export Measures

Policies related to merchandise exports can play an important role in promoting Jordan’s export development and diversification, by reducing transaction costs and providing infrastructure and services to exporters by streamlining of export licensing and approvals, the rationalization of free and special economic zone regimes, the streamlining of other duty- and sales tax- free schemes, the rationalization of export incentives, and the promotion of private-sector adoption of international standards.

- **Export Licensing and Other Approvals.** All goods exported from Jordan are exempted from an export license, except where trade agreements with other countries require such a license. At the same time, exports of certain products require a “prior authorization”, which essentially acts as a license, from the relevant Jordanian government authority. As in the case of import licensing, while Jordan does not excessively impose export licensing or approval requirements, any that exist should be reviewed to ensure that they do not unnecessarily impede trade in goods that do not concern national security, the environment, or violate international agreements (e.g. in the case of protected wildlife).
- **Free and Economic Development Zones.** One important role of government with respect to trade facilitation is the provision of infrastructure and its supporting regulatory framework. Jordan is of course well advanced in these dimensions. Jordan provides a range of infrastructure facilities and services to promote export development, including industrial estates, free zones, the Aqaba Special Economic Zone, and, more recently, the establishment of new economic zones such as King Hussein Bin Talal Economic Zone in Mafraq and another proposed zone in Irbid. Each of these zones has its own legislative and regulatory framework and provides its own package of incentives. While the underlying aim of these zones is to

streamline the trade and investment environment to promote export and related economic development, the experience with zones in Jordan has been mixed to date.

While zones and industrial estates can be made consistent with the Jordan's economic development strategy, the experience to date should be closely reviewed in order to put in place a rational framework that both supports the expansion of trade and investment, as well as Jordan's other development imperatives, including the environment and socio-economic development. This includes the rationalization and merger of the regulation of industrial estates and free zones, and more judicious application of other special economic zones that can distract from wider national and local economic policy reforms.

- **Other Duty-free and Duty-Remission Schemes for Exporters.** In addition to free and economic zones, Jordan offers several schemes to exporters to facilitate trade, including duty-drawback, temporary admission, sector-specific duty exemptions, and bonded warehousing, which, in principle, enables exporters to benefit from duty-free inputs. While such schemes are in principle consistent with the WTO and World Customs Organization (WCO) standards and guidelines, the experience in Jordan has been mixed in terms of the actual benefits accrued to exporters in light of the administrative and other costs involved. The experience of the GST program, in particular, needs to be reviewed, using the drawback procedures as a model for granting refunds. This would eliminate pressures to provide selective zero-rating of inputs for various sectors and would offer benefits to the widest community of exporters, whether they are regular or occasional exporters.
- **Other Export Incentives.** Upon accession to the WTO, Jordan was granted special and differential treatment with respect to the full implementation of the Agreement on Subsidies and Countervailing Measures (SCM). Exporters are granted a range of other fiscal incentives under various laws. While Jordan may be permitted by the WTO to continue to offer exemptions to exporters, such exemptions are often more harmful than beneficial. They introduce distortions that, like different tariffs for different products, encourage the misallocation of resources towards activities that may not reflect Jordan's comparative advantages. While it can be expected that some industry sectors will lobby against such action, it should be noted that a comprehensive tax reform package is being developed that will greatly simplify the income tax system, with the introduction of a uniform tax rate. This would greatly reduce the rate of taxation for the service sectors, would eliminate the large number of extra taxes and fees that are currently levied, and will reduce the cost of administration, for both the Government of Jordan and for individual enterprises.
- **Export-related Border Procedures.** While actual border procedures are relatively swift in Jordan, a range of other approvals and documentation may be required that are not included in these time and cost estimates, including product-specific approvals and licenses. Jordan Enterprise is in the process of assessing ways to streamline export procedures, including the establishment of a one-stop shop that would bring together the various entities engaged in approving exports in order to better facilitate export development. This is an effort worth exploring, given the positive impact it can have on reducing transit times for sensitive items, though the concept should be fully evaluated to ensure the design of a system that is not simply a "one more stop shop" for exporters but provides the type of value added and facilitation that is intended.
- **Standards-related Market Access Issues.** One major constraint that is cited by the private sector, across a wide range of export industries (including agriculture, manufacturing, and services) is that lack of capacity, know-how and/or technical

expertise required to access markets in terms of standards. Standards have also increasingly become a source of trade disputes. Making sense out of the labyrinth of standards, understanding the processes and technologies required to meet those standards, and the ability of developing country institutions to verify those standards has become one of the greatest hurdles that an exporter will face in accessing new markets. While the burden of turning comparative advantage into competitive advantage is mostly carried by the private sector, the GoJ has an important role to play in proactively securing and monitoring market access for Jordanian exporters. Some specific actions that the GOJ can take include active participation in multilateral standards-setting bodies to promote the interests of Jordanian exporters; workshops, pilot demonstration projects, and effective extension programs to address poor farm-level handling practices; the negotiation of Mutual Recognition Agreements; and information dissemination.

Trade Policies related to Services

Trade in services accounts for only 34 percent of Jordan's total exports, though the sector accounts for 64 percent of GDP. While some inroads have been made with respect to selected other services, such as medical services and higher education particularly vis-à-vis GAFTA countries, Jordan has not yet fully capitalized on its comparative advantages with respect to engineering skills that should position Jordan to better promote its ICT and architecture and engineering sectors. While each of these sectors requires supply-side support to build their capacity to export (which Jordan Enterprise and several donor projects are actively supporting), many policy related constraints restrain trade in services. Given the size and breadth of the existing service sectors in Jordan, further opening these markets to international trade would have positive impacts on service exports, as well as spillover effects on the agriculture and manufacturing sectors that depend on a wide range of support services.

Import Measures

As in the case of merchandise, policies related to service imports have the most direct impact on the allocation of resources in Jordan. The rationalization and liberalization of import measures can therefore reduce distortions that otherwise prevent full exploitation of Jordan's comparative advantages and market access, and therefore the Jordanian economy's ability to promote the export of services.

- **Jordan's Services Commitments under GATS and Free Trade Agreements.** Upon accession to the WTO in 2000, Jordan committed to liberalize trade in 110 service sectors under the framework of the General Agreement on Trade in Services (GATS). While addressing the main service infrastructure sub-sectors, the commitments bound the status quo with no increased liberalization. Jordan made additional commitments under the Jordan-US FTA. While Jordan's trade restrictiveness with respect to services is typical of a lower-middle income country, but at the same time suggest that the country would benefit from further liberalization measures in the insurance, fixed telecommunications, and mobile telecommunications sectors. It would be beneficial to undertake a systematic and logical review of the limitations imposed horizontally on all sectors (including foreign investment equity caps, minimum capital requirements, and nationality restrictions), as well as MFN exemptions, which can delay necessary improvements of competitiveness and, hence, export development and job creation.
- **Safeguard measures.** Safeguard measures are as applicable to trade in services as they are to trade in goods, although more complicated due to unresolved technical issues. Jordan's negotiating team should remain aware of progress made on EMS as

they relate to services without using them in the interest of over-protecting their domestic market.

Export Measures

The GOJ can also take proactive steps to promote service exports by working with the private sector to address market access issues in destination markets, promoting the adoption of service standards in the private sector, and addressing sector-specific regulatory issues that constrain Jordanian service exports.

- **Market Access Issues.** Just as Jordan has implemented a multitude of service commitments at the multilateral and bilateral levels, so have other countries that make up Jordan's current and potential export markets. Unfortunately, given the high volume of this information, the lack of knowledge on where to investigate, and most importantly the absence of a strategic approach, most Jordanian businesses know little about accessing the service markets in foreign countries. The private sector should play a pivotal role in helping to determine policy for services exports, first by providing information to policymakers on the problems they encounter in their markets and second by learning how their competitors are tapping existing and potential traditional and non-traditional export markets. A survey should first be carried out to learn more about exporters' constraints to improving their performance; second, a formal mechanism should be established to gather feedback on a continual basis.
- **Service Standards.** In addition to market access constraints, a key element of a successful export promotion strategy for merchandise goods involves standards and product conformity; likewise, this element should be included in an export strategy for services.
- **Sector-specific Issues.** While it is beyond the purview of the current study to conduct sector-specific analyses of constraints to export development in the services sectors, recent work by UNCTAD provides an indication of the types of issues that some of the leading sectors face, in terms of both domestic constraints and market access issues. The GOJ should carefully review the actions required to support leading and potential export sectors, including financial services, ICT, tourism, architecture and engineering, and others.

Complementary Trade Policy Measures

In addition to "traditional" trade policies, a number of other complementary policies can have a significant impact on trade and investment and, therefore, the ability of Jordan to diversify into value-added export sectors.

- **Competition Policy.** An effective domestic competition policy framework is an important complement to liberalizing external barriers to competition. Competition policy is an important to promote competitiveness of domestic industries, and promotes the development of small and medium enterprises. The GOJ has made great strides in aligning its competition policy with international standards. However, a number of capacity and institutional factors need to be addressed to effectively enforce competition policy, including training or judiciary; jurisdictional issues between the Competition Directorate at MIT and other sector regulatory agencies in Jordan; and the establishment of the Competition Directorate as an independent agency.
- **Intellectual Property Rights.** Jordan has adopted a wide range of substantive IP laws in recent years, but needs to take additional action to enforce legislation on the books. Priority IPR reforms for Jordan to undertake include actions in various IP

areas: In patents, finalize accession to the Patent Cooperation Treaty (PCT). In trademark, finalize Jordan's accession to the Madrid Protocol on international trademark registration. In copyright, adopt draft copyright regulations and instructions to enhance copyright compliance. In data protection, better reflect new chemical entities or new uses of old chemical entities in the Unfair Competition and Trade Secrets Law and in JFDA regulations and instructions. In the administrative area, an essential action is to create an independent IP regulatory agency. Regarding border measures, Jordan needs to amend the Customs Law to ensure better enforcement and prosecution of trademark and piracy cases. In copyright piracy, the number of ex officio raids is positive but judicial decisions remain ineffective in deterring piracy. To combat piracy, Jordanian laws need to be enforced more stringently against street vendor markets in Amman and other cities where sales of pirated goods are strong. To support enforcement, support ongoing training of judges and prosecutors.

- **Trade-Related Investment Measures.** TRIMs are seen as equivalent to historical trade barriers. Currently Jordan does not impose TRIMS and should not do so in the future.
- **Behind-the-Border Trade Facilitation.** With Saudi Arabia and the Gulf States to its south and southeast, Syria and Lebanon to its north, Israel, the West Bank and Gaza to its west, and Iraq to its east, Jordan is ideally situated geographically to accommodate an existing regional transit market for goods destined to neighboring countries. Unfortunately, Jordan has been unable to capitalize on this advantage because of high costs and inefficiencies inherent to the structure of the sector, and logistical problems. The Ministry of Transport drafted a National Transport Strategy for the period 2005 to 2007 that includes some of the regulatory reforms and infrastructure development projects required to improve Jordan's transport and logistics sector. While the implementation of the National Transport Strategy is beyond the purview of a National Trade Strategy, the success of the former will greatly impact the success of the latter and should, therefore, be supported and actively promoted. Progress against the strategy should be rapidly reviewed and a plan of action developed to implement the remaining items.
- **Policies related to e-Commerce.** E-commerce is increasingly an important tool to promote trade. Various initiatives have been created to promote e-commerce in Jordan. However, the absence of certification bodies and a secure public key infrastructure (PKI) are major impediments to the creation of an effective e-contracts and e-transactions environment. To date, the GOJ has not issued electronic payment instructions. Regulations that are hoped to be adopted include: (i) digital certificates; (ii) licensing and regulating certification authorities; (iii) national digital identify; and (iv) foreign certification authorities. The passage of these regulations is essential and will have positive impacts across the Jordanian economy by facilitating trade and enabling Jordanian companies to participate in one of the most dynamic segments of the global economy.
- **Impacts and Role of Tax Policy on Trade.** Income tax policy affects, of course, all segments of an economy. However, these impacts vary across segments. The current tax system in Jordan includes different tax rates and different incentives for different types of activities. Also, tax incentive schemes are administered under three separate laws, each providing incentives for different segments of the economy. Some of these incentives, which are directed at exporters, introduce an additional layer of distortion. While the WTO has granted Jordan an extension to continue granting some such incentives under the Income Tax Law, it is generally not in the overall interest of Jordan, particularly in light of ongoing tax reform efforts that seek to eliminate many of the existing distortions.

- **Impacts and Role of Trade Policy in Promoting the Role of Women.** Attaining Jordan's vision of becoming a globally competitive economy that is able to generate sustainable economic growth and more and better jobs for its people will be strongly linked to its ability to optimize the use of its most precious resource, its people. Evidence strongly suggests that overall economic competitiveness is correlated to the role of women in the economic sphere. Trade and trade policy is often presumed to be gender-neutral. However, trade liberalization does not occur without adjustment costs—the removal of tariffs and other trade barriers may expose previously protected sectors to competition in Jordan and open up new areas to exchange and commoditization. New trade policies are also likely to produce changes in prices, employment and consumption due to asymmetries in the role of men and women in the Jordanian economy. Assessing the impacts of trade policy reforms in Jordan can be conducted through Gender Impact Analyses (GIA).
- **Impacts and Role of Trade Policy in Addressing Environmental Concerns.** Liberalization of trade is not a goal in and of itself but rather a means to promote prosperity through improved economic efficiency and development. Given Jordan's limited and fragile natural resource base and rising concerns about the impact of energy prices on industry, sustainable development is, rightfully, the ultimate goal of the National Agenda. Jordan's trade and trade policy can have both direct and indirect impacts on the ability of the Jordanian economy to move in a more sustainable direction. Many different types of methodologies could be used in conducting environmental reviews of trade measures and agreements in Jordan, the criteria for which should be developed in coordination with relevant Ministries (e.g. Ministry of Environment, Ministry of Agriculture, Ministry of Energy and Mineral Resources, Ministry of Planning, Jordan Valley Authority) as well as the private sector (firms and farms) and NGOs.

EXTERNAL TRADE POLICIES

External trade policies are those that are negotiated with trading partners. These policies ultimately determine Jordan's access to international markets and can therefore provide important incentives to investors, exporters, and domestic producers who rely on imports and/or exports. The GOJ needs to ensure that the negotiation of international agreements is compatible with Jordan's development goals, including export development and diversification, as well the development of a sustainable economic development model.

Participation in World Trade Organization

Jordan successfully joined the multilateral rules-based trading system of the WTO on April 10, 2000, and agreed to assume all of its WTO obligations upon accession. Jordan's commitment to the WTO is the single most important external policy, and the GOJ should make its proactive participation a high priority. This year's WTO Trade Policy Review, Jordan's first since accession, should reinforce the progress already made toward more predictability, transparency, and uniformity in policy mandated by the rules-based trading system.

- **Non-Agricultural Market Access Negotiations.** Since its accession to the WTO, the GOJ has made great strides in reducing its tariffs. While the agrees modalities have yet to be established, it is understood that, unlike the ad hoc approach of the Uruguay Round, the new round of NAMA negotiations will adopt a formula approach. While the scope for negotiations will be much narrower, the GOJ should use this opportunity to signal its commitment to reduce overall tariff levels as well as the degree of dispersion and escalation. This would go along way to solidify Jordan's reputation as a modern and liberal trade and investment environment.

In addition to the across-the-board NAMA tariff reductions, it is expected that a number of sector-specific agreements will be negotiated. While Jordan should be favorably inclined towards many of these sector agreements, the GOJ should carefully consider the options related to any sector agreements, with a full evaluation of any costs and benefits once these agreements reach a stage where the outcome can be properly assessed.

- **Agricultural Market Access Negotiations.** With regards to Agriculture, the Doha Declaration commits WTO members to substantial cuts in market protection and trade-distorting domestic subsidies as well as reductions of, with a view to phasing out, all forms of export subsidies. The Doha Round negotiations on agriculture have therefore focused on three main pillars: domestic support, market access, and export competition. The elimination of export subsidies and reduction of domestic subsidies result in an increase of world prices for main-traded commodities. The impact of agricultural trade liberalization is expected to be, overall, negative for Jordan as revenue and consumer losses from higher prices will likely outweigh the benefits to producers/exporters in selected sectors (such as powdered milk and tomatoes).

Jordan has the possibility to list a number of sensitive agricultural products (based on criteria of food security, livelihood security and rural development needs) in a Special Product (SP) list for which most of the above-described trade liberalization will not apply. Jordan's SP listing is expected to impact negatively on consumers and positively on domestic producers of listed products but also have secondary effects on other products because of the substitution effects. Jordan should therefore reconsider the above results when determining its final negotiating position, particularly vis-à-vis its SP list, which may increase, rather than reduce, the losses associated with multilateral liberalization.

- **GATS Negotiations.** The Uruguay Round broadened the scope of multilateral trade negotiations to include services. Given the relative size of the service sector in Jordan, the inclusion of services under the WTO framework should be welcome and the GOJ should therefore take a proactive role. The second round of GATS negotiations is currently under way. Jordan should proactively participate in these negotiations as a full-fledged member of the international trading community and demonstrate its commitment to further liberalization. In terms of specific service schedules, the GOJ should consider binding new horizontal and sector commitments into a revised schedule that reflect the recommendations provided above, including reductions or elimination of equity caps on foreign investment in various sectors; reduction of the minimum investment threshold; removal of nationality requirement in various sectors; clearly established criteria for land lease by foreigners; removal of MFN exemptions where no longer warranted; and reductions in restrictions in key services sectors, such as finance, real estate, tourism, ICT, and architecture and engineering, among others as appropriate.
- **Acceding to and implementing the GPA.** On joining the WTO in 2000, Jordan agreed to negotiate accession to the GPA, but as of early 2008, Jordan had still not joined, despite serious and substantial steps. Final negotiations and implementation should be encouraged as part of Jordan's trade strategy, not only because of the large potential benefits in expanding exports, but also because accession would send a powerful signal to the global community that Jordan is firmly committed to an open, transparent, private enterprise economy. Among actions to support accession, Jordan should conduct a review of all issues and update of information required by the WTO regarding GPA accession. The government should raise awareness among industries likely to benefit from potential opportunities under the GPA and increase awareness of key product and market opportunities by conducting

informational workshops for firms identifying opportunities in conjunction with trade attaches and donor organizations. It should consider appropriate programs to help small and medium firms take advantage of opportunities, and conduct the analysis necessary to justify having an SME set-aside program based on Jordan's unique SME conditions and needs, and drafting an SME program acceptable to GPA members. It should also leverage accession into enhanced concessions by considering a separate bilateral government procurement agreement with the U.S., an issue broached by the Jordan-US FTA Joint Committee, and initiate preliminary discussions with the EU in the context of the Neighborhood and Partnership Instrument.

Participation in Regional Agreements

In addition to commitments under the WTO, Jordan became a signatory to a number of bilateral and plurilateral preferential and free trade agreements, including the JUSFTA, the EU Association Agreement, GAFTA, the Agadir Agreement (with Egypt, Tunisia and Morocco), an FTA with Singapore, as well as one with EFTA. Jordan has also been a beneficiary of the QIZ program, a US concessionary arrangement. A number of other agreements are in the planning stages, including FTAs with Turkey, Kazakhstan, and Canada. Each of these agreements was designed to enhance Jordan's market access through preferential treatment in key export markets. The QIZs and JUSFTA have had the most visible impact on Jordan's trade performance. While such regional agreements can enhance market access, and complement Jordan's liberalization commitments under the WTO (and its unilateral reforms), the welfare outcomes are uncertain, depending on the scope of the agreements, in terms of the rules that govern preferential access (product/sector coverage, rules of origin, complementary policy harmonization measures), as well the degree to which Jordanian producers and service providers are able to take advantage of these market access opportunities.

Lessons Learned

While Jordan has clearly benefited in many ways from its regional trade agreements, the evidence suggests that these agreements have yet to be fully exploited. Greater gains could be achieved if the GOJ is able to address some of the key issues that face exporters to each of these markets, particularly rules of origin, as well as more effective export and investment promotion that fully exploits the advantages that these agreements provide to Jordan as an export platform. At the same time, it needs to be recognized that these preference-induced advantages will ultimately be limited in time as these preferences are eroded and Jordanian exporters are forced to compete on a more level playing field. Each of these issues is addressed in turn below.

- **Rules of Origin.** Preferential rules of origin (ROO) provide the criteria that exporters must meet in order to take advantage of the preferential duties offered through a given agreement. Rules of origin impose a number of costs on exporters. There are both economic costs and compliance costs. In the case of Jordan's regional agreements, the costs of compliance vary greatly. The EU Association Agreement includes the most complex rules, and likely the most costly in terms of compliance. The JUSFTA (and QIZ) ROO are the most simple of the three major agreements. In addition to the costs associated with individual rules of origin, there is an issue of compatibility between agreements. Differing ROO can deprive would-be exporters of the ability to achieve scale economies and reinforce destination-specific industries—a pattern that is evident in Jordan's exports to the three markets. ROOs present a challenge to market access in some sectors and some regions, especially the EU. The GOJ should clearly continue to negotiate compatibility among ROOs and study the potential positive effects of future FTAs in this light.

- **Exploiting Spillover Effects.** Despite issues related to rules of origin, Jordan's regional agreements provide it with a strategic comparative advantage that has not been fully exploited. While investment in the garment sector has been driven by Jordan's preferential access to the US market first under the QIZs and, increasingly, under JUSFTA), other sectors have not fully capitalized on Jordan's market access opportunities. While supply-side issues have contributed to the current state, opportunities exist to promote FDI and joint ventures to take advantage of the FTAs. With the implementation of the Pan-Med rules of origin, Jordan has a wide range of untapped opportunities for forge regional alliances through trade and investment.

The high-level trade analysis conducted here for each of the agreements should be deepened to provide a better indication of the specific market opportunities, based on existing exports. Jordan Enterprise has an important role to play in conducting such analyses and should target assistance to those sectors that can best take advantage of Jordan's market access agreements. Such analyses should be complemented by sector- and market-specific export promotion strategies to assist beneficiary sectors and firms to penetrate export markets. Such analyses and studies should also inform the development of an aggressive, well-targeted investment promotion campaign by the JIB.

- **Preference Erosion.** While Jordan has benefited in many ways from the trade preferences that it enjoys, and there is room to expand and diversify these benefits, the value of such preferences is expected to be eroded in the coming years, which will reduce the price-based comparative advantage that Jordan currently faces in these markets, though the extent of this erosion may only be marginal. There are two expected sources of preference erosion: (1) new trade agreements between Jordan's trading partners and its competitors, and (2) multilateral trade liberalization. While it is clear that some Jordanian export sectors will certainly face preference erosion in the coming years, the GOJ will be at a loss to mitigate any such erosion directly. However, rather than view preference erosion as a loss of competitiveness, the existing preferences should be viewed as a window of opportunity to upgrade Jordan's export sectors. The GOJ must also upgrade its own capacity to facilitate trade through the removal of border and behind-the-border constraints that reduce the ability of Jordanian exporters to reduce trade-related transaction costs (and therefore price-competitiveness) and reduce import-export times that impede Jordanian exporters from meeting strict time-bound delivery requirements.

Assessment of Options for Negotiation of New FTAs

Looking to the future, the Government of Jordan is already actively pursuing a number of new trade agreements, with Turkey and Kazakhstan, while others are in earlier stages of discussion (e.g. Canada). While each of these opportunities cannot be evaluated in the current context, lessons from the implementation of Jordan's existing agreements, and the experience of other free trade arrangements, suggests a number of considerations that should be taken into account in the decision to enter trade talks and the design of any agreements that may ensue from such talks. Consequently, the GoJ, in partnership with the private sector and research community, needs to carefully study the impact of existing agreements as well as any proposed future agreements. The methodology for this might include that provided by the World Bank (2002) and the MIT Manual for Evaluating Potential Future FTA.

Whatever methodology is adopted, there are a number of issues that should be addressed, including product coverage, potential welfare effects (trade creation and trade diversion), the structure of Rules of Origin and impact on export sectors, as well as compatibility with existing agreements, and implications of other complementary policy harmonization measures.

TRADE POLICY INSTITUTIONAL FRAMEWORK

As Jordan continues to become more committed to the global market and strives to send the signal to traders and investors that Jordan is a reliable, business friendly place to locate and do business it will become increasingly important to support the institutions capable of making and assessing the impacts of policies, as well as those providing services to exporters, and to ensure compliance with the rules based trading system of the WTO or regional agreements.

Institutional Structure

A number of studies have suggested that a more coordinated approach to trade policy formation is required in Jordan (UNDP, National Agenda). The institutional structure of trade policy formulation in Jordan has been identified as having the following broad weaknesses: fragmented proposal preparation and approval among different government departments lead to lack of consistent and coordinated policies; policy proposals lack detailed analytical and research to guide negotiating positions and the economic impact of the multilateral/bilateral trade agreements; few formal mechanisms exist for departments to consult with each other; absence of a follow-up mechanism for trade policy commitments and effects; redundant resources between MIT and MOP; and lack of a sustainable, transparent mechanism for coordination with the private sector and allied institutions. The result has been an often uncoordinated and less than effective trade policy framework. A rationalized structure with clear lines of responsibility and communication needs to be developed—a number of proposals have already been made and should be considered.

Improving Openness and consultation in Policy Making

In improving the quality of its decisions, MIT and other agencies in the Government cannot act in isolation. An important means of making better policy decisions that are consistent with the needs of an open trading environment is through consultation with affected stakeholders. Governments engage citizens in policy processes in many ways. *Public consultation* is a systematic process of asking citizens for information on specific policy issues, and using the information received to make better policy decisions.

MIT has committed to piloting in 2008 a consultation program based on international norms of good consultation practices, such as those published by the OECD. MIT will adopt a mandatory consultation practice, and will create new consultation institutions such as a regulatory advisory council to improve dialogue and information collection, at an early stage, of the consequences of draft proposals before they are adopted. Trade impacts can be a part of this discussion of government policy. MIT will also publish drafts of new regulations as part of the consultation program, which can help satisfy WTO requirements for notification and disclosure of regulations with potential trade impacts.

Institutional Capacity Building for Policy-Making

An institutional structure is only as strong as its capacity to understand the impacts of its policies. The availability of ad hoc technical assistance from donors has enabled the Government to focus on priorities other than research capacity until now. Now that many of these priorities have been addressed, a more sustainable system of trade research is urgently needed to formulate appropriate policy for Jordan. Therefore, in parallel to efforts to strengthen the policy coordination process, capacity building is required to strengthen the overall structure.

The MIT does have a wider mandate than simply to support industry, so should be expected to have at least some indigenous capacity. A program, therefore, needs to be established with the patronage of the GOJ and donor community to form a unit or actively support

existing units to support to build the skill sets required to undertake complementary studies related to investment, agriculture and other trade policy related research.

While in a small country such as Jordan, and with the existing civil service constraints, it cannot be expected that MIT staff have the capacity to undertake sophisticated modeling, there is a need to have internally the capacity to utilize basic research tools and apply simple analyses, such as trade flow analysis, as well as to 'consume' and 'interpret' external research that is commissioned to support trade policy formulation.

Moving forward, it will be important to develop research capacities outside of government, such as in universities or independent research institutes. Policy-makers need to be linked through formal and informal networks to non-governmental sources of trade-related research, analysis and dialogue. In this regard, there is a need of a research institute or network of researchers to could undertake analysis and research related to domestic policy issues, the impact of the multilateral trade agreements and to the preparation of the negotiating positions.

Improving Openness and Consultation in Policy Making

In improving the quality of its decisions, MIT and other agencies in the Government cannot act in isolation. An important means of making better policy decisions that are consistent with the needs of an open trading environment is through consultation with affected stakeholders. Governments engage citizens in policy processes in many ways. *Public consultation* is a systematic process of asking citizens for information on specific policy issues, and using the information received to make better policy decisions. Consultation is part of the process by which governments become more transparent to citizens, better informed about problems and solutions, and hence able to develop policies that are more effective and lower-cost. Consultation in regulatory and other policy decisions has become a global norm of good government policy and an essential component of collecting the information needed to make reliable decisions.

The Government of Jordan does not have a government-wide consultation policy and has not established standard methods of stakeholder consultation. Each ministry has its own consultation methods. However, enhanced government transparency and accountability for government decisions are explicitly included in Jordan's current development plans. For example, *The National Agenda* contains a commitment to "Build trust between citizens and institutions and adopt principles of transparency, good governance and accountability."

MIT has committed to piloting in 2008 a consultation program based on international norms of good consultation practices, such as those published by the OECD. MIT will adopt a mandatory consultation practice, and will create new consultation institutions such as a regulatory advisory council to improve dialogue and information collection, at an early stage, of the consequences of draft proposals before they are adopted. Trade impacts can be a part of this discussion of government policy. MIT will also publish drafts of new regulations as part of the consultation program, which can help satisfy WTO requirements for notification and disclosure of regulations with potential trade impacts.

As the MIT program is implemented, it could create a useful platform to expand the consultation practices across the entire government to ensure that all important policy decisions with potential impacts on the private sector, trade and other impacts, are identified and assessed before the government takes action.

1. INTRODUCTION AND BACKGROUND

The Government of Jordan (GoJ) is firmly committed to the goals of private-sector led growth, development, and poverty reduction. As a small country with limited natural resources, Jordan is highly dependent on trade to sustain its economic development—for the import of raw materials, intermediate inputs, capital equipment, as well as consumer goods, and for the export of its agricultural, commodity, and manufactured goods. Trade opens the Jordanian economy to both competition (both domestically and in third country markets) and to new opportunities to build economic scale and exploit existing comparative advantages. A coherent and integrated trade policy strategy will play an important role in shaping the market signals that will ultimately determine Jordan’s competitive positioning and its ability to promote sustainable private sector led development.

This National Trade Strategy is being developed at an opportune time. In 2008, the GOJ will participate in its first WTO Trade Policy Review since its accession. While the WTO Secretariat’s review will focus on trade policies in place at the time of the review, the GOJ has the opportunity to demonstrate, in its own report to the Secretariat, its commitment to formulating and implementing an open trade policy framework. The framework will demonstrate to potential investors, trading partners and the development community, the GOJ’s ongoing commitment to provide a transparent and facilitating environment for the private sector that will enable the latter to exploit its comparative advantages in the quest for a growing share of the global marketplace.

1.1 JORDAN’S RECENT TRADE POLICY REFORMS AND TRADE PERFORMANCE

1.1.1 Recent Trade Policy Reforms

Jordan has come a long way in a relatively short period in terms of opening its economy and integrating with the global economy. Jordan’s accession to the WTO was preceded by a wide-ranging package of reforms that touched almost every aspect of the trade environment, and entailed amendments to numerous existing laws (e.g. Trademarks and Copyrights laws, Customs Law, General Sales Tax Law, and the Law on Unifying Fees and Taxes) and enactment of many more new laws (Patents, Models and Industrial Design, Integrated Circuits, Trade Secrets and Unfair Competition, Geographical Indications, Plant Variety Protection, Standards and Metrology) and regulations (Safeguard of National Production, Non-Jordanian Investments, and Consular Fees). The GOJ made substantial efforts to ensure that these reforms were passed within record time to accelerate WTO accession.

Jordan has taken significant efforts over recent years to implement its WTO commitments and, in some areas, has significantly surpassed its commitments, such as the reduction of the majority of tariff lines below WTO-bound rates. Jordan has also entered into a number of free trade agreements with its major trading partners, including the European Union (Jordan-EU Association Agreement); United States (Jordan-US Free Trade Agreement); its Arab League partners (Greater Arab Free Trade Agreement); Tunisia, Morocco and Egypt (Agadir Agreement); the EFTA countries (Jordan-EFTA Free Trade Agreement); and Singapore (Jordan-Singapore Free Trade Agreement).

While the GOJ has remained committed to trade liberalization, and substantial progress has been made, a clearly articulated trade policy strategy has been lacking. More importantly, many policies have been formulated and implemented without full analysis and comprehension of the costs and benefits to consumers, producers and overall welfare, neither at the macroeconomic level nor at the microeconomic level, particularly in terms of the competitiveness of Jordan’s existing and emerging export sectors.

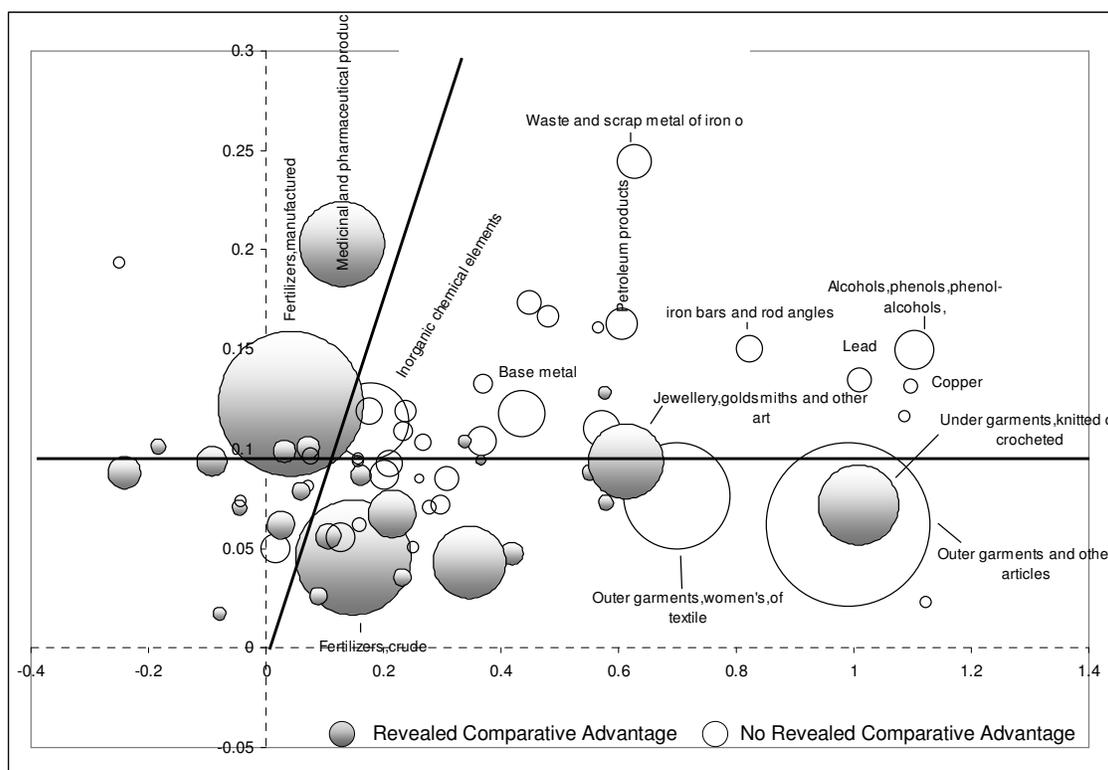
1.1.2 Recent Trade Performance

The combined effect of Jordan's pre- and post-accession reforms has had a positive impact on many segments of the Jordanian economy, particularly in terms of export development. Jordan's overall exports grew by an average of 13.5 percent between 2001 and 2005 (and by an equivalent amount between 2005 and 2006), which translates into an almost two-fold increase over the period—a rate of growth that was largely aligned with the pace of global expansion over the same period.

1.1.2.1 Jordan's Trade Performance by Sector

Jordan's rapid export growth has been driven, primarily, by the expansion of manufacturing exports, which grew more than three-fold between 2001 and 2005. Apparel sector exports, primarily destined to the US market, accounted for more than half of this growth (58 percent). Jordan's other major exports include crude and manufactured fertilizers and pharmaceuticals. While export growth has been generally strong across products and markets, few individual product sectors have managed to diversify their markets. For example, some 98 percent of apparel exports are destined to the US despite Jordan's free trade agreement with and proximity to the EU.

Figure 1-1—Jordan's Manufacturing Export Growth, 2001-2005

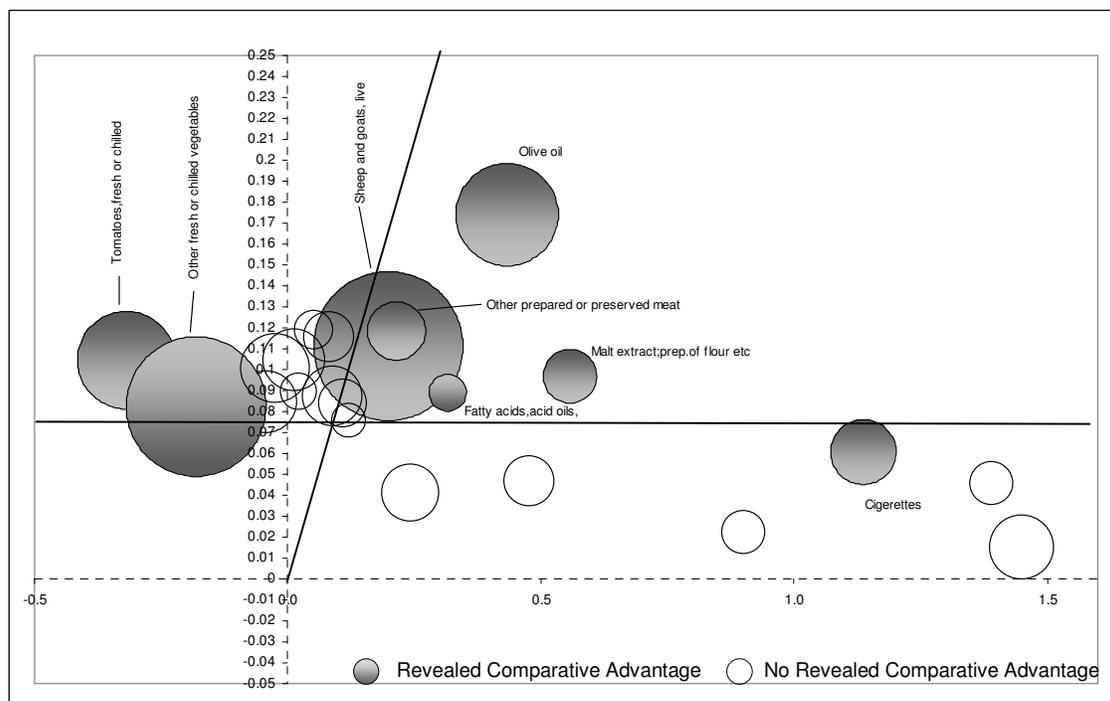


Source: UN Comtrade.

Since 2001, Jordan's agricultural exports have grown rapidly, by an average 22 percent per annum, increasing more than two-fold by 2005. Jordan's fastest growing agricultural exports include a mix of raw agricultural commodities and processed foods such as olive oil, malt extracts, fatty acids, and live sheep and goats. Other significant exports include fresh tomatoes and other fresh vegetables. While a substantial share of agricultural goods are destined to other Middle East countries (GAFTA accounted for 76.5 percent of Jordan's agricultural exports in 2005), an increasing share (8 percent) is being exported to the EU (fresh fruits and vegetables, vegetable oil, and fruit and nuts).

While Jordan’s agricultural exports have grown substantially in absolute terms, when compared to its competitors, Jordan’s performance has been even more positive, enabling Jordan to gain market share almost across the board. Jordan has a revealed comparative advantage¹ in many of these products, including fresh tomatoes, fresh and processed vegetables, olive and vegetables oils, and fatty acids, among others. This suggests the potential to further expand such exports provided that producers can meet the standards required in terms of quality, delivery times and consistency of supply. Ensuring that the trade policy framework can support this development—reducing transaction costs for exporters—will be critical to achieving this potential.

Figure 1-2—Jordan’s Agricultural Export Growth, 2001-2005



Source: UN Comtrade.

Jordan’s services sector have also played an important role in expanding trade, though only account for one-third of Jordan’s exports compared to two-thirds of GDP. While disaggregated data on trade in services is not available, evidence from selected sectors suggest that service exports are largely oriented toward the Middle East and North Africa region. While some inroads have been made with respect to selected services, such as medical services and higher education particularly vis-à-vis GAFTA countries, Jordan has not yet fully capitalized on its comparative advantages with respect to engineering skills that should position Jordan to better promote its ICT and architecture and engineering sectors. While each of these sectors requires supply-side support to build their capacity to export (which Jordan Enterprise and several donor projects are actively supporting), many policy related constraints restrain trade in services. Given the size and breadth of the existing service sectors in Jordan, further opening these markets to international trade would have positive impacts on service and exports, as well as spillover effects on the agriculture and manufacturing sectors that depend on a wide range of support services.

¹ The graphs compare Jordan’s export growth for each product to Jordan’s average rate of export growth (horizontal axis) and against the average growth of world import demand (vertical axis). “Revealed comparative advantage”, using the Balassa method, measures the relative export performance by country and industry, and is defined as a country’s share of world exports of a good divided by its share of total world exports.

1.1.2.2 Jordan's Trade Performance by Market

In terms of markets, as mentioned above, the successful expansion into the US market after the implementation of the QIZ and JUSFTA, has accounted for a substantial share of Jordan's overall export growth. The QIZ and JUSFTA have had an unequivocally positive impact on the growth of Jordan's exports, creating new market opportunities for the garment sector. However, other sectors have been slower to respond to the new market opportunities in the US (garments accounted for 85.5 percent of Jordan's exports to the US in 2005).

Nevertheless, current export trends reveal the future promise across a wider range of export categories, including processed foods, pharmaceuticals, and jewelry—these are products that, though smaller in volume than apparel, are fast growing exports in higher-than average growing markets in the US and, moreover, Jordan has developed a revealed comparative advantage in many such sectors in the US market. The lack of diversification in the US market may be attributable, in part, due to a lack of supply-side readiness to compete in the US market in terms of price competitiveness, standards, quality and reliability—issues that an integrated trade policy can help to address to some degree.

Exports to the EU also increased substantially during this period, increasing by 80 percent between 2001 and 2005. Europe has long been a major import partner for Jordan, supplying a large range of consumer goods and industrial machinery and equipment, accounting for approximately one-third of Jordan's total imports (US\$2.5 billion in 2005). However, the EU remains a relatively small export market for Jordan, accounting for only US\$126 million in goods (less than 6 percent of total exports) in 2005. While recent export growth has been strong, Jordan's exports have only recently regained its level of exports to the EU after falling between 1996 and 2001. Given the size of the market and potential complementarities given their respective comparative advantages, the level of exports to the EU remain disappointing—again, the lack of competitiveness can be partly addressed by trade policy reforms that improve trade facilitation and lower transaction costs for exporters, which would, in turn, improve price competitiveness in the EU market.

The GAFTA market, as a region, is Jordan's largest and is the most dynamically growing market. Jordan's manufacturing exports are much more diversified vis-à-vis the Gulf market, compared to its export portfolios to the EU and US, and includes pharmaceuticals, manufactured fertilizers, inorganic chemicals, and a range of electrical goods, including both household "white goods" and industrial products such as equipment for electrical distribution, televisions, and civil engineering equipment. Jordan has developed a revealed comparative advantage in many of these product categories, suggesting the potential to further expand exports to the region. The GAFTA region is also a large market for Jordan's agricultural (mostly unprocessed) goods (approximately 80 percent of total agricultural exports). While Jordan's export growth to the region has been strong, particularly in light of overall low levels of intra-regional trade, further progress would likely materialize with efforts to streamline border controls and trade logistics, including trucking regulation—all of which add substantially to trade transaction costs. Resolving these policy issues could also enhance Jordan-EU trade, particularly in agricultural products that currently travel by truck. World Bank economists estimate that each day's delay reduces trade in time-sensitive exports, such as perishable agricultural commodities, by 7 percent.

One trend that is evident from the above data is that Jordan's exports are highly segregated by product and market. There are few commonalities in the top ten exports to each of Jordan's main trading partners (see Figure 1-3). This is, to some degree, a result of different complementarities that Jordan enjoys with each market, though policy, particularly the design of Jordan's international agreements has also played an important role in determining which sectors have the most advantage under the preferential market access arrangements.

Figure 1-3—Top Ten Exports from Jordan to US, EU and GAFTA (2005)

Exports to USA		Exports to EU		Exports to GAFTA	
Items	Value (US\$ Mil)	Items	Value (US\$ Mil)	Items	Value (US\$ Mil)
Articles of apparel	1,082.7	Fertilizers, manufactured	36.9	Medicinal and pharmaceutical products	143.3
Miscellaneous manufactured articles	123.8	Crude fertilizers and crude materials	36.3	Vegetables and fruit	82.9
General industrial machinery & equipment	4.4	Inorganic chemicals	25.5	Electrical machinery, apparatus & appliances	43.2
Machinery specialized	2.7	Rubber manufactures, nes	19.3	Paper, paperboard, articles of paper, paperboard	37.7
Organic chemicals	2.7	Other transport equipment	15.8	Inorganic chemicals	37.7
Medicinal and pharmaceutical products	1.8	Metalliferous ores and metal scrap	15.0	Artificial resins, plastic materials, cellulose	31.6
Non-metallic mineral manufactures, nes	1.2	Power generating machinery and equipment	13.9	Non-metallic mineral manufactures, nes	30.5
Vegetables and fruit	1.0	Articles of apparel and clothing accessories	10.2	Non-monetary gold	29.7
Office machines & automatic data pr	0.8	Miscellaneous manufactured articles	9.6	Manufactures of metal, nes	26.2
Textile yarn, fabrics, made-up articles	0.7	Medicinal and pharmaceutical products	9.5	Fertilizers, manufactured	25.8
<i>% of U.S. total</i>	<i>96%</i>	<i>% of E.U. total</i>	<i>76%</i>	<i>% of GAFTA total</i>	<i>64%</i>

Source: UN Comtrade database.

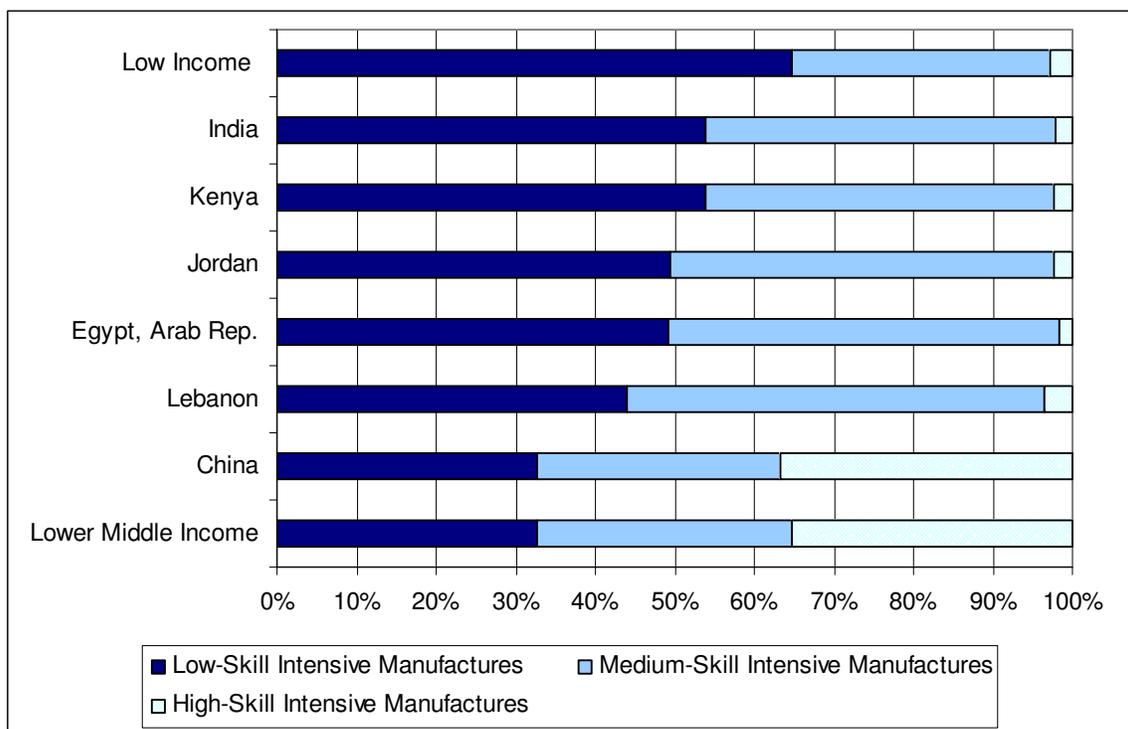
1.2 FUTURE OPPORTUNITIES AND CHALLENGES

While the Jordanian economy has benefited in many ways from these reforms, the lack of a clearly articulated and integrated approach has not enabled the full realization of the benefits of liberalization. Many distortions have been left untreated or new ones created with the piecemeal approach to tariff liberalization and other policy measures—this prevents the efficient allocation of Jordan’s scarce resources (human capital, water, land) toward the most productive and welfare-enhancing uses. The existing policy structures have left in place an anti-export bias despite the GOJ’s stated commitment to export-led growth, which, in a small economy, must also imply growth in imports to competitively supply Jordanian export industries. The consequence has been a reduction of Jordan’s export competitiveness and, ultimately, economy-wide welfare.

Looking forward, however, Jordan has tremendous potential to expand and diversify its exports, while, at the same time, enhancing the overall welfare of both Jordan’s producers and consumers. Numerous studies² have highlighted Jordan’s comparative advantages, including a well-educated and skilled workforce, relative proximity to growing EU and regional markets that provide opportunities for export expansion and diversification, quality utilities and transport infrastructure, and a stable macroeconomic environment.

Yet Jordan’s merchandise export profile does not fully reflect these advantages. By and large, Jordan’s merchandise exports are skewed towards basic commodity exports (unprocessed or minimally processed fruits and vegetables, potash and phosphate-based fertilizers) and/or lower value-added manufactures, such as garment assembly. While the expansion of these exports have created new job opportunities, the skills required are not aligned with Jordan’s higher skilled workforce and do not fully exploit the country’s relatively well developed infrastructure. Jordan’s current manufacturing export structure is, for example, less advanced than the average Lower-Middle Income country, with a higher share of manufacturing exports geared toward lower-skills intensity—sectors in which Jordan must compete against much lower wage countries such as Egypt, China and India. While currently lower-skilled exports, such as garments, are maintained by tariff preferences under the Jordan-US FTA, it is expected that this preference-induced price advantage will eventually be eroded (though is likely to remain in the short- to medium-term).

Figure 1-4—Jordan’s Relative Trade Profile, by Factor Intensity



A more open trade regime that promotes both the imports of intermediate inputs and reduces the anti-export bias that inherently remains could provide new opportunities for Jordan to better exploit its comparative advantages that are geared toward medium-intensity manufacturing. Also required are policies to promote trade facilitation, greater competition,

² Jordan’s competitive positioning was most recently discussed in the Jordan Competitiveness Report, as well as previous investor targeting and benchmarking studies produced by the USAID-funded AMIR program for the Jordan Investment Board.

and enforcement of intellectual property, as well as measures to liberalize market access for services, particularly commercial services (that are both exporters and suppliers to merchandise exporters). These are all discussed in the current document with recommendations to promote reforms that will support sustainable development in Jordan, including export development, the strengthening of supplier industries and value chains, and job creation that leverages Jordan's greatest asset, its skilled labor force.

It is expected, however, that the full exploitation of these opportunities will require a wide range of other policy reforms to promote private sector development and investment (though these are beyond the purview of current study and strategy development). While it is recognized that the GOJ has made significant progress in improving the environment in recent years, a number of recent analyses³ point to a range of policy issues that should be addressed to better promote private sector competitiveness and the expansion and diversification of exports (both direct and indirect). These include policy, legal, regulatory and/or administrative reforms to address:

- **Market entry and exit**, including the reduction of the minimum capital requirement; the removal of foreign equity market caps for most industry and service sectors with exception of those that are justified on the grounds of national security, health or safety; and policies to ease bankruptcy;
- **Labor markets**, including the removal of restrictions on hiring, firing, and working hours, the latter of which severely limit the growth of some non-traditional exports;
- **Taxation**, including the removal of distortions that discourage investment in services and that encourage lower value-added assembly operations at the expense of value-added manufacturing; and
- **Land acquisition and development**, including proper master plans to guide industrial, commercial, tourism, and residential development, the streamlining of land acquisition procedures, the modernization of building codes, and streamlined procedures for environmental clearances.

These are just a few of the constraints that affect almost every sector of the Jordanian economy. In addition to these, there are many others, including those that affect particular sectors.

Lastly, to grow the private sector and enhance value-added and job creation, supply-side assistance is required to strengthen enterprise development, value chain linkages, and overall competitiveness.

1.2.1 New Developments in Global Trade

As this National Trade Strategy strives to maximize the benefits to Jordan, through the full exploitation of its inherent and emerging comparative advantages, its design must take into consideration the fact that the global marketplace is rapidly evolving toward a new paradigm. Production networks are increasingly characterized by cross-border, vertical linkages. This presents both new opportunities and new challenges for the Jordanian economy. The opportunities arise from the more refined division of labor and opportunities for specialization that will allow Jordan to better exploit its existing and emerging comparative advantages. Comparative advantage is no longer defined at the *product* level, but at the *process* level.

This implies that Jordan need not have a comparative advantage along the full value chain but, instead, can focus on those specific stages of production that best make use of its comparative advantages, particularly less cost-sensitive, medium-skilled labor-based

³ See Vision 2020 documents, World Bank's Doing Business indicators, and the Global Competitiveness Report.

activities. For example, while Jordan may not have a comparative advantage in automobile assembly, it may be well positioned to supply parts and components that can take advantage of its medium-skilled labor base and complementary infrastructure. Also, it is possible that regional trade agreements, through cumulative rules of origin, will promote the development of regional value chains that exploit each member's respective comparative advantages. An integrated Trade Strategy should be designed to reduce barriers that would prevent Jordan from taking advantage of these potential opportunities.

Given the increasing role of cross-border production networks, the challenge for Jordan is to ensure that the policy environment is conducive to promoting the integration into such networks. This will require much higher degrees of efficiency in border and behind-the-border policies and procedures. Cross-border production networks are increasingly reliant on just-in-time delivery and efficient linkages between producers and buyers. Jordan's trade policy can play a critical role in this respect, reducing transaction costs that otherwise impede trade.

At the same time, with competition defined no longer at sector or even product level, the welfare effects of trade policies on industry segments, and labor within those segments, are often much more complex. While Jordan's trade liberalization is, overall, welfare enhancing, targeting sectors for protection from international competitive forces may have unexpected adverse impacts on different segments of the labor force, both within and outside the protected sector.

1.2.1.1 Trade Policy Linkages

The impact of further trade policy liberalization in Jordan on its competitiveness and ability to integrate more fully with regional and global markets will be delivered through multiple channels:

- *Strengthening Jordan's Export Value Chains*—Most products change hands many times before they reach the final consumer. Input suppliers, producers, processors, wholesalers and retailers produce, transform, store, transfer, or market the product, adding to its value at each step in the process. The value chain refers to this range of activities that brings a product or service from its conception to its end use in a particular industry. The competitiveness of Jordan's export sectors will be directly linked to its ability to strengthen the domestic value chains that support them to improve quality, value-added, and to build scale economies. Trade policy can have a positive impact by facilitating access to cheaper or better inputs and production technologies, strengthening the delivery of business and financial services, increasing access to higher-value markets, and/or simplifying the import/export process.
- *Encouraging Investment*—The liberalization of trade in Jordan, and other emerging economies, has already had a positive impact on direct investment, both foreign and domestic. While "old-school" foreign investment was largely attracted into many larger developing countries to "jump" high tariff walls, the rapid growth in FDI to developing countries over the past 20 years has, instead, been associated with the lowering of tariff walls, which has been particularly important for the expansion of cross-border production networks. Tariffs and trade barriers can instead negate the competitive advantages offered by a host economy and negatively affect investors' choice of location. The rise of "offshoring" of both processing and services related activities is the most visible manifestation of this growing trend globally.

Also, opening new markets through bilateral, regional or multilateral agreements can encourage the expansion and investment, both domestic and foreign, allowing for greater scale economies and, hence, competitiveness. This linkage can be particularly strong for a small country, such as Jordan, where the domestic market is

too small to encourage foreign investment other than those that are motivated by the acquisition or exploitation of resources.

- *Economic Diversification*—Trade policy can promote the diversification of both products and markets. Again, opening new market through bilateral, regional or multilateral agreements provides exporters with opportunities to expand and diversify their markets. Jordan's experience with JUSFTA provides a case-in-point of the potentially powerful effects that opening new markets can have on the economic structure of the country. Trade policy can also have a positive impact on sector and product diversification—again, the lowering of trade barriers and integration into cross-border production chains will allow Jordan to exploit its inherent comparative advantages across a wider range of sectors and products than would otherwise be possible.

New evidence also suggests that trade policies and the degree of export density (defined as the percentage of exporting firms) has a direct correlation with the ability of firms to innovate through the development of new products. Trade policy distortions hamper product innovation. Hence, an open trade environment with a dynamic and dense export sector will be an important ingredient for promoting a more innovative private sector in Jordan.

- *Employment Creation and Poverty Reduction*—Ultimately, export expansion and diversification will play an important role in generating new jobs and reducing the level of poverty. While the links between trade and labor and wages are still being debated, the evidence strongly suggests that open economies are associated with higher economic growth. The Government of Jordan has committed to an export-led growth strategy—reducing the remaining barriers and disincentives to export will directly impact overall economic growth and the ability of the private sector to create new job opportunities for Jordan's growing labor force, which would, in turn, reduce the incidence of poverty.

1.2.2 Challenges

While further liberalizing Jordan's trade regime is expected to have an overall positive impact on economic growth and diversification, the Government of Jordan must recognize a number of challenges that it will need to face, some of which are already being faced. While it is outside the purview of this trade strategy to address each of these concerns, it will be important to promote policy responses that do not detract from the need to reduce barriers to trade and/or reverse the positive steps that have already been taken to date.

- **Addressing Jordan's widening trade deficit.** While exports have grown substantially since Jordan's accession to the WTO, as oil prices have continued to increase, the value of imports has grown even more rapidly, resulting in a large trade deficit. In 2006 merchandise exports (fob) were US\$5,175 million against imports of US\$11,447 million (cif), resulting in a US\$6,272 million deficit. However, remittances and other transfers are large for Jordan so that the current account balance was smaller and commercial services trade in 2006 was nearly in balance with US\$2,391 million of exports and US\$2,584 of imports.

From the standpoint of a national trade strategy, the trade deficit in particular and the balance of international payments in general is usually best viewed as a macroeconomic phenomenon somewhat divorced from trade policy. From this standpoint, Jordan has sufficient reserves to maintain its US dollar peg and should benefit from the dollar depreciation, especially against the Euro as there is some evidence that as recently as 2005 the Dinar was substantially overvalued (IMF, 2006; 2007). The Dinar depreciation will, itself, tend to reduce the trade deficit, increasing

exports and decreasing imports.⁴ The key focus then should be on maintaining productivity growth and so, to that end, redoubling efforts and the pace of economic reforms.

- **Managing impacts on less competitive sectors/industries.** Opening Jordan's doors to greater international competition will inevitably lead to "creative destruction", whereby new sectors and activities will emerge, but often at the expense of other, less competitive sectors. One of the more important challenges of trade liberalization is to cope with the adjustment costs imposed on less competitive sectors of the Jordanian economy. On the one hand, while adjustment costs are real, they are often overstated in light of the underlying dynamics of an economy. For example, in Jordan, annual turnover in the labor force is perhaps around 10 percent or more. That is, over the course of a typical year one in ten workers leaves current employment for non-trade related reasons and about one in ten new jobs open.

On the other hand, it cannot be denied that some workers will lose their jobs involuntarily and will need to find alternative work. This is less difficult for younger workers or new entrants into the labor force, but may be problematic for older workers who have acquired skills in a particular industry. It should, however, be recognized that without taking the trade policy reforms necessary to better integrate Jordan into the global trade system, the rate of overall economic development will *slow* in Jordan, including new job creation.

Most countries try to ameliorate the displacement of workers with a social safety net consisting of unemployment insurance, job retraining, etc. Jordan may want to review its overall job displacement program regardless of the source of economic displacement that is an inevitable by-product of a competitive market regime.

- **Improving awareness of opportunities.** Lastly, despite substantial efforts in recent years to promote the awareness of new market opportunities, evidence from the private sector suggests that much more needs to be done to improve the awareness of such opportunities, as well as the legal, regulatory and other requirements to enter into new markets. Jordan Enterprise is already taking the lead on this and these efforts will be complemented by other program, including donor-funded activities.

1.2.3 Developing a National Trade Strategy

1.2.3.1 Guiding Principles for the Development of Jordan's National Trade Strategy

The development of Jordan's National Trade Strategy should take into account the basic tenets of international trade and its impact on economic development. Growth and development are best achieved when nations produce what they are comparatively best at producing and then trade for what they are comparatively poor at producing. However, international experience has also demonstrated that comparative advantage is dynamic and changes over time and there are often subtle (hard to identify) industry linkages that affect comparative advantage and competitiveness.

The development of the National Trade Strategy should therefore incorporate a number of key guiding principles, including the need to:

- Support a "rules-based" trading system in order to signal Jordan's commitment to free enterprise and free trade;

⁴ The impact of a Dinar depreciation may be more muted with respect to imports, given the large share of imports that are currently dollar-denominated.

- Develop policy positions that will promote trade based on Jordan's existing and emerging comparative advantages and the rational allocation of Jordan's scarce resources;
- Support more balanced growth through sustainable export and market diversification;
- Enhance market access for Jordan's exporters to better enable them to take advantage of opportunities.

1.2.4 Linkages to Jordan's National Agenda, and related sector initiatives

Operationally, the National Trade Strategy must be geared to the unique demands of Jordan. As such, it should build on several important existing Jordanian strategies, and new ones being developed, with the aim of refining and integrating their trade-related goals into a comprehensive and actionable trade policy framework. Most of these initiatives broadly endorse the liberalization of the trade regime and promotion of export-led growth.

The National Trade Strategy should therefore be linked to the trade-related goals and actions of the most relevant national initiatives and sector strategies, including the:

- **National Agenda:** In the area of trade agreements, the National Agenda aims at enhancing market positioning through inter-national trade agreements, and securing the involvement of the private sector;
- **Information, Communications and Technology (ICT) Strategy:** Increase digital penetration, improve education and stimulate demand for internet services in particular and communications services generally;
- **Tourism Strategy:** Enhance tourism products/sites in Jordan, improve tourism marketing, enhance human resource development, implement institutional and regulatory reforms;
- **Agriculture Strategy:** Improve the quality of agricultural produce and direct production toward high-yield revenue crops which optimize water-use efficiency;
- **Transport Strategy:** Build a modern and efficient transport network through implementing sound regulations and attracting investments in the areas of land, rail, air and sea transport and ports;
- **Industry / Sector Strategies:** To support sector strategies, the Trade Strategy will provide concrete action plans in the trade policy arena to support key sectors, focusing on the removal of identified distortions, and strategies to improve market access.

1.2.5 Links to Proposed Export, Investment and Enterprise Development/Industrial Strategies

A number of other strategies are being developed in parallel with the National Trade Strategy:

- **National Investment Strategy** is being developed by the Jordan Investment Board (JIB) and related public and private stakeholders, to promote productive investment, both domestic and foreign;
- **National Export Strategy** is being developed by Jordan Enterprise (JE), related public-sector and private sector stakeholders in export-oriented manufacturing and services sectors;

- **National Enterprise Strategy** is being developed by JE to enhance the production capacity, quality standards and export readiness of private firms.

These efforts need to be well coordinated in order to ensure that defined policies and strategies are well aligned with one another. The National Trade Strategy will, in essence, define the “rules of the game” in the trade policy arena, including access to international markets, which each of these other strategies will provide for actions that can promote the expansion and diversification of trade and investment within this policy framework. At the same time, the outcomes of each strategy should inform future revisions of each of these strategies, including the National Trade Strategy, to take into account the impact of each on trade and investment in Jordan.

1.3 REPORT STRUCTURE

The following sections provide an overview of existing trade policies, their impact on trade and, more broadly, on Jordan’s economic development, and recommendations for the GOJ to consider in the development of a National Trade Strategy. The analysis and recommendations are geared toward assisting the GOJ to design a strategy that can best take advantage of Jordan’s inherent and newly emerging comparative advantages, which will promote Jordan’s progress along the sustainable growth path outlined in the National Agenda. Chapter 2 discusses Jordan’s internal trade policies, i.e. those policies that the GOJ determines domestically (though many are guided by international standards or commitments), including: Policies related to Agriculture and Manufacturing Trade (i.e. Merchandise trade); Policies related to Services Trade; and Complementary Trade Policies. Chapter 3 discusses Jordan’s External Trade Policies, which are those policies related to Jordan’s international agreements, including the World Trade Organization and other Regional Trade Agreements. Chapter 4 presents recommendations for improving the institutional framework for trade policy making. Chapter 5 concludes with a brief overview of the findings and recommendations for policy reform.

2. INTERNAL TRADE POLICIES

This section presents an overview, assessment and recommendations for the GOJ's strategy vis-à-vis its *internal* trade policies, i.e. those policies that are unilaterally determined by the GOJ (rather than through international agreements). These national policies are directly under the control of the GoJ and, if properly formulated, can create a business environment wherein the private sector can take advantage of opportunities to expand and diversify exports. The recommended internal (unilateral) trade policy reforms are therefore designed to maximize the potential allocation of Jordan's scarce resources towards those activities that will provide the greatest welfare impacts through job creation and consumer welfare and to better facilitate the movements of goods and services to realize that potential.

The internal trade policies addressed here include:

- **Trade policies related to agriculture and manufactured goods**, including both those measures impacting imports and exports—these include import measures such as tariffs, non-tariff barriers such as standards, import licensing, border procedures, and contingency trade remedies (anti-dumping and safeguards), as well as export measures such as export licensing and approvals, free and economic zones, other duty- and sales tax-free schemes, other export incentives, export related border procedures, standards-related market access issues;
- **Trade policies related to the services sector**, including barriers to entry and other regulatory features that impact trade in services; and
- **“Complementary” policies** that directly impact trade in goods and/or services, including competition policy, intellectual property rights, trade-related investment measures, behind-the-border trade facilitation, e-commerce, taxation, and gender and environmental policy.

2.1 TRADE POLICIES RELATED TO AGRICULTURE AND MANUFACTURED GOODS

Trade in merchandise, i.e. agriculture and manufactured goods, accounts for 66 percent of Jordan's total exports. Agriculture and processed foods and beverages account for 10 percent, mining accounts for 8 percent and manufactured goods, close to 48 percent. As highlighted above, Jordan has the potential to substantially expand its exports of both agricultural and manufacturing goods and designing an appropriate trade policy regime will greatly enhance Jordan's capacity to realize this potential. Jordan is a small economy and lacks the scale economies necessary to competitively produce the full value chain in most sectors—the expansion of exports is, therefore, contingent on access to competitively-priced raw materials and intermediate goods. Given the growing importance of cross-border production networks, Jordan's potential for expanding merchandise exports, especially manufactured goods, can only be achieved through the liberalization of both imports and exports.

2.1.1 Import Measures

Policies related to merchandise imports have the most direct impact on the allocation of resources in Jordan. The rationalization and liberalization of import measures can therefore reduce distortions that otherwise prevent full exploitation of Jordan's comparative advantages and market access, and therefore the Jordanian economy's ability to promote the export-led development and diversification that is required to generate new opportunities and reduce the incidence of poverty.

2.1.1.1 Tariffs and other Import Taxes

The GOJ has made substantial efforts in recent years to reduce tariff barriers. Jordan's simple average tariff was reduced from 19 percent in 2000 to 11.5 percent in 2006. The simple average tariff on agricultural goods in 2006 was 18.1 percent and 10.4 percent on manufactured goods. In 2006, the majority of tariff lines were below the MFN bound rates and approximately half of the manufactured goods were zero-rated. Given the recent rounds of zero-rating for non-dual use intermediate goods, the simple average tariff, particularly for manufacturing goods, is likely to be even lower.

Figure 2-1—Overall Tariff Structure, 2006

Jordan										
Part A.1 Tariffs and imports: Summary and duty ranges										
Summary		Total	Ag	Non-Ag	WTO member since		2000			
Simple average final bound		16.4	23.8	15.2	Binding coverage:		Total	100.0		
Simple average MFN applied	2006	11.5	18.1	10.4			Non-Ag	100.0		
Trade weighted average	2005	8.7	11.3	8.1	Ag: Tariff quotas (in %)		0			
Imports in billion US\$	2005	10.3	1.9	8.4	Ag: Special safeguards (in %)		0			
Frequency distribution		Duty Free	0 <= 5	5 <= 10	10 <= 15	15 <= 25	25 <= 50	50 <= 100	> 100	NAV in %
Agricultural products										
Final bound		1.1	14.7	16.0	13.6	25.2	25.6	0.2	3.4	0.8
MFN applied	2006	29.5	11.7	9.0	1.1	20.6	25.3	0.8	1.9	0.8
Imports	2005	49.3	18.4	2.6	0.7	18.0	5.1	5.5	0.4	0.1
Non-agricultural products										
Final bound		7.3	22.4	16.0	7.6	23.8	22.8	0.0	0	0.0
MFN applied	2006	50.6	5.3	8.8	0.7	16.0	18.6	0.0	0	0.0
Imports	2005	60.9	2.8	10.7	0.9	11.6	13.2	0	0	0
Part A.2 Tariffs and imports by product groups										
Product groups	Final bound duties				MFN applied duties			Imports		
	AVG	Duty free in %	Max	Binding in %	AVG	Duty free in %	Max	Share in %	Duty free in %	
Animal products	14.0	0	30	100	13.1	1.6	30	1.5	17.5	
Dairy products	16.1	7.5	30	100	15.5	20.8	30	2.0	55.1	
Fruit, vegetables, plants	23.7	0	118	100	21.9	11.1	110	1.1	4.5	
Coffee, tea	20.5	0	30	100	20.8	10.4	30	0.9	1.2	
Cereals & preparations	16.7	5.1	80	100	12.5	34.7	40	7.2	60.9	
Oilseeds, fats & oils	17.4	0	30	100	9.6	61.5	30	2.2	97.9	
Sugars and confectionery	19.1	0	30	100	10.9	58.3	30	1.5	46.3	
Beverages & tobacco	112.5	0	200	100	70.3	19.9	180	1.2	4.1	
Cotton	9.0	0	10	100	0.0	100.0	0	0.0	100.0	
Other agricultural products	15.2	1.3	30	100	8.6	54.1	30	0.5	30.8	
Fish & fish products	19.8	0	30	100	19.9	4.4	30	0.4	13.7	
Minerals & metals	19.4	0.1	30	99.9	11.9	40.9	30	19.3	47.8	
Petroleum	14.1	0	20	100	18.3	0	24	2.0	0	
Chemicals	5.1	10.4	30	100	1.7	76.0	30	10.5	78.5	
Wood, paper, etc.	21.5	1.2	30	100	14.4	39.6	30	5.1	54.4	
Textiles	15.8	0.2	30	100	5.8	73.5	30	9.0	93.8	
Clothing	19.5	0	20	100	23.3	0.4	24	1.6	0	
Leather, footwear, etc.	24.2	0	30	100	17.5	27.8	30	1.1	8.8	
Non-electrical machinery	10.3	17.2	30	100	6.7	69.7	30	12.3	74.3	
Electrical machinery	16.7	25.8	30	100	14.3	44.0	30	10.3	75.0	
Transport equipment	13.4	9.4	30	100	10.2	46.7	30	7.6	34.0	
Manufactures, n.e.s.	20.7	15.0	56	100	19.2	25.1	66	2.6	60.1	

Source: WTO, 2007.

While the GOJ has made great strides to gradually reduce import tariffs, and while barriers to imports are not particularly high, the overall tariff structure retains a number of distortions that prevent the more efficient allocation of scarce resources and, therefore, reduce the productive capacity of Jordan's economy and potential gains from trade.

The tariff schedule remains dispersed in that it protects certain industries much more than others. Tariff dispersion is an important indicator of the countries' tariff regime, as it implies higher rates of protection for specific products or industries compared to others. Production and consumption distortions (and, hence, welfare losses) resulting from such disparities can be more severe than those resulting from slightly higher but balanced overall level of protection. The higher the dispersion, the larger the distortionary effect of tariffs. Two indicators are typically used to measure the degree of tariff dispersion—the standard deviation of tariffs from their mean and the incidence of tariff peaks:

- **Standard deviation of tariffs from mean.** This measures the degree to which tariffs depart from the mean. Most product categories in Jordan display high degrees of dispersion, most with standard deviations above the mean greater than 10 percent (see Figure 2-2). Taking the tariff schedule in aggregate, the degree of dispersion is 15.1 percent. As displayed in Figure 2-3, this degree of dispersion is much higher than the more successful Lower-Middle Income countries (in terms of export growth and diversification), such as Chile (0.5 percent) and the Philippines (8.3 percent).

Figure 2-2—Dispersion of Tariffs, 2006

	No of Lines*	Average Duty	Standard Deviation	Min	Max
Live Animals; Animal Products	312	14.7	10.4	0	30
Vegetable Products	326	16.9	12.3	0	35
Prepared Foodstuffs; Beverages, Spirits and Vinegar; Tobacco and Manufactured Tobacco Substitutes	258	28.6	41.2	0	180
Mineral Products	167	9.1	12.4	0	30
Products of the Chemical or Allied Industries	925	2.1	4.9	0	30
Plastics and Articles Thereof; Rubber and Articles Thereof	299	6.7	9.7	0	30
Raw Hides and Skins, Leather, Furskins and Articles Thereof; Saddlery and Harness; Travel Goods, Handbags	74	16.4	12.7	0	30
Wood, Pulp and Their Articles	349	12.5	13.2	0	30
Textiles and Textile Articles	886	10.2	11.6	0	24
Footwear, Headgear, Umbrellas, Sun Umbrellas, Walking Sticks, Seat Sticks, Whips, Riding Crops and Parts Thereof	56	26.9	8.6	0	30
Articles of Stone, Plaster, Cement, Asbestos, Mica or Similar Materials; Ceramic Products; Glass and Glassware	174	18.3	13.0	0	30
Natural or Cultured Pearls, Precious or Semi Precious Stones, Precious Metals, Metals Clad with Precious Metal	59	16.2	9.9	0	30
Base Metals and Articles of Base Metal	751	11.8	12.8	0	30
Machinery and Mechanical Appliances; Electrical Equipment; Parts Thereof; Sound Recorders and Reproducers, Televisions	1078	9.3	12.7	0	30
Vehicles, Aircraft, Vessels and Associated Transport Equipment	207	11.4	11.7	0	30

	No of Lines*	Average Duty	Standard Deviation	Min	Max
Optical, Photographic, Cinematographic, Measuring, Checking, Precision, Medical or Surgical Instruments and Apparatus	305	14.0	12.7	0	30
Arms and Ammunition; Parts and Accessories Thereof	26	26.2	9.2	5	30
Miscellaneous Manufactured Articles	147	24.8	11.9	0	66
Works of Art, Collectors' Pieces and Antiques	8	27.3	7.0	10	30
TOTAL	6,407	11.5	15.1	0	180

Source: Jordan Tariff Schedule, as of December 2007, derived from CITS.

* Number of lines at HS 9-digit level.

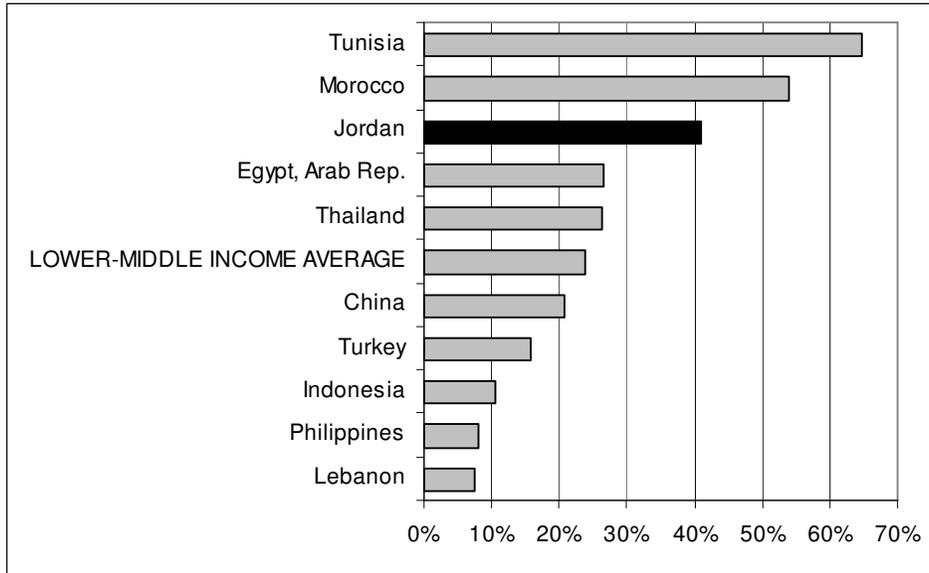
Figure 2-3—Dispersion of Tariffs in Comparator Countries

	Standard Deviation of MFN Ad Valorem Applied Tariff	MFN Ad Valorem Applied Tariff (Simple Avg, %)	Maximum MFN Ad Valorem Applied Tariff (%)
China	7.11	9.81%	65%
Philippines	8.26	6.27%	65%
Lebanon	10.41	5.42%	75%
Thailand	14.06	11.92%	80%
Lower-Middle Income Average	14.13	10.65%	160.5%
Jordan	15.10	11.50%	180%
Indonesia	15.41	6.95%	170%
Morocco	24.82	24.20%	329%
Turkey	30.24	9.58%	225%
Tunisia	30.40	26.91%	150%
Egypt, Arab Rep.	148.3	19.58%	3000%

Source: World Bank, World Trade Indicator database.

- **Tariff peaks.** Tariff peaks refer to the share of tariff lines that exceed a reference level. While there is no international agreement as to what that reference point should be, two references that are typically applied. International peaks are those tariff lines that are above 15 percent. National peaks are those that are three-fold above the national mean— 34.5 percent (11.5 percent multiplied by 3) in the case of Jordan. While national peaks in Jordan are relatively low, international peaks are high, even when compared to other Lower-Middle Income countries (see Figure 2-4). For example, the more successful Southeast Asian countries all maintain both lower simple average tariffs and lower degrees of dispersion, which has aided in the development of not only direct exporting industries, but the development of supplier (indirect exporter) industries.

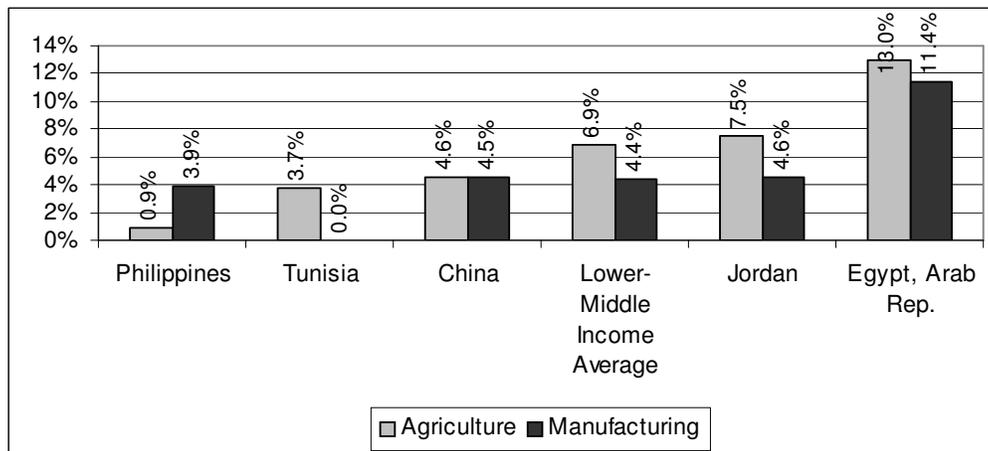
Figure 2-4—Tariff International Peaks (% of total tariff lines)



Source: World Bank, World Trade Indicator Database.

- Tariff escalation.** In addition to the degree of dispersion, Jordan’s tariff structure also exhibits a relatively high degree of escalation, whereby raw materials, intermediate goods and capital equipment are taxed lower than finished goods. The degree of escalation is likely even higher today, given recent efforts to reduce the tariffs on capital equipment and non-dual use inputs to zero. The degree of escalation is particularly high in the agricultural sector (which includes food processing for the purposes of analysis). While only marginally higher than the average lower-middle income economy, this degree of escalation is higher than, for example, the Philippines, China and Tunisia (see Figure 2-5).

Figure 2-5—Tariff Escalation (Percent Change from Raw to Finished Goods)



Source: World Bank, World Trade Indicator Database.

The existing tariff escalation and differential treatment of sectors and products in Jordan is often justified as affording “breathing room” to industries already strained by foreign competition, particularly from China—this appears to be a case for a number of “import-substituting” sectors, such as furniture and food processing, to name a few. While many developing and emerging economies display some degree of dispersion and/or escalation in their tariff structures, the negative impact in Jordan is likely to be significant. Tariffs that protect domestic industries in Jordan create disincentives to export (i.e. an anti-export bias) in the following ways:

- Import duties on final goods increase their prices, thereby increasing the profitability of producing import substitutes in Jordan, such as in those sectors identified above. By contrast, exports must be sold at going prices in world markets (as Jordan, a small producer, cannot affect world prices and is therefore a price-taker), and so resources are diverted from the production of exports to production for the domestic market.
- Escalated tariff structures with lower tariffs on intermediate goods than on goods at later stages of processing, increase effective protection above the nominal protection that import substitution production receives. That is, the value added (gross processing margin) in production for the domestic market exceeds the value added that would have been available without any tariffs or other domestic protection, by proportionately more than the protection of the final product. This further increases anti-export bias. However, the actual degree of protection (“effective protection rate”) depends not only on the differential between duties on intermediate versus finished goods, but also on the degree of value-added. Given the same tariff structure (e.g. 5 percent tariffs on inputs, 15 percent on finished goods), sectors in which domestic value-added is lower will receive a higher degree of protection than sectors where value added is higher.

Figure 2-6 provides a simulation of introducing a more uniform tariff structure in several manufacturing sectors in Jordan (food processing, apparel, footwear, and household appliances). For three different tariff structures (the current tariff structure, one with a lower degree of escalation, and one with uniform rates), the degree of effective protection is calculated for the industry based on the current level of domestic value-added and compared to an industry with a hypothetical, higher level of value-added (25 percent higher). While these simulations are very much simplified, as they do not take into account other policies that may impact the degree of protection,⁵ they amply demonstrate that the current structure, by protecting lower value-added activities more than higher value-added activities, provides an incentive to allocate resources toward the production of lower value added goods for the domestic market. For example, in the processed food sector, all else being equal, the escalating tariff structure results in a 10-point spread between the ERP on the existing industry compared to the hypothetical, higher value-added industry. Such distortions are greatly reduced as one moves closer to a more uniform tariff structure. If Jordan’s economic development depends on increasing domestic value-added to its industries, then an escalating tariff regime is a severe obstacle.

⁵ The simulations also assume that tariffs on imported inputs are zero-rated across the board—a policy that has been in the process of implementation over the past year.

Figure 2-6—Tariff Escalation and Effective Rates of Protection in Selected Sectors: Implications of Moving Toward a More Uniform Tariff Structure

	Actual Tariffs		Lower Degree of Escalation		Uniform	
	Actual Value Added	Hypothetical Value Added (plus 10%)	Actual Value Added	Hypothetical Value Added (plus 10%)	Actual Value Added	Hypothetical Value Added (plus 10%)
Apparel						
Gross Value Added as Share of Gross Output	47.2%	59.0%	47.2%	59.0%	47.2%	59.0%
Tariff on Processed Good	24.0%	24.0%	15.0%	15.0%	5.0%	5.0%
Tariff on Intermediates	0.0%	0.0%	5.0%	5.0%	5.0%	5.0%
<i>Effective Rate of Protection</i>	<i>50.8%</i>	<i>40.7%</i>	<i>26.2%</i>	<i>21.9%</i>	<i>5.0%</i>	<i>5.0%</i>
<i>Margin of Protection between Low and High Value Added Good</i>	<i>10.2</i>		<i>4.2</i>		<i>0.0</i>	
Processed Food						
Gross Value Added as Share of Gross Output	28.2%	35.3%	28.2%	35.3%	28.2%	35.3%
Tariff on Processed Good	23.0%	23.0%	15.0%	15.0%	5.0%	5.0%
Tariff on Intermediates	0.0%	0.0%	5.0%	5.0%	5.0%	5.0%
<i>Effective Rate of Protection</i>	<i>81.6%</i>	<i>65.2%</i>	<i>40.5%</i>	<i>33.4%</i>	<i>5.0%</i>	<i>5.0%</i>
<i>Margin of Protection between Low and High Value Added Good</i>	<i>16.3</i>		<i>7.1</i>		<i>0.0</i>	
Footwear						
Gross Value Added as Share of Gross Output	31.0%	38.8%	31.0%	38.8%	31.0%	38.8%
Tariff on Processed Good	27.0%	27.0%	15.0%	15.0%	5.0%	5.0%
Tariff on Intermediates	0.0%	0.0%	5.0%	5.0%	5.0%	5.0%
<i>Effective Rate of Protection</i>	<i>87.1%</i>	<i>69.7%</i>	<i>37.3%</i>	<i>30.8%</i>	<i>5.0%</i>	<i>5.0%</i>
<i>Margin of Protection between Low and High Value Added Good</i>	<i>17.4</i>		<i>6.5</i>		<i>0.0</i>	

	Actual Tariffs		Lower Degree of Escalation		Uniform	
	Actual Value Added	Hypothetical Value Added (plus 10%)	Actual Value Added	Hypothetical Value Added (plus 10%)	Actual Value Added	Hypothetical Value Added (plus 10%)
Domestic Appliances						
Gross Value Added as Share of Gross Output	35.9%	44.9%	35.9%	44.9%	35.9%	44.9%
Tariff on Processed Good	23.0%	23.0%	15.0%	15.0%	5.0%	5.0%
Tariff on Intermediates	0.0%	0.0%	5.0%	5.0%	5.0%	5.0%
<i>Effective Rate of Protection</i>	<i>64.1%</i>	<i>51.3%</i>	<i>32.9%</i>	<i>27.3%</i>	<i>5.0%</i>	<i>5.0%</i>
<i>Margin of Protection between Low and High Value Added Good</i>	<i>12.8</i>		<i>5.6</i>		<i>0.0</i>	

Sources: Value added data from Jordan Department of Statistics; tariff data from CITS.

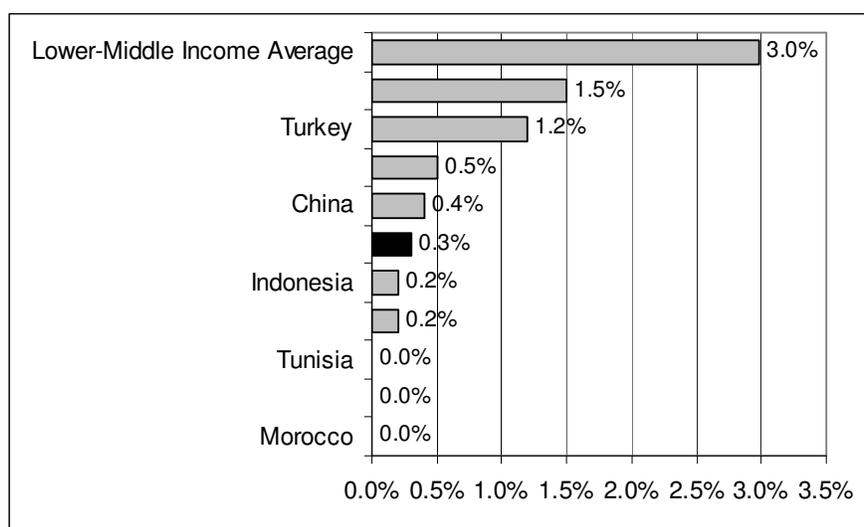
- Tariff escalation also discourages the allocation of resources toward intermediate stages of production “in favor” of the final stages of production. Given the growing trend toward cross-border production networks, Jordan’s tariff structure may provide a disincentive to allocate scarce resources toward activities in which Jordan has a comparative advantage. The expansion and diversification into higher value-added exports, jobs, and income is unwittingly forgone in favor of protecting less competitive sectors.

Tariff dispersion also gives rise to higher administrative costs and opportunities for rent-seeking behavior with relation to tariff classification as well as incentives for lobbying for protection.

In addition to tariffs, the Government of Jordan imposes a range of import related fees that are not captured above but add to the cost of importing. These include an import processing fee and a fee for goods in transit. These are largely aligned with international practices in terms of their application but should be more closely reviewed to determine if the fee level is commensurate with the cost of service, as such fees should, in principle, be determined on a cost recovery basis, rather than for revenue generation.

Another source of administrative costs, with respect to tariffs, is the imposition of specific tariffs in place of or in addition to *ad valorem* tariffs. However, in the case of Jordan, this issue is not of major concern given the relatively low incidence of specific tariffs—0.3 percent of tariff lines, compared to 3.0 percent for the average Lower-Middle Income country (see Figure 2-7).

Figure 2-7—Frequency Ratio of Specific tariffs (% of total tariff lines)



Source: World Bank, World Trade Indicator Database.

In an international trading system that is increasingly characterized by vertical integration, which provides Jordan with new opportunities to exploit its comparative advantages, the degree of tariff escalation that is evident in Jordan discourages the efficient allocation of resources, which may be more appropriately allocated toward more skill-intensive “intermediate” stages of production (versus final assembly, which is often lower skills based).

Therefore, the GOJ should continue its efforts to rationalize the tariff structure in a way that better promotes the expansion and diversification of the export base, and the economy as a whole. Tariff reduction by itself, however, without reducing the dispersion of the tariff

structure, will convey relatively small benefits. The realization of Jordan's export potential can be best promoted through the reduction in dispersion and escalation in tariffs in concert with ongoing efforts to lower tariff rates more generally. This may be realized through a three-prong approach that reduces the number of tariff bands (and exceptions to those bands), and, at the same time, reduces both the simple average tariff and the dispersion between bands. An impact study is, however, required to fully assess the effects of a movement toward a more uniform tariff structure and evaluate the options.

2.1.1.2 Contingency Trade Remedies (“Trade Defense Measures”)

As Jordan continues to lower tariffs and encourage competition, imports will become increasingly visible and put pressure on less competitive firms and industries in Jordan. This in turn will undoubtedly lead to legitimate pleas for protection (“trade defense measures”) from Jordanian firms confronted with sudden surges of imports, or with unfairly priced or subsidized imported goods. Such cases are anticipated by the WTO and trade remedies are available through three mechanisms:

- **Anti-dumping duties (AD)** may be imposed on imports from countries and sectors that have been found to be exporting a product at a price lower than the price it normally charges on its own home market, and had caused injury to Jordanian producers.
- **Safeguard actions** to restrict imports of a product temporarily is permitted to protect a specific domestic industry from an increase in imports of any product which is causing, or which is threatening to cause, serious injury to Jordanian industry.
- **Countervailing duties (CVD)** may be applied to countries and sectors that provide actionable subsidies to their own exports and hurts Jordanian producers.

Jordan has codified such remedies in legislation governing the use of safeguards, anti-dumping, and countervailing duties. Cases are filed with and initially investigated by the National Production Protection Directorate at the MIT.

To date, Jordan has initiated one anti-dumping case, which was eventually withdrawn by the complainant, and has imposed no countervailing duties. Jordan has itself had to address an AD complaint from Israel relating to cement pricing, but this was resolved as an “undertaking.” Since joining the WTO, however, Jordan has initiated 12 safeguard cases and imposed safeguard measures in six of these cases, making Jordan among the top users of safeguard measures.

As Jordan continues in its path of liberalization, it can be expected that certain segments will seek redress to increasing competitive pressures through the use of contingency trade remedies. To date, the GOJ has made judicious use of anti-dumping measures—experience from other countries suggests that anti-dumping rules have been subject to abuse and/or imposed despite the welfare-reducing effects. Jordan's restraint in using the anti-dumping legislation should be maintained.

Safeguards cases require a much higher threshold of determination and require a more holistic analysis of the impact of imports and their restriction, both from the perspective of the “injured” party and the consumer or consuming industry. While none of the safeguard measures imposed by Jordan has been challenged by partner countries, the GOJ should closely review its application of safeguard rules to ensure that they not only conform to WTO requirements but are truly in the interest of the Jordanian economy. In its application of contingency measures, the GOJ should consider not just the minimum criteria required by the WTO but the economy-wide impacts, both positive and negative, both for the competing domestic industry and consumers.

Furthermore, in its application of such measures, the GOJ should be clear that such action is truly an *exception* to its liberalization process, with a clear message of the costs that such measures impose. Such a message should also be implicit in the procedures themselves—the procedures should not presume that there is a good reason for granting exceptions. Providing a list of reasons invites protection-seekers to demonstrate that they qualify and places the GOJ in the position of having to demonstrate that they do not. Procedures should instead stress that the function of the review is to identify the benefits, costs, and domestic winners and losers from the action requested.

The ability of the NPPD to carry out its mandate requires greater analytical capacity than is currently available, as well as a more appropriate institutional structure. The NPPD recognizes the importance of establishing the unit as an independent agency, similar to the US, Australia, and Mexico. Though many other countries do not provide for such independence for example, the EU), this would provide the agency with the autonomy required to effectively carry out its mandate and isolate it from "lobbying" by special interests that seek protection that may be unwarranted by the rules governing contingency trade measures.

In addition, the NPPD currently lacks the human resource and analytical capacity to effectively handle anti-dumping or countervailing duty cases. While no such cases have materialized (one anti-dumping case that was filed was withdrawn by the complainant and re-submitted as a safeguard case), the NPPD needs to be prepared to handle such cases in the future.

Lastly, there is much misperception of the role of the NPPD and anti-dumping and safeguard policies. The NPPD already receives numerous applications from industry that do not, by definition, fall under their mandate. The WTO permits such policies to be exercised under very specific conditions, which include competitiveness issues that are related to supply-side constraints (including rising energy prices, administrative barriers to import or exports, inability to meet standards, etc.). A public awareness campaign is required to better educate industry on not only its rights but also the limitations of such policies in addressing their concerns about competitiveness. Also, the judiciary and legal professionals need to be better trained in contingency trade measures. Under the legislation, the dispute settlement mechanism allows complainants to take the NPPD to court over its decisions (whether they are in favor of or against imposing contingency trade measures). To date, while only two cases have been brought before the courts, more can be expected in the future and they need to be prepared to handle these often complex cases.

2.1.1.3 Non-Tariff Barriers

While tariffs and other taxes on imports are the most easily identified and quantifiable trade costs, non-tariff barriers can impose both direct and indirect costs that raise the price of imports and can discourage imports, as well as the exports that depend on imported inputs. Such non-tariff barriers may include import licensing and standards. While countries routinely put restrictions on imports to protect national security, public health and safety, and the environment, other types of restrictions can unnecessarily impede not only imports but also the exporting industries that depend on imported materials. The following sections discuss Jordan's progress to date in each of these areas and identify remaining barriers to imports that need to be addressed.

Import Licensing and Approvals

Import cards are required for commercial imports and serves only an administrative function (an identification number is issued). MIT issues these free of charge, though they must be renewed on an annual basis. The failure to produce such as card at the time of imports results in a fine equal to five percent of the value of imports. Such a fine appears to unduly high, given that the card does not serve any real regulatory function. It is also not

clear why an import card must be subject to annual renewal process since there are no conditions others than company registration. In practice, the identification number could be issued at the time of company registration, reducing the administrative burden on investors.

In addition, import licenses and approvals are currently required for a range of items, including (1) non-commercial shipments exceeding JD 2,000; (2) biscuits of all types; (3) mineral water; (4) dried milk for industry use; (5) used tires; and (6) items that require prior clearance from the respective authorities. Items that do not need an import license may require prior authorization by one or more government agencies. Such authorization is not automatic and ultimately serves the same purpose as an import license.

While the Government of Jordan does not excessively rely on import licensing—the majority of these items are restricted for legitimate reasons (i.e. national security, public health and safety)—some of these approvals may be redundant and/or unnecessary and therefore could easily be reduced without compromising such concerns. Some such approvals, especially those required by MIT, are largely for statistical purposes and do not have any real regulatory function. There are also some redundancies in the approvals. For example, imported milk products are subject to approvals by both the Ministry of Agriculture as well as the Ministry of Health. Eliminating such redundancies and other unnecessary restrictions would reduce trade costs without compromising the safety, well-being of Jordan's consumers or national security. This would also free up these agencies' scarce resources to focus on controlling the import of those items that truly need to be restricted to address such concerns.

Standards: Technical Barriers to Trade and Sanitary and Phytosanitary Measures

An important part of a successful global-oriented development strategy concerns market access beyond mere tariff barriers. In particular, the strategy must reduce border impediments to the flow of goods and services internationally while still maintaining the safety of the food supply and other traded goods and, at the same time, help Jordanian exporters gain access to lucrative foreign markets (this latter issue is addressed in section 2.1.2.6).

Since standards have the most value when adopted in the largest possible market, standards are rapidly becoming compatible worldwide. This is especially beneficial to firms operating in the international market, where culture or language differences can raise the cost of product information, and to new firms, SMEs, or firms penetrating new markets wherein the firm does not have a proven record. This would certainly characterize Jordan for a number of products including horticulture, electrical machinery, and so on. Also, foreign buyers of Jordanian goods and materials want assurance that the product and the process are reliable, especially for inputs and components. Standards compliance can therefore be a key factor in trade.

While the common language of standards can be extremely useful for buyers and sellers, there is also a potential for abuse. Standards or conformity assessment procedures, which explicitly or implicitly discriminate in favor of domestic industry and against foreign competition, represent a non-tariff trade barrier. Because elusive standards and product conformity assessments represent potentially high non-tariff barriers to trade, rules have been embodied into the WTO through the Agreement on Technical Barriers to Trade (TBT) and the Agreement on Sanitary and Phyto-Sanitary Standards (SPS). Jordan became a signatory to both agreements as part of its WTO accession package. The following sections provide an overview of Jordan's progress to date in implementing these two agreements.

The WTO Agreement on Technical Barriers to Trade (TBT) governs technical regulations and standards in member countries. This agreement seeks to ensure that technical regulations and standards, as well as testing and certification procedures (SQAM), do not

create unnecessary obstacles to trade. In particular, TBT relates to “regulations” and “standards” regarding:

- product characteristics
- process and production method (PPM) that have an effect on product characteristics
- terminology and symbols
- packaging and labeling requirements

The Agreement encourages the use of international standards where these exist. There is also an agreed upon code of good practice which requires that procedures for determining the conformity of products with national standards be fair and equitable, especially between domestically produced goods and equivalent imported goods. The Agreement also encourages the mutual recognition of conformity assessments. In particular, if the authorities of the exporting country determine a product to be in conformity with a technical standard, the authorities of the importing country should normally accept that determination.

While details can differ, the hallmark of a WTO-compatible system of standards and regulations is that the system not inhibit trade and be based on good science, be transparent, and provide for national treatment to all market participants. Also, there is some agreement that it would be advantageous for members to move toward recognition and acceptance of common international standards and to work toward a commonly accepted certification of laboratories. JISM is working hard on this although the issues are often complex, requiring substantial international cooperation and often formal cooperation agreements.

The Jordan Institute of Standards and Metrology (JISM) is the GOJ agency responsible for developing technical standards. Currently, standards are adopted or modified through 45 technical committees comprised of representatives from industry, traders, consumer protection groups, and government. If there is an international standard, Jordan adopts and accepts it. When there is no international standard, the US or EU standard is adopted. JISM also serves as the WTO trade point for traders seeking standards information. JISM issues and routinely updates standards for approximately 1,300 products. JISM has also licensed several laboratories to test for compliance with applicable standards. In terms of trade policy, compliance with WTO obligations has moved forward and notifications are standard practice for Jordan. This, of course, should continue *pro forma*.

JISM is also responsible for setting sanitary and phytosanitary standards, though a number of other agencies such as the Jordan Food and Drug Administration, the Ministry of Health, and other agencies set related standards and have inspection responsibilities. With respect to health and safety, the WTO Agreement on the Application of Sanitary and Phytosanitary Measures (SPS) concerns the application of food safety and animal and plant health regulations. While recognizing the rights of governments to protect the health and safety of consumers, the Agreement stipulates that measures taken must be based on sound scientific evidence, applied only to the extent necessary to protect human and animal or plant life or health, and should not arbitrarily or unjustifiably discriminate between members where similar conditions prevail. There are provisions on transparency and governments must provide advance notice of new or changed SPS changes. Also, members are encouraged to base their measures on international standards, guidelines, and recommendations where they exist.

As in the case of technical standards, JISM adopts international standards whenever available. Jordan is a member of the three primary international standards-setting organizations related to SPS and adopts available standards. The major international organizations for SPS are the Codex Alimentarius Commission (Codex) for food safety, the Office of International Epizootics (OIE) for animal health and diseases, and the International

Plant Protection Convention (IPPC) for plant health. Scientists from various countries participate actively in these organizations, which meet periodically to discuss current and anticipated issues, evaluate disputes, and develop common standards. It is important that Jordan actively participates in the forums and that the information gleaned is disseminated usefully in Jordan to relevant parties, including potential exporters. Jordan is also in the process of harmonizing its TBT and SPS legislation with the EU *acquis communautaire*, the body of EU law accumulated thus far. Thus, there is now a priority list that may be pursued and relates to national food control policy, food and drug administration. Therefore, in terms of legal and regulatory requirements, JISM has very much succeeded in aligning the standards regime with international practices—a substantial effort that has been recognized by the award of Golden Prize of King Abdullah Award for Government Performance and Transparency in 2006 and First Prize in 2003.

In terms of implementation, JISM has received ongoing technical assistance to strengthen its roles in conformity assessment, accreditation and testing. An EU Twinning project, that was recently concluded, assisted JISM in a number of areas, including:

- Support for the development of an internationally recognized Jordanian Accreditation Body;
- Development of Conformity Assessment Bodies in JISM, including establishment and upgrading of laboratories and staff training on testing
- Development of a Market Surveillance and Inspection System
- Development of a Standardization and a relevant Information System
- Development of a National Metrology System in Jordan

Another EU Twinning project is focused on supporting the Jordan Food and Drug Administration (JFDA), which also plays an important role in setting food and drug safety regulations, including the regulation of imports. The EU Twinning program recently completed a capacity building project with JFDA to upgrade its institutional capacity, including upgraded laboratory equipment, standardized inspection procedures, and training.

Looking forward, it will be important that these efforts be continued to upgrade the Government's capacity to effectively implement Jordan's international trade obligations. An audit of ongoing capacity building and technical assistance needs within JISM and JFDA should be conducted to ensure that they are able to capitalize on and sustain the forward momentum. Some specific areas that have been raised at the conclusion of the EU Twinning Program with JISM include:

- The passage of the amended Law on Standards and Metrology;
- The passage of the draft Accreditation Law that will embody the mandates of the JISM Accreditation Unit and establish its independence;
- Fully establish a National Notifying Authority for notifying conformity assessment bodies; and
- The establishment of the National Market Surveillance Council to implement the market surveillance program.

Completing this work in the near future will firmly establish the competence of Jordan's standards infrastructure and facilitate the development of both imports and exports, which rely on an effective standards regime to promote trade.

2.1.1.4 Import-related Border Procedures

Current customs law (Customs Law No. 20 of 1998) entered into force in January 1999, amending the Customs Law of 1983, and is in full conformity with WTO requirements. Jordan has used the Harmonized System nomenclature since 1994. Several entities in the GoJ have border responsibilities including the Customs Department, the Ministry of Agriculture (MoA), Ministry of Health (MoH), and Jordan Institute of Standards and Metrology (JISM). Past efforts have sought to coordinate the various roles; for example, a committee comprising officials from JISM, MoH, MoA and Customs department carry out inspections of food and agriculture products at the border.

The latest World Bank Doing Business Indicators (published in 2007), as part of the Trading Across Borders module, provides an accounting of the documentation, costs and time required for importing and exporting (exporting is discussed in section 2.1.2.5 below). Figure 2-8 shows the accounting of procedures necessary to import and export a standardized cargo of goods in Jordan along with the time required to comply in various regions and in Jordan.

While the number of documents required is a bit high relative to international best practices, the actual time involved in exporting and importing is not significantly out of line with other non-OECD countries. In particular, the actual “time at the border” due to customs clearance and technical controls for imports is reported as 5 days (though 22 days in total to complete all the necessary documentation), which is slower than in Egypt, but faster than in Morocco. By most accounts (Khouri, 2004) the various reforms instituted by Customs in the last decade are indeed laudable. The Customs Department is currently working to pare these times down through a number of initiatives. For example, there is continuing progress regarding risk-based customs control. The current ASYCUDA++ system is being upgraded to ASYCUDA World, which has already been deployed in four customs houses and will be phased in to most of the others. Customs has also developed standards for certifying operators to implement the WCO Framework of Standards to Secure and Facilitate Global Trade through the “Golden List” program, established in 2005. This effort should be enhanced and the operator/product coverage expanded.

Figure 2-8—Doing Business: Imports

Region or Economy	Documents for import (number)	Time for import (days)	Cost to import (US\$ per container)
United States	5	5	1,160
OECD	5	10.4	986
United Arab Emirates	8	13	462
United Kingdom	4	13	1,267
Turkey	8	15	1,013
Egypt	7	18	729
Philippines	8	18	800
Morocco	11	19	800
Jordan	7	22	1,065
Tunisia	7	22	810
Middle East & North Africa	8	28.7	1,129
Lebanon	7	38	810

Source: World Bank, Doing Business Indicators database.

There are efforts also underway to resolve some of the logistical issues that have resulted from the presence of two separate customs authorities operating at border points in Aqaba. Currently, the ASEZ Customs Authority has the authority to clear cargo destined to the zone, while National Customs clears cargo destined to the domestic customs territory. An agreement is now in place for ASEZ Customs to take over both functions, though final approval is still pending. There is also, it seems, an agreement that National Customs could, in turn, establish a customs house just inside the domestic customs territory, adjacent to the ASEZ. This should be strongly discouraged as it would add another unnecessary layer of administrative burden for imports destined to the domestic customs territory, requiring goods to pass through two customs authorities, rather than one. There is adequate technology available to ensure against leakages from the ASEZ to the domestic territory, making such a system redundant from a regulatory standpoint.

Customs, with the assistance of the AMIR program, also developed and deployed the Customs Integrated Tariff System (CITS), which provides, online, information to both Customs and importers/exporters information on all regulations and instructions related to importing and exporting, as well as classification decisions by Customs with respect to customs valuation that will provide established precedents and a reduction in rent-seeking behavior. However, not all the information is available in English, which may be useful for would-be foreign investors that want to research information about their products. Also, it is not possible to search for information, other than tariffs, by the HS codes—expanding this functionality would greatly enhance the usefulness of the system for traders and potential exporters.

It is important to note that the above Doing Business data do not take into account standards-related border procedures that can substantially prolong time at the border. Jordan has tried to increase cooperation between agencies working at the border. In progress are efforts to establish a one-stop shop for imports, with a pilot initiative at the Customs house in Sahab. A number of agencies have already delegated their border responsibilities to Customs, though it is expected that JISM, JFDA, and MoA will retain their roles in a more streamlined environment that will ensure information-sharing between them. There is widespread support to continue with the Golden List and one-stop shop initiatives and these should be supported to ensure their success.

While JISM and the JFDA have made substantial progress in re-vamping the standards regime to reduce barriers to market entry, current procedures at the border continue to impede imports. In 2003, Jordan initiated a pre-shipment inspection (PSI) system, DAMAN, through a contract with Bureau Veritas. The DAMAN program was directed at certain categories of manufactured imports (toys, electrical and electronic products, motor vehicles and personal safety devices). While reducing time at the border in Jordan, many perceived the PSI system to be another barrier to trade and not consistent with the WTO or bilateral trade agreements with the US and others. The contract for Bureau Veritas expired in September 2007 and has not been renewed.

JISM has also approved a number of laboratories to undertake conformity testing, however these are mostly located in and around Amman. Samples therefore must be delivered by the clearing agent to one of these laboratories, which can take several weeks to complete the testing, substantially prolonging import processing times, and potentially delaying production, which impedes the ability of supplier or exporter to meet just-in-time delivery schedules. Establishing regional laboratories that can handle the more routine testing would go a long way to facilitating trade—one such laboratory has been established in Aqaba and should be used as a model to develop additional ones in close proximity to key border points.

Moreover, JISM plans to shift its compliance inspection activities for imported and locally-produced goods from ports of entry to a market surveillance system. The European Commission in its recent progress report on the European Neighborhood Policy (ENP

Progress Report: Jordan, 2006) reports that Jordan has made good progress. The Report notes that while technical competence in Jordan is high, JISM and market surveillance mechanisms need to be strengthened. For SPS and TBT, this largely entails assigning distinct functions to distinct GoJ entities, as discussed in section 2.1.1.3 above.

2.1.2 Export Measures

Policies related to merchandise exports can play an important role in promoting export development and diversification, including the streamlining of export licensing and approvals, the rationalization of free and special economic zone regimes, the streamlining of other duty- and sales tax- free schemes, the rationalization of export incentives, and the promotion of private-sector adoption of international standards.

2.1.2.1 Export Licensing and Other Approvals

All goods exported from Jordan are exempted from an export license, except where trade agreements with other countries require such a license. For example, exports to Syria and Iraq require export licensing, because Jordan maintains “banking arrangements” with these two countries. At the same time, exports of certain products require a “prior authorization”, which essentially acts as a license, from the relevant Jordanian government authority.

As in the case of import licensing, while Jordan does not excessively impose export licensing or approval requirements, any that exist should be reviewed to ensure that they do not unnecessarily impede trade in goods that do not concern national security, the environment, or violate international agreements (e.g. in the case of protected wildlife).

2.1.2.2 Free and Economic Development Zones

One important role of government with respect to trade facilitation is the provision of infrastructure and its supporting regulatory framework. Jordan is of course well advanced in these dimensions and this alone represents an important theme that needs to be effectively communicated to the trade and investor community as part of as any promotional efforts to expand trade and investment.

Jordan provides a range of infrastructure facilities and services to promote export development, including industrial estates, free zones, the Aqaba Special Economic Zone, and, more recently, the establishment of new economic zones such as King Hussein Bin Talal Economic Zone in Mafraq and another proposed zone in Irbid. Each of these zones has its own legislative and regulatory framework and provides their own package of incentives. While the underlying aim of these zones is to streamline the trade and investment environment to promote export and related economic development, the experience with zones in Jordan has been mixed to date.

The USAID-funded SABEQ program recently undertook a comprehensive review of the industrial estate and zone regimes in Jordan. The findings and recommendations, which should be adopted as part of the trade strategy, are summarized here.

- **Industrial Estates.** The industrial estates provide basic infrastructure for a wide variety of manufacturing activities. The JIEC currently operates five estates, including three that are designated as Qualifying Industrial Zones, has plans to develop several more. There are also four operational private estates, all QIZs, and several partly-operational estates. The industrial estates provide a two-year tax holiday (regardless of export orientation), which is in addition to any fiscal incentives that are offered through other national legislation (e.g. the Income Tax Law or the Investment Promotion Law). The estates also provide a number of services to facilitate investment, including streamlined start-up procedures and access to serviced land, which together reduce the time and costs associated with start-up.

The performance of both public and private industrial estates has been mixed. While the two public estates at Sahab and Irbid have performed well in terms of occupancy, some of the other estates, including many of the private estates, have low occupancy rates. The Aqaba International Industrial Estate, the only JIEC estate to be concessioned out to the private sector, has had unique difficulties associated with the poor institutional linkages between the JIEC and the Aqaba Special Economic Zone Authority (discussed below) that long delayed its implementation.

While the demand for serviced industrial land is expected to continue to grow, it will be important to ensure that future estates are located in areas that can best serve industry needs without compromising other national goals with respect to decentralization and the protection of Jordan's scarce resources. While the industrial estates are expected to continue to play a role in industrial development, the private sector should be given a greater role in the development and operation of the industrial estates. Looking to the future, the role of government should be to provide an appropriate regulatory framework to better promote private sector development in transparent, non-distorting ways. The regulatory framework should be aligned with a land management policy, based on the 2006 Industrial Map, to ensure that such development addresses legitimate environmental and socio-economic concerns.

- **Free zones.** The free zones operated by the fully publicly-owned Free Zone Corporation (FZC) provide a duty- and tax-free environment initially aimed at the storage of goods transiting Jordan but produced and sold beyond the borders. Jordan appears to have a comparative advantage in regional transit, especially connecting the Gulf and Europe, and the traditional free zones can play an important part in a national transport development plan. Transport is important infrastructure and the national plan needs to coordinate the free zones with the proposed Amman inland port, airport, road, and railway systems. It would seem essential that the plan be coordinated at the national level and not divided artificially in different independent "transport hubs" in Amman, Aqaba and Mafraq—in practice, they should be linked together into a rational network.

Beyond the traditional transit role of the free zones, the increasing use of the zones for manufacturing needs to be fully assessed and addressed. Currently, firms located in such zones are exempted from import duties and fees, company income taxes, and GST on goods exported or transiting internationally across Jordan. Additionally, the free zones allow exemption from personal income tax and social services tax for non-Jordanians working, as well as licensing fees for construction, building and land taxes. The income tax exemptions under the free zones were not subject to an extension provided by the WTO that recently allowed the Government of Jordan to continue to provide tax exemptions for exports provided for under the Income Tax Law; the free zone tax exemptions must therefore be discontinued.

From a duty- and tax-exemption, the demand for Jordan's free zones is likely to be greatly diminished, given that most imported intermediate goods are being zero-rated and the latter is no longer permitted under the WTO rules. Also, both the EU Association Agreement and GAFTA prohibit some or all of zones goods from benefiting from exemptions. In the case of the EU, the Euro-Med Rules of Origin (embodied in Protocol 3 of the agreement signed by Jordan and the EU in July 2006), duty drawbacks and exemptions are permitted for imported inputs originating from the EU or other countries with which Jordan may bilaterally or diagonally cumulate origin under the Euro-Med rules of origin, but only partial exemptions are permitted for most imported inputs from other countries (and this provision is only in

force through 31 December 2009, but is subject to review by common accord).⁶ In the case of GAFTA, all free zone goods are prohibited from preferential treatment (only Saudi Arabia, under a bilateral agreement, permits Jordan's free zone manufacturers duty-free entry provided they meet GAFTA rules of origin), though the GAFTA partners are currently considering lifting such restrictions.

There is currently a proposal to exempt all activities operating within free zones from income tax (whether or no they export). This would encourage significant numbers of existing domestic manufacturers and service providers to relocate to free zones. The Free Zone Corporation wants to encourage this relocation by treating products manufactured in free zones with 40 percent local content as Jordanian origin products. Once classified as Jordanian origin, the products would not be subject to duties and taxes, as they currently are, upon sale into the domestic territory. Therefore, manufacturers serving the domestic market could operate in free zones free of customs duties, sales tax and income tax. The implications of such an action need to be carefully assessed given the incentive that it would provide to relocate existing industries to the free zones (or to seek single-factory free zone status)—the end result would likely be a reduction in efficiency as industries locate away from more attractive locations, and significant loss of government revenues.

Further reliance on free zones beyond their traditional transit role may be questionable and should be studied thoughtfully. Any policy change that would ease restrictions on selling into the domestic territory should be resisted, as this would create only an artificial, policy-induced location advantage that is likely to thwart development elsewhere in Jordan. Tax relief for Gulf and other investors can be addressed more broadly through double taxation agreements, rather than targeting tax exemptions to specific sectors, regions or categories of investors.

Given this reduced role for free zones, the regime could be more effectively coordinated by a single regulatory body with jurisdiction over both industrial estates and free zones. A strategy for this has already been outlined and its implementation would provide a more effective framework for regulating land use and ensuring that estates and zones are rationalized.

- **Special Economic Zones.** Finally, there is the Aqaba Special Economic Zone (SEZ) which offers duty exemptions, a flat rate of 5 percent income tax and only limited sales taxes. To some extent, the Aqaba Special Economic Zone Authority (ASEZA) has used the zone as a way of testing and demonstrating the effectiveness of new economic policies for eventual application to the whole country.

While the public-private Aqaba Development Corporation has encouraged a number of investments, the FDI is concentrated in hotel and property development. While manufacturing in the Aqaba QIZ is now materializing, the area remains essentially a tourist and transport hub.

In the case of Jordan, the role for SEZs in liberalization may be diminishing for three reasons. First, there are fewer potential policy advantages that are not available to investors nationwide. For example, customs duties are being eliminated on all imported capital and intermediate inputs. And, again, GAFTA prohibits zones goods

⁶ Article 15 of Protocol 3 does not allow any duty drawbacks or exemptions non-originating materials falling within Chapters 1 to 24 of the Harmonized System. For all other non-originating products, Jordan may apply arrangements for drawback of, or exemption from, customs duties, subject to the following:

(a) a 5 % rate of customs charge shall be retained in respect of products falling within Chapters 25 to 49 and 64 to 97 of the Harmonized System, or such lower rate as is in force in Jordan;

(b) a 10 % rate of customs charge shall be retained in respect of products falling within Chapters 50 to 63 of the Harmonized System, or such lower rate as is in force in Jordan.

from benefiting from preferential treatment, while the EU restricts the application of duty exemptions (whether within or outside a zone). Second, as central and local governments continue to reform delivery of their services, especially land-use management and regulatory compliance, the need for an SEZ to cut through the bureaucracy is being reduced. Finally, Jordan is small geographically so that creating additional SEZs becomes increasingly redundant and distracts attention from the obvious policy to simply make all of Jordan “special.”

Nevertheless, three new economic zones have been proposed at Mafrq, Irbid and Ma’an under a new Development Areas Law passed in 2008, in order to promote regional development, with tax and duty-privileges similar to those offered in the ASEZ. While Mafrq probably has a potential role to play as a transport and logistical service center in the “Arabian Landbridge” vision, it is not clear whether the landbridge will materialize in the foreseeable future, as it depends on actions outside the purview of the Government of Jordan. Also, should it materialize, and so the zone needs to offer duty and GST exemptions to goods in transit, it is less clear why SEZ-style tax advantages should be extended to the operators themselves or to manufacturers who move their production facilities to the zone, possibly away from other regions in Jordan that could serve better in terms of location.

Because the SEZs create tax-favored locations and so distort investment decisions, future SEZs like Mafrq and Irbid need to be carefully scrutinized to ensure that investment is not simply attracted away from other regions in Jordan. An alternative might be to make all of Jordan “special” with a coherent, liberal national economic policy.

While zones and industrial estates can be made consistent with the Jordan’s economic development strategy, the experience to date should be closely reviewed in order to put in place a rational framework that both supports the expansion of trade and investment, as well as Jordan’s other development imperatives, including the environment and socio-economic development. To the extent that lagging regional infrastructure or weak local governance is viewed as justifying SEZs or free zones, the GoJ might want to focus more directly on strengthening infrastructure and governance regionally rather than relying on distorting tax policy solutions.

2.1.2.3 Other Duty-free and Duty-Remission Schemes for Exporters

In addition to free and economic zones, Jordan offers several schemes to exporters to facilitate trade, including duty-drawback, temporary admission, sector-specific duty exemptions, and bonded warehousing, which, in principle, enables exporters to benefit from duty-free inputs. While such schemes are in principle consistent with the WTO and World Customs Organization (WCO) standards and guidelines, the experience in Jordan has been mixed in terms of the actual benefits accrued to exporters in light of the administrative and other costs involved:

- **Temporary Admission.** Exporters may apply for exemption from duties and sales taxes on imported raw materials, equipment, or goods as temporary admissions into the production of exports. Exporters provide a bank guarantee covering suspended duties and taxes that are released upon re-export of the finished product, the equipment, and the goods. In Jordan, these guarantees have proven to be quite expensive at 8 percent of the value covered compared with the international norm of less than 0.5 percent.
- **Duty Drawback and GST Rebates.** Duties and other import taxes and fees paid upon entry may be reimbursed within a one-year renewable period either upon exporting a finished product or upon re-exporting the goods. GST, likewise, may be rebated within 3 months of export. However, refund times can be lengthy—while

duties are typically reimbursed within 24 hours, GST rebates often take several months, which can be a particular burden to small and medium enterprises, diverting cash flows from productive use. Moreover, not all exporters may choose to avail of the rebates due to restrictions in the bilateral trade agreements. Again, under the Euro-Med Agreement with the EU, non-originating products (those countries other than those with which Jordan may bilaterally or diagonally cumulate origin) used as inputs in the manufacturing process to produce “originating products” in Jordan are restricted from receiving full duty drawbacks, remissions, refunds or any type of nonpayment or exemptions from custom duties when products are exported to the EU (though partial drawbacks or exemption may apply, as described above).

- **Sector-Specific Duty and Sales Tax Exemptions on Capital Equipment.** Investment Promotion Law No. 16 of 1995 grants to qualified enterprises within specific sectors⁷ to import approved capital equipment and spare parts on a duty- and GST-free basis within 3 years of establishment and or upon expansion. While the current list of qualified sectors is broad, it currently excludes a number of growing service sectors in Jordan, such as ICT (software, call centers, telecommunications), architecture and engineering, non-hospital based medical services. At the same time, the exemption system, which requires review and approval by an Investment Promotion Committee tends to be administratively costly, both for the JIB (given the number of applications) and for the enterprise, which must have its list of exempted items approved in advance.
- **Bonded Warehouses.** Goods stored in the warehouses subject to payment of a guarantee are exempted from customs duties and sales taxes for up to two years.

Each of the above schemes, with the exception of sector-specific exemptions, is a common and, often useful, way to facilitate trade, provided that it is implemented in a transparent, consistent and efficient manner. The experience of the GST program, in particular, needs to be reviewed, using the drawback procedures as a model for granting refunds. This would eliminate pressures to provide selective zero-rating of inputs for various sectors and would offer benefits to the widest community of exporters, whether they are regular or occasional exporters.

2.1.2.4 Other Export Incentives

Upon accession to the WTO, Jordan was granted special and differential treatment with respect to the full implementation of the Agreement on Subsidies and Countervailing Measures (SCM). The SCM Agreement prohibits or restricts the use of export subsidies, either explicit or implicit in the *de facto* impact. Subsidies that are not prohibited or restricted may still be actionable by other members if they determine that the subsidy has hurt their own industry.

Exporters are granted a range of other fiscal incentives under various laws. In addition to the tax holidays offered by the Free Zones Laws, as discussed above, the Income Tax Law permits the Council of Ministers to provide other exemptions, which currently include a tax exemption on the export of “industry”, which is understood to exclude the service sectors. The tax exemption, which was initially set to expire on January 1, 2008, was recently extended to 2015 align with the extension that Jordan received by the WTO to continue such incentives (subject to an annual review by the WTO). Those tax exemptions provided for under the Free Zone Law have, however, not been granted such an extension, though any zones-based exporters may avail of the exemptions under the Income Tax Law.

⁷ Includes Industry, Agriculture, Hotels, Hospitals, Maritime Transport and Railways, Leisure and Recreational Compounds, Conventions and Exhibition Centers, and Pipeline transportation and distribution services for Water, Gas and Petroleum derivatives as well as its exploitation.

While Jordan may be permitted by the WTO to continue to offer exemptions to exporters, such exemptions are often more harmful than beneficial. They introduce distortions that, like different tariffs for different products, encourage the misallocation of resources towards activities that may not reflect Jordan's comparative advantages. In the case of Jordan, such exemptions apply only to "industry" and are not available to service exporters, despite the growing importance of that segment in terms of export-led growth and job creation in activities that reflect Jordan's comparative advantages, particularly with respect to higher skilled labor (e.g. architecture and engineering, medical services, information technology). Rather than extend the scope of exemptions, the best option is for the Government of Jordan to eliminate the granting of any new exemptions (any existing ones could be phased out over a reasonable period of time).

While it can be expected that some industry sectors will lobby against such action, it should be noted (and this is discussed in more detail in section 2.3.6 below) that a comprehensive tax reform package is being developed that will greatly simplify the income tax system, with the introduction of a uniform tax rate. This would greatly reduce the rate of taxation for the service sectors, would eliminate the large number of extra taxes and fees that are currently levied, and will reduce the cost of administration, for both the Government of Jordan and for individual enterprises. Numerous investment studies have clearly indicated that a transparent, predictable, and fair tax system is far more important than tax subsidies for promoting investment and trade-led development. The recent experience of Egypt, where a similar reform program was implemented, demonstrated that such tax reform does not have to come at the expense of investment and export development.⁸

2.1.2.5 Export-related Border Procedures

As in the case import procedures, customs-related export procedures in Jordan are, according to the most recent World Bank Doing Business Indicators, relatively rapid 2 days for Customs control and one day for port and terminal handling, though total days required is higher when taking other document preparation into consideration (24 days total).

Again, these procedures do not take into account of any export approvals nor any conformity testing or other procedures required to meet export market standards. In addition to border procedures, which are relatively swift, a range of other approvals and documentation may be required that are not included in these time and cost estimates, including product-specific approvals and licenses. Jordan Enterprise is in the process of assessing ways to streamline export procedures, including the establishment of a one-stop shop that would bring together the various entities engaged in approving exports in order to better facilitate export development. This is an effort worth exploring, given the positive impact it can have on reducing transit times for sensitive items, though the concept should be fully evaluated to ensure the design of a system that is not simply a "one *more* stop shop" for exporters but provides the type of value added and facilitation that is intended.

⁸ Egypt implemented its most recent tax reform program in 2005, which introduced a more uniform tax system. Not only did revenues increase, despite a substantial reduction in tax rates, by trade and investment continued to grow. Exports grew by 34 percent between 2004/2005 and 2006/2007, while foreign direct investment rose from US\$3.9 billion in 2004/2005 to US\$6.1 billion in 2005/2006 to 11.1bn USD in 2006/2007. As a result, between end-2004 and end-2007, 2.4 million new jobs were created reducing unemployment by one and one-half percentage points.

Figure 2-9—Doing Business: Exports

Region or Economy	Documents for export (number)	Time for export (days)	Cost to export (US\$ per container)
United States	4	6	960
OECD	5	10	905
United Arab Emirates	7	13	462
United Kingdom	4	13	940
Morocco	8	14	600
Turkey	7	14	865
Egypt	6	15	714
Philippines	8	17	800
Tunisia	5	17	540
Jordan	7	19	680
East Asia & Pacific	7	25	885
Middle East & North Africa	7	25	992
Lebanon	5	27	1,027

Source: World Bank, Doing Business Indicators Database.

2.1.2.6 Standards-related Market Access Issues

One major constraint that is cited by the private sector, across a wide range of export industries (including agriculture, manufacturing, and services) is that lack of capacity, know-how and/or technical expertise required to access markets in terms of standards. Standards have also increasingly become a source of trade disputes. For example, some Jordanian exporters report such standards to be a problem even where there are FTAs and with some countries in the Gulf. Saudi Arabia prohibits Jordanian exports of fruit beverages alleging “alcohol content,” although this is a natural trace residual of the manufacturing process of fruit, and the market has been closed to exports of vegetables since 1990 despite all efforts made by the Jordanian Government. A Jordanian coach producer has had its product tested in conformity to Israeli standards, yet the necessary certificate has not been issued by the Israeli authorities. EU standards, in particular, have proved to be difficult, especially with respect to agriculture and processed foods. The GoJ approach has been to solve such market access problems bilaterally rather than go to the WTO.

Jordanian exporters are, of course, not alone in their difficulties with respect to standards. Growing international competition and the increased incidence of food and consumer product safety scares have led to an ever expanding and more complex system of public and private standards at multilateral and national levels.

Increasingly, standards are being set not only by government, but also by private sector organizations. While private standards are not legally binding, they become obligations for suppliers and exporters. Making sense out of the labyrinth of standards, understanding the processes and technologies required to meet those standards, and the ability of developing country institutions to verify those standards has become one of the greatest hurdles that an exporter will face in accessing new markets. Jordan should be prepared for continuing challenges regarding testing and certification of food imports and exports, in particular. Compliance is becoming ever more difficult with the advent of irradiated food, genetically-modified foods, traceability, organic food, and the provisions for risk assessment whenever there is a diversion from international standards.

While the burden of turning comparative advantage into competitive advantage is mostly carried by the private sector, the GoJ has an important role to play in proactively securing and monitoring market access for Jordanian exporters. Given the importance of standards in international trade, it is important that the GoJ help Jordanian firms keep abreast of developments toward compliance and harmonization of world standards and that JISM in particular be supported in its mission to monitor and implement standards.

Some specific actions that the GOJ can take include:

- Active participation in multilateral standards-setting bodies to promote the interests of Jordanian exporters;
- The MoA reports that some of the food-related health and safety issues in Jordan arise due to bad farm-level handling practices and can be addressed through workshops, pilot demonstration projects, and effective extension programs;
- Negotiation of Mutual Recognition Agreements—the GOJ has confirmed its commitment to negotiating an Agreement on the Conformity Assessment and Acceptance of industrial products (ACAA) and has selected the priority sectors to be included in it; given the scope of trade with the GAFTA region, MRAs should also be pursued (one with Kuwait is already pending) with non-Euro-Med partners though the ACAA and regional MRAs should be carefully aligned);
- Furthermore, destination market requirements need to be explained in practical terms to potential exporters and information generally needs to be widely disseminated.

2.2 TRADE POLICIES RELATED TO SERVICES

Trade in services accounts for only 34 percent of Jordan's total exports, though the sector accounts for 64 percent of GDP. While disaggregated data on trade in services are difficult to obtain, evidence suggests that tourism and transportation services dominate Jordan's service exports. While some inroads have been made with respect to selected other services, such as medical services and higher education particularly vis-à-vis GAFTA countries, Jordan has not yet fully capitalized on its comparative advantages with respect to engineering skills that should position Jordan to better promote its ICT and architecture and engineering sectors. While each of these sectors requires supply-side support to build their capacity to export (which Jordan Enterprise and several donor projects are actively supporting), many policy related constraints restrain trade in services. Given the size and breadth of the existing service sectors in Jordan, further opening these markets to international trade would have positive impacts on service and exports, as well as spillover effects on the agriculture and manufacturing sectors that depend on a wide range of support services.

2.2.1 Import Measures

As in the case of merchandise, policies related to service imports have the most direct impact on the allocation of resources in Jordan. The rationalization and liberalization of import measures can therefore reduce distortions that otherwise prevent full exploitation of Jordan's comparative advantages and market access, and therefore the Jordanian economy's ability to promote the export of services.

2.2.1.1 *Jordan's Services Commitments under GATS and Free Trade Agreements*

Jordan's Service Commitments under the GATS

Upon accession to the WTO in 2000, Jordan committed to liberalize trade in 110 service sectors under the framework of the General Agreement on Trade in Services (GATS). In fact, Jordan bound a longer list of sectors than most newly acceded developing country members. These commitments govern the imports of services into Jordan and often represent the minimum commitments under other multilateral and bilateral agreements. Jordan's commitments reflected the Government's initial approach to services trade—to attract FDI to the country through a high level of transparency on government measures over a wide range of service sub-sectors. While addressing the main service infrastructure sub-sectors (i.e., financial services, business services, telecommunications, many maritime transport services, and some airport transportation services), the commitments bound the status quo with no increased liberalization. However, Jordan's schedules of commitments formed the starting point for further negotiations under the Doha Development Agenda round of negotiations, which were suspended in 2006. Moreover, those benchmarks helped to identify trade impediments, and deterred the implementation of further restrictions for those sectors included in the schedules.

Like the services schedules of all General Agreement on Tariffs and Trade (GATT) signatory countries, those of Jordan are divided into two sections—'horizontal' commitments and 'sector-specific' commitments. Additionally, Article II of GATS allows MFN exemptions, which Jordan took to cover bilateral agreements with certain Arab countries to account for reciprocal preferential market access for many services. The horizontal commitments apply to all sectors included in the schedules. The sector-specific commitments are classified according to the GATT's Services Sectoral Classification List, which draws on the United Nations' Provisional Central Product Classification (CPC) System. For both the horizontal and sector-specific sections, commitments are presented according to the four possible delivery channels or so-called modes of supply. In brief, the modes of supply, with examples that apply to Jordan's imports of services, are as follows:

- **Mode 1: Cross-border supply**—the service crosses the border to Jordan from another country (e.g., e-mailing or faxing or couriering a report to a Jordanian client, or providing transport services in Jordan to a non-Jordanian resident or a non-Jordanian company).
- **Mode 2: Consumption abroad**—Jordan's customer crosses the Jordanian border temporarily (e.g., foreign executives attend a training seminar in Jordan, or travel to Jordan for tourism or medical treatment).
- **Mode 3: Commercial presence**—a non-Jordanian service firm establishes a commercial presence in Jordan (e.g., a local or regional office).
- **Mode 4: Presence of natural persons**—non-Jordanian business owners or staff cross their borders into Jordan to provide a service (e.g., they deliver a training session at a client's office in Jordan).

For each mode of supply, countries are permitted to offer commitments on market access, national treatment, or both. Box 2-1 briefly summarizes Jordan's commitments.

Box 2-1—Jordan's GATS Commitments

Horizontal commitments. Jordan applied the following horizontal, or cross-industry, limitations to all sectors listed in its GATS schedules: (i) minimum requirement of JD 50,000 investment for each entity; (ii) Cabinet approval for the lease or purchase of land and buildings; (iii) the Managing Director of established entities must be resident. In addition, for Mode 4 the following three categories of temporary workers are permitted entry, subject to certain time limitations, academic and professional qualifications, and economic needs tests: (i) business visitors; (ii) intra-corporate transferees (e.g., executives, managers and specialists); and (iii) professionals working under a services contract for an entity with substantive business operations in Jordan. Likewise, Jordan imposed a 51 percent cap on many services related to couriers, mobile voice and data, education services, hospital and other human health services, and a 50 percent cap on many others. A nationality requirement is imposed in many sectors, including professional and business services, couriers, audiovisual, construction, distribution, education, health, tourism, and maritime and air transport.

Sector-specific commitments. In terms of sectoral commitments, those that Jordan chose to liberalize the most include business services, environmental services, financial services, and recreational, cultural, and sporting services. For Modes 1, 2, and 3, Jordan made a full commitment to liberalize, denoted as 'none' in the schedules, which indicates that Jordan imposed no industry-specific market access or national treatment restrictions on those sectors. For Mode 4, Jordan made no commitment to liberalize (indicated by the word 'unbound' in the schedules), except as provided for by the horizontal limitations affecting all sectors included in the schedules.

Jordan chose to exclude the following sectors in its GATS schedule due to political sensitivity or high legal restriction: (i) most medical services and pharmacies; (ii) postal services; (iii) radio and television production and broadcasting; (iv) sewage and refuse disposal; and (v) road and rail transport, and related services.

Most-favored Nation exemptions. The MFN exemptions that are applied to all sectors included in Jordan's GATS schedules (i.e., horizontal measures), with their objectives, are as follows: (i) preferential treatment of commercial presence to entities from 19 listed countries, to foster investment in Jordan; (ii) lower fees for services providers and work permits for foreign workers who are nationals of Arab countries than for nationals of non-Arab countries, to promote Arab investment and trade; (iii) national treatment on social security granted to workers from Turkey, the Philippines, Pakistan and Egypt to promote intra-regional movement, trade and investment; and (iv) purchase of land subject to reciprocity, except for nationals of Arab countries.

MFN sectoral exemptions relate to the following: (i) for qualified auditors, pharmacists, geologists and geological engineers (given Cabinet permission), temporary market access is granted to the nationals from any country with which there is an agreement for reciprocal treatment; (ii) licenses for medical testing and laboratory administration is granted reciprocally, though this is not required for foreign directors of private hospital labs; (iii) for audio-visual services, reciprocal national treatment is granted for the distribution and access to funding under government-to-government framework agreements on the co-production of audiovisual works; (iv) licenses are not required by the operators of transport vehicles from Turkey and Sweden for tourist trips and associated shuttle services; (v) for press services, foreign news agencies may publish newsletters (given Cabinet permission) from countries where Jordanian news agencies are granted reciprocal treatment; and (vi) bilateral transport facilitation and transit agreements with 28 listed countries.

Jordan's Service Commitments under other Agreements

The services commitments made under Article III of the bilateral trade agreement between the United States and Jordan (JUSFTA) went into effect after Jordan's accession to the GATS. The commitments mainly mirror those presented to the WTO with the exception of those presented in Box 2.3. The main differences between the commitments made under GATS and the JUSFTA lie within the broad categories of business services and communications services. Within the category of business services, under the JUSFTA Jordan permitted veterinary services in Mode 3 and required that veterinarians be of Jordanian nationality. In research and development services, rental/leasing services without operators, and other business services, the differences between the JUSFTA and the GATS commitments are focused mainly on increasing the foreign equity cap from 50 percent to 60 percent and/or removing it (e.g., rental and leasing of ships without operators in Mode 3). Differences between the two agreements in commitments for communications services have to do mainly with the broad categories of courier services, audio-visual services, educational services, financial services, and health related and social services, and vary widely among individual sub-sector services in the schedule. For example, for audio-visual services, Jordan made new commitments for television and radio and made no liberalization commitment for market access or national treatment. In contrast, for all educational services the JUSFTA raised the foreign equity cap to 60 percent and then removed it in 2002. Jordan made the most detailed commitments for internal waterway transport services, where liberalization measures were adopted under certain modes for both market access and national treatment.

Limited statistics are available on the types of services that Jordan has exported to the United States since that bilateral agreement went into effect. In contrast, According to the United Nations Conference on Trade and Development (UNCTAD, 2006a), US services exported to Jordan have doubled as a result of U.S. franchising licenses, electronic payment processes, business management and business education licenses, energy management services, electronic business services, information technology services, value-added financial services, value-added telecommunication services, and construction services.

Jordan would benefit greatly from adopting a basic approach for improving services trade under the JUSFTA similar to that of its GATS commitments, i.e. to take stock of changes that have occurred in laws, regulations, and the business and investment environments since the JUSFTA went into effect and tie a newly developed strategy to the National Agenda. In addition, just as with trade in goods, the JUSFTA Unit must substantially raise awareness with the private sector about trade in services from an operational point of view, and the Unit must investigate with the private sector details about the perceived or real constraints to Jordanian service exports.

The Jordan-EU Association Agreement made few changes to the position of Jordan or the European Union compared with that bound under the GATS, either as to the sectors covered or the degree of liberalization (Arkell, 2003). The only specific commitments in the Association Agreement refer to the right of establishment and access to specified support personnel. It does not contain any commitments with respect to Mode 1 (cross-border) or Mode 2 (consumption abroad). For those modes, their respective GATS commitments provide for the minimum degree of liberalization that apply.

The agreement with Singapore also provides for specific service commitments, following the GATS and JUSFTA models, with horizontal and vertical (by sector and sub-sector) schedules covering the four modes of supply. Following the strategy implications outlined above for the GATS and the JUSFTA, an action plan should be developed to capitalize on recent service flows that complement the National Agenda and other high-potential service export sectors under the EU Association Agreement and the FTA with Singapore.

While GAFTA provides for the opportunity for its members to grant service-related concessions, no such concessions have been negotiated as of yet. Neither the Agadir Agreement nor the agreement with EFTA countries include service commitments, so the respective member country GATS commitments apply.

2.2.1.2 Restrictiveness of Trade in Services and Tax Implications

The import of services depends on both Jordan's international agreements, as well as autonomous rules and regulations in Jordan. The imports of services into the Kingdom are governed, first, by commitments that Jordan has made under GATS, including both 'horizontal' and sector commitments. Those commitments state which of Jordan's services sectors the Government was willing to open to foreign competition, and how accessible the Jordanian services market was to foreign services suppliers. By and large, Jordan's GATS commitments were based on the status quo, with no real commitments to liberalize services more than was in force at the time of accession. Jordan has also concluded a number of regional and multilateral trade agreements that involve services through the commitments under JUSFTA are the only ones to go beyond existing GATS commitments.

As distinguished from those international instruments, there are autonomous laws, rules and regulations in Jordan that determine the conditions and circumstances under which services may be rendered. Two types of national laws and regulations have to be distinguished: laws of general application ('horizontal' in GATS nomenclature) and sector regulations.

Determining the types of quantitative restrictions applied to goods crossing borders such as tariffs, other taxes, the number of mandatory requirements to clear customs, and their associated costs is fairly straight-forward and based on widely accepted methodologies. In contrast, making a similar determination for services is somewhat more complicated. First, the restrictions applied to international services transactions usually take the form of non-tariff, non-price regulatory barriers. Second, research methodologies have shifted away from quantifying the presence and size of barriers based on the divergence of a selected criterion from an established benchmark towards developing a quantitative trade restrictive index and the effect of that measure. Using this new approach and based on the methodology developed by the Australian Productivity Commission, Organization for Economic Cooperation and Development (OECD) researchers (Dihel and Shepherd, 2007) recently calculated service trade restrictive indices (TRI) for the banking, insurance, telecom (fixed and mobile), professional (engineering) and distribution services in selected non-OECD countries at the aggregate and modal levels. The indices represent the degree to which policies, regulations, and institutions restrict trade and the impact of those constraints on prices, costs, or other measures of performance in the selected sectors. The interpretation of the indices—the higher the index the more restrictive the sector—is useful not only in terms of discussing market entry but also in terms of exports because the fixed cost they represent impacts on the export volume necessary for the exporter to break even (Dihel and Kardoosh, 2006).

Descriptive statistics for the results of the calculations for the TRI at the aggregate and modal levels, for four sectors, by region and for Jordan, are shown in Figure 2-10 and Figure 2-11:

- **Aggregate indices.** In terms of the aggregate indices, data indicate that for Jordan, the overall average aggregate TRI of 0.96 is considered moderate and is nearly equal to that of the economies in transition. Individual indices range from a low of 0.24 for the banking sector to a high of 1.68 for the fixed telecommunications sector. Jordan's TRI of 1.45 for the insurance sector is somewhat higher than that calculated for all available countries, while the TRI of 0.45 for the mobile telecommunications sector is equal to that of OECD countries.

- **Modal indices.** Dihel and Shepherd (2007) calculated the TRI at the four modes of supply after analyzing barriers to services trade in specific sectors and for specific modes. Disaggregated TRI at the four levels of supply mode highlight important differences among the regions and sectors reviewed. For example, for supply mode 3 (commercial presence) of the banking and insurance sectors, they took into consideration foreign equity limits, limitations on the form of establishment, screening and approval, and limitations on business activities.

Results reveal important differences across modes of supply for the four sectors under review. In general, the selected Asian and Arab countries recorded the highest TRI for the banking, insurance, and fixed telecommunications sectors across all modes of supply. Arab, Asian, and countries in transition recorded the highest TRI in the mobile telecommunications sector. For example, it is noteworthy to highlight that Arab countries recorded the highest average TRI for mode 4 (presence of natural persons) for all four sectors, and that Jordan's TRI for that mode surpassed the Arab regional average in each sector, with the highest of 2.16 being recorded for insurance. These results suggest that Jordan, on average and compared with the selected countries under review, appears to impose higher barriers on the duration of stay, number of work permits, licensing requirements, and limitations on the board of directors, especially for the insurance sector and is therefore less competitive than the corresponding service sectors in the other countries under review.

Figure 2-10—Aggregate Service Restrictiveness Indices for Selected Countries and Regions

Sector	All Available Countries	Arab Countries <u>a/</u>	Asia <u>b/</u>	Baltic Countries <u>c/</u>	Latin America <u>d/</u>	Transition Economies <u>e/</u>	Jordan	OECD Countries
Banking	1.03	1.19	1.98	0.21	0.90	0.93	0.24	0.29
Insurance	1.37	1.54	2.26	na	1.30	1.13	1.45	0.58
Fixed Telecom.	1.21	2.25	1.48	na	0.78	1.01	1.68	0.31
Mobile Telecom.	0.90	0.66	2.09	na	0.48	0.83 <u>f/</u>	0.45	0.45
<i>Median</i>	<i>1.13</i>	<i>1.41</i>	<i>1.95</i>	<i>0.21</i>	<i>0.86</i>	<i>0.97</i>	<i>0.96</i>	<i>0.41</i>

Notes:

a/ Egypt, Jordan, Morocco, and Tunisia.

b/ China, India, Malaysia, and Thailand.

c/ Estonia, Latvia, and Lithuania.

d/ Argentina, Bolivia, Brazil, Chile, Colombia, Ecuador, Peru, Uruguay, and Venezuela.

e/ Albania, Bulgaria, Croatia, Macedonia, Moldova, Romania, Serbia/Montenegro, and Russia.

f/ Due to lack of data, excludes Croatia from the economies in transition listed in footnote e.

(i) Data for the engineering and distribution sectors were excluded due to lack of comparative data for Jordan.

(ii) The highest indices (and therefore the most restrictive) are indicated in bold.

Source: Dihel and Shepherd (2007).

Figure 2-11—Modal Service Restrictiveness Indices for Selected Countries and Regions

Sector	Banking				Insurance				Fixed Telecommunications				Mobile Telecommunications			
	1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4
Arab Countries <u>a/</u>	1.77	1.72	1.00	1.68	2.40	1.74	1.11	2.01	1.57	1.54	2.47	1.72	1.53	-	0.40	1.72
Asia <u>b/</u>	2.18	1.91	1.30	0.96	2.56	1.57	2.37	1.39	1.16	2.05	1.56	1.13	1.15	1.16	2.50	1.13
Baltic Countries <u>c/</u>	0.14	-	0.78	0.70	na	na	na	na	na	na	na	na	na	na	na	na
Latin America <u>d/</u>	1.00	0.89	0.94	1.56	1.68	1.52	0.82	1.64	0.69	1.14	0.72	1.59	1.02	0.26	0.32	1.59
Transition Economies <u>e/</u>	1.74	1.44	0.82	0.74	1.89	1.35	0.87	0.73	0.68	1.32	0.97	0.61	0.87	1.65	0.64	0.61
Jordan	0.52	-	0.74	1.79	2.26	2.05	0.95	2.16	1.41	-	1.84	1.91	-	-	0.51	1.91
<i>All Available Countries</i>	<i>1.40</i>	<i>1.22</i>	<i>0.95</i>	<i>1.16</i>	<i>2.00</i>	<i>1.51</i>	<i>1.13</i>	<i>1.37</i>	<i>0.91</i>	<i>1.41</i>	<i>1.22</i>	<i>1.25</i>	<i>1.08</i>	<i>0.77</i>	<i>0.79</i>	<i>1.25</i>

Notes:

a/ Egypt, Jordan, Morocco, and Tunisia.

b/ China, India, Malaysia, and Thailand.

c/ Estonia, Latvia, and Lithuania.

d/ Argentina, Bolivia, Brazil, Chile, Colombia, Ecuador, Peru, Uruguay, and Venezuela.

e/ Albania, Bulgaria, Croatia, Macedonia, Moldova, Romania, Serbia/Montenegro, and Russia for banking, insurance, and fixed telecommunications sectors; for mobile telecommunications sector, all of these countries except Croatia due to lack of data.

(i) Data for the engineering and distribution sectors were excluded due to lack of comparative data for Jordan;

(ii) For the banking and insurance sectors, the TRI cover the following barriers:

- for modes 1 and 2: restrictions on subsidies, establishment or residency to provide cross-border services, requirement to cooperate with local organizations, geographical limitations or authorization requirements.

- for mode 3: foreign equity limits, limitations on the form of establishment, screening and approval, business activities.

- for mode 4: limits on duration of stay, number of work permits, licensing, board of directors.

(iii) For the telecommunications sectors, the TRI cover the following barriers:

- for modes 1: restrictions on leased line or network provision, connections of leased lines and private networks, international simple resale and IP telephony.

- for mode 2: call back services.

- for modes 3 and 4: same as for banking and insurance sectors.

Source: Dihel and Shepherd (2007).

Figure 2-12 and Figure 2-13 report the so-called aggregate and modal tax equivalents of the TRI for selected sectors and regions, including Jordan. The OECD (Dihel and Shepherd, 2007) calculated those equivalents by comparing the levels of price cost margins under policy settings in effect at the time of data compilation with values that they expected to observe if trade barriers were removed and holding all other influential factors constant.

- **Aggregate tax equivalents.** Arab countries reported the second-highest average tax equivalents (based on price, not cost) for all four sectors of 24 percent, with the highest tax equivalent of 51.6 percent for the insurance sector. Aggregate tax equivalents for Jordan, compared with those for all available countries, were on average lower (18.1 percent for Jordan compared with 22.6 percent for all available countries). However, the tax equivalent for insurance was somewhat higher at 47.5 percent (compared with 46.5 percent for all available countries), and significantly lower for the banking sector (2.8 percent versus 13.3 percent for all countries) and for the mobile telecommunications sector (3.9 percent versus 8.1 percent for all countries).
- **Modal tax equivalents.** The tax equivalents, broken down by the four modes of supply, show important differences across the three sectors by region, and by Jordan. In general, Asian and Arab countries applied the highest tax equivalent rates across the three sectors and modes. In banking, in particular, the Asian countries recorded the highest taxes in Modes 1, 2, and 3, and Arab countries applied the highest tax equivalent to that sector in Mode 4. In insurance, Arab countries scored the highest in terms of tax equivalents for Modes 1, 2, and 4, and Asian countries for Mode 3. The tax equivalent rates for the mobile telecommunications sector in the four modes was mixed across regions. Regarding Jordan, in many cases the tax equivalent rates were considerably higher than for all countries for which data were available, and also for Arab countries, with the greatest differential in tax equivalents being recorded in Mode 4 (presence of natural persons). Of particular note are the tax equivalents calculated for Jordan in Mode 4 for the insurance sector (122 percent) and the mobile telecommunications sector (57 percent).

Despite their methodological limitations, the service trade restrictive indices and accompanying tax equivalents calculated by OECD researchers provide valuable insights to Jordan's effective degree of protection in the service sectors. The calculations suggest that the country would benefit from further liberalization measures in the insurance, fixed telecommunications, and mobile telecommunications sectors. In particular, further consideration is needed to open up Jordan's insurance sector in Modes 1, 2, and 4, the fixed telecommunications sector in Modes 1, 3, and 4, and the mobile telecommunications sector in Mode 4.

It would be beneficial to undertake a systematic and logical review of the limitations imposed horizontally on all sectors, and the reasons for excluding certain sectors in the original commitments. For example, it would be beneficial to consider the likely deterrent effect of imposing the 50 percent equity cap and the minimum investment threshold of JD 50,000 on so many sectors. Proposals for lowering the latter have already been tabled and should be rapidly approved and implemented. Likewise, it is unclear what criteria are followed by the Cabinet when granting approval for the lease of purchase by foreigners of land and buildings. There seems to be little justification to maintain nationality requirements in such a wide range of sectors, as it can effectively act to exclude foreign participation entirely and will likely discourage the development of exports from those sectors. For example, in other countries that are developing an export-oriented Medical Services sector allow foreign doctors to practice (provided they meet local requirements), including the UAE and USA. The original motivation for the restrictions on foreign presence and competition must be revisited. Some may be based quite properly on the need for consumer protection, while

others may be needlessly defensive, and so delay necessary improvements of competitiveness and, hence, export development and job creation.

The remaining limitations on market access and national treatment on sectors already bound should be reviewed in the light of subsequent changes in any laws affecting those sectors, and as to whether it is still necessary to maintain the limitations. The MFN exemptions should be carefully checked to see if they all need to be maintained, particularly since GATS requires their removal within ten years of accession. Finally, the GOJ should consider inclusion of the additional service liberalization commitments made later under the JUSFTA (see following section).

Since the presentation of its service commitments to the WTO, the economic and business landscapes in Jordan have changed dramatically in terms of the services offered by Jordan and its trading partners, the people involved in services (their nationalities, backgrounds, and qualifications), and the sectors affected by these changes. Many laws have been revised or replaced, shifts have been made in sector investments related to services, and the original GATS commitments undoubtedly have affected the direction of trade in services. Accordingly, the Government's strategy is markedly different from when it first presented its service commitments based largely on the status quo. Rather than focusing on transparency to promote FDI, the country would benefit from a new services strategy tied to the National Agenda, and should include short-term projects to jump-start growth in key high-value business and professional services and long-term revenue-generating projects that involve export-oriented industries such as real estate development, financial markets, tourism, ICT and architecture and engineering. Such projects would increase the competitiveness of the entire economy and develop export capacity, thereby increasing foreign currency.

Figure 2-12—Aggregate Tax Equivalents of Service Trade Restrictiveness Indices for Selected Countries and Regions (percent)

Sector	All Available Countries	Arab Countries <u>a/</u>	Asia <u>b/</u>	Baltic Countries <u>c/</u>	Latin America <u>d/</u>	Transition Economies <u>e/</u>	Jordan
Banking	13.3	14.7	25.2	2.5	12.9 <u>f/</u>	12.4	2.8
Insurance	46.5	51.6	84.5	na	40.5	37.2	47.5
Mobile Telecommunications	8.1	5.7	19.4	na	6.4	7.3 <u>g/</u>	3.9
<i>All Avail. Sectors: Median</i>	<i>22.6</i>	<i>24.0</i>	<i>43.0</i>	<i>2.5</i>	<i>20.0</i>	<i>19.0</i>	<i>18.1</i>

Notes:

a/ Egypt, Jordan, Morocco, and Tunisia.

b/ China, India, Malaysia, and Thailand.

c/ Estonia, Latvia, and Lithuania.

d/ Except where indicated, includes Argentina, Bolivia, Brazil, Chile, Colombia, Ecuador, Peru, Uruguay, and Venezuela.

e/ Except where included, includes Albania, Bulgaria, Croatia, Macedonia, Moldova, Romania, Serbia/Montenegro, and Russia.

f/ Due to lack of data, excludes Uruguay from all countries listed in footnote d.

g/ Due to lack of data, excludes Croatia from all countries listed in footnote e.

Source: Dihel and Sheperd (2007).

Figure 2-13—Modal Tax Equivalents of Service Trade Restrictiveness Indices for Selected Countries and Regions (percent)

Sector	Banking				Insurance				Mobile Telecommunications			
	1	2	3	4	1	2	3	4	1	2	3	4
Arab Countries <u>a/</u>	1.61	3.58	18.44	1.62	103.09	46.39	41.48	116.23	13.88	-	1.83	53.12
Asia <u>b/</u>	1.99	4.77	24.57	0.92	111.26	43.29	109.60	68.26	10.07	21.21	11.98	30.72
Baltic Countries <u>c/</u>	0.13	-	14.09	0.67	na	na	na	na	na	na	na	na
Latin America <u>d/</u>	1.22	2.38	18.07	1.39	78.28	38.56	37.35	91.20	12.20	5.30	2.67	45.57
Transition Economies <u>e/</u>	1.79	3.76	15.10	0.78	75.20	35.79	33.02	34.48	8.62	28.75	2.82	22.50
Jordan	0.47	-	13.33	1.72	89.82	53.59	34.40	121.76	-	-	2.34	56.56
<i>All Avail. Countries</i>	<i>1.40</i>	<i>2.96</i>	<i>17.72</i>	<i>1.13</i>	<i>82.65</i>	<i>40.15</i>	<i>45.44</i>	<i>72.61</i>	<i>10.37</i>	<i>14.89</i>	<i>3.68</i>	<i>36.80</i>

Notes:

a/ Egypt, Jordan, Morocco, and Tunisia.

b/ China, India, Malaysia, and Thailand.

c/ Estonia, Latvia, and Lithuania.

d/ For insurance and mobile telecommunications sectors, includes Argentina, Bolivia, Brazil, Chile, Colombia, Ecuador, Peru, Uruguay, and Venezuela; for banking sector, includes all of these countries except Uruguay.

e/ For banking and insurance sectors, includes Albania, Bulgaria, Croatia, Macedonia, Moldova, Romania, Serbia/Montenegro, and Russia; for mobile telecommunications sector, includes all of these countries except Croatia.

f/ Due to lack of data, excludes Uruguay from all countries listed in footnote d.

(i) Data for the engineering and distribution sectors were excluded due to lack of comparative data for Jordan.

Source: Dihel and Shepherd (2007).

2.2.1.3 *Safeguard measures*

Safeguard measures are as applicable to trade in services as they are to trade in goods, although more complicated due to unresolved technical issues. Article X of the GATS states the negotiations on emergency safeguard measures (EMS) must be completed by the end of 1997 and come into force one year later. To date, WTO members have not agreed on a formal definition of EMS as applied to services. In particular, disagreement centers on the definition of an injury, whether all modes of supply should be included, and whether safeguards are needed at all since the scheduling of commitments has been so flexible. Furthermore, members already have recourse to address serious balance-of-payments problems under Article XII, which involves restricting the extent of commitments, and restricting trade-related payments, transfers, and capital movements. In those cases where EMS is invoked, actions must be temporary, not excessive, non-discriminatory, and avoid excessive damage to other Members (U.S. International Trade Commission, 1999 and 2007). Jordan's negotiating team should remain aware of progress made on EMS as they relate to services without using them in the interest of over-protecting their domestic market.

2.2.2 **Export Measures**

2.2.2.1 *Market Access Issues*

Exporting services is similar to importing services from the legal and regulatory point of view. The four modes of supply defined by the GATS discuss above hold for exports—the conditions faced by Jordanian service exporters are determined by the regulatory framework in partner countries. Just as Jordan has implemented a multitude of service commitments at the multilateral and bilateral levels, so have other countries that make up Jordan's current and potential export markets. Unfortunately, given the high volume of this information, the lack of knowledge on where to investigate, and most importantly the absence of a strategic approach, most Jordanian businesses know little about accessing the service markets in foreign countries (von Lingelsheim-Seibicke, 2007). The GOJ, however, has taken steps to bridge the gap by first analyzing the requests received from the United States, European Union, Japan, Canada, India, Malaysia, Pakistan, Turkey, and Egypt to further open the Jordanian service market (Arkell, 2003). Even though the responses that the GOJ formulates will focus on imports, it would be useful to consider Jordan's export and commercial priorities under the free trade agreements (e.g., the JUSFTA, EU Association Agreement and the Singapore FTA) to have a complete picture of trade in certain service sectors.

As Arkell (2003) notes, in ongoing GATS negotiations the GOJ must spend considerable effort in determining which modes of supply are of most value to Jordan's exporters and tie those modes to key export markets. He postulates that there are few, if any, restrictions on Mode 2, since anyhow consumption abroad by citizens of Jordan represents imports and not exports. The other three modes cover exports by Jordan, and can be mutually supportive. Although the capital that Jordanian businesses have for foreign investment is likely limited, the Mode 3 limitations on commercial presence are likely more important in certain target markets than others. Mode 1 (cross-border supplies), and Mode 4 (temporary presence of natural persons) can be closely linked for many sectors, especially professional and business services. Finally, Arkell notes that care should be taken to identify 'clusters' of related service sectors where the GOJ can request liberalization to proceed in parallel, since they are needed either as inputs or as joint supplies.

The private sector should play a pivotal role in helping to determine policy for services exports, first by providing information to policymakers on the problems they encounter in their markets and second by learning how their competitors are tapping existing and potential traditional and non-traditional export markets. A survey should first be carried out to

learn more about exporters' constraints to improving their performance; second, a formal mechanism should be established to gather feedback on a continual basis.

2.2.2.2 Service Standards

In addition to market access constraints, a key element of a successful export promotion strategy for merchandise goods involves standards and product conformity; likewise, this element should be included in an export strategy for services. Unlike products, the need to register to services standards varies widely from service industry to service industry, and market to market. For example, a Jordanian management consultant attempting to compete in the U.S. market could be more successful than others if he or she had a formal Project Management Certification. Exporters of banking, transport, and IT (e.g., data exchange and protection) services to the EU market may soon need to conform to EU standards in those industries. At the international level, registration to ISO 9000, ISO 9001:2000, and ISO 1400 carries credibility and assures potential customers that quality services can be delivered. Also of importance are quality-related processes undertaken at the corporate level such as business process reengineering (BPR), continuous quality improvement (CQI), total quality management (TQM), and quality management systems (QMS). Regardless of the type of certification or registration, Jordanian service industries should be concerned with whether or not registration would improve their competitiveness. At the sector level, the GOJ should be concerned at how to standardize services to promote a certain sector as a whole.

2.2.2.3 Sector-specific issues

While it is beyond the purview of the current study to conduct sector-specific analyses of constraints to export development in the services sectors, recent work by UNCTAD (von Lingelsheim-Seibicke, 2007) provides an indication of the types of issues that some of the leading sectors face, in terms of both domestic constraints and market access issues. These are briefly summarized below:⁹

Information and Telecommunications Technologies

As a result of significant reforms over the last decade, Jordan is now considered a regional pioneer in the liberalization of the information and telecommunications market. The 1995 Telecommunications Law opened all non-fixed-line services to the private sector, which rapidly expanded to include cellular services, pay-phone networks, a paging service, and data information services. A second telecommunications law that went into effect in 2002 bolstered the influence of the Ministry of Information and Communications Technology (MoICT) in developing the sector while decreasing its regulatory role (Dihel and Kardoosh, 2006). At the same time, in the 1990s information technology became the driving force behind the country's efforts to create a knowledge-based economy. Today no legislative or regulatory restrictions affecting trade in IT services in Jordan exist, and Jordan is signatory to the 2005 Information Technology Agreement that boasts a zero-tariff regime. This open environment has resulted in a dynamic sector dominated by few large enterprises, Jordanian ICT firms having strong regional ties and therefore providing regional services, and structural changes driven by public and private contracts, Jordanian and non-Jordanian investments, and a wide variety of end users (von Lingelsheim-Seibicke, 2007).

Despite the liberalization of the sector and the consequent impressive performance, the national strategy to develop a strong export-oriented ICT sector has fallen short of its ambitious goals. This weak performance is somewhat surprising given that Jordanian firms do not face restrictions in supply Modes 3 (commercial presence) or 4 (presence of natural persons) in the Arab or other Middle Eastern markets, except where capital requirements are needed for large projects.

⁹ See section 2.3.4 for a discussion of transportation and logistics.

The main issue for future growth hinges on a revised regulatory environment that addresses current and future concerns of an ICT industry that has changed dramatically during the last decade and will likely continue to do so: including new development and regulation of service standards, business entry certifications, business delivery standards, professional certifications and qualifications, and business-market relationships. Other important issues include the creation of a legislative framework that attracts investment, diversification of efforts away from the sole focus on promoting the software sub-sector, and the aggressive enforcement of intellectual property rights.

Also of great importance is the exploitation of the potential for e-government and e-commerce, which could help to turn around the high unemployment rate (about 18 percent) in the IT sector. Specific issues related to e-commerce are discussed in section 2.3.5—addressing these issues, particularly the instructions required to implement digital signatures, would directly contribute to the growth of the ICT sector in Jordan and its potential for export development.

Banking, financial, and insurance services

At nearly 19 percent, the financial services industries contribute the most of all service sectors to Jordan's GDP. They provide employment opportunities to a large segment of the Kingdom's educated workforce and are important inputs to goods produced and traded. In part, recent legal reforms have helped contribute to this strong economic position by placing Jordan among those Arab countries with the highest financial development scores (UNCTAD, 2006a). Important legislation includes the Banking Law of 2000, which redefined the scope of banking activities, strengthened the supervisory role of the Central Bank of Jordan (CBJ) in terms of loan classification and credit limits, and specified requirements on a bank's foreign currency exposure. In that same year, legislation was passed to offer insurance on bank deposits up to JD 10,000; in 2004, the CBJ issued guidelines on bank corporate governance and since that time has intensified its on and off-site loan examination program. Most recently, plans were underway to implement Basle II, which would improve risk management and enhance market discipline. At the same time, WTO regulations opened the banking sector to foreign participation. The three foreign banks currently operating in the Kingdom have infused capital, provided employment, upgraded technology, and introduced new financial products to the market. In terms of insurance, important reforms have been made to adopt international accounting standards, apply international actuarial methods to determine liabilities, introduce risk-based capital requirements, and regulate re-insurance activities.

Given its overall economic importance and the link to other service sectors, future reforms should be carefully crafted to maximize possible impact and be aimed at developing a strong export industry for this sector. Adoption of a proactive approach to offering financial services in export finance and loosening of credit and lending controls by the CBJ would help to jump-start services offered by exporter traders, merchants, and brokers that are practically non-existent now in Jordan. More investigation is needed to understand why other Middle East countries have been able to outpace Jordan in trading financial services across regional borders. Future efforts to promote exports in this sector should support the GOJ's efforts to adopt a national digital signature authentication method as part of its e-commerce system.

Given the impact of banking, financial, and insurance services on the overall economy, especially exports, steps should be taken immediately to implement the first phase (2007-2012) of the National Agenda that aims to overhaul this sector. Focus should be on developing export finance schemes and a plan to export Jordan's banking services to the region. Further reforms of the regulatory environment also need to be implemented that are linked to e-commerce and make information more transparent to consumers and businesses. Finally, careful review should be undertaken of the recent measures adopted in

the insurance sector that increased the minimum capital requirement and the 'grandfathering' of existing companies, both of which are potential barriers to entry in this sector.

Tourism and travel-related services

Tourism and travel-related services are often touted as the most promising service sector in Jordan, as evidenced by exports from this sector have steadily increased over the last several years. During 1990-93, travel-related exports represented 32 percent on average of all services exports; a decade later (2000-2003), they contributed on average nearly 50 percent to all service exports. By way of comparison with other countries competing in the region, in 2003 travel services from Turkey and Syria were higher than those of Jordan, representing 69 and 58 percent, respectively, of their total services exports (UNCTAD, 2006a). Trade liberalization efforts have also helped to enhance a public-private partnership by creating a National Tourism Strategy that is currently being implemented.

Increasing demand for tourism services has prompted a new set of challenges to maintain export growth in this sector. From a legal and regulatory point of view, at the international level Jordanian tourism companies have been unable to expand regionally although foreign companies have tapped the Arab and Middle East markets and compete with local firms despite restrictions. It would be beneficial, therefore, for the GOJ to take into consideration concessions under Modes 3 and 4 (commercial presence and movement of natural persons, respectively) in upcoming GATS negotiations with WTO members whose tourism markets the Kingdom wants to tap. At the national level, new legislation on franchising to encourage the exchange of IPR among local and foreign tourism service providers would foster credibility and help to promote FDI.

Construction and engineering services

Construction and engineering services contribute nearly six percent to GDP and employ approximately 10 percent of Jordan's workforce. The sector also has strong forward and backward linkages with other sectors of the economy (notably building material, furniture, and consumer durables in terms of goods and banking, finance, and insurance in terms of services). In the domestic market, the construction sector has recently experienced a boom due to rising demand in the real estate market. On the international scene, Jordan has imported and exported the services of construction contractors and engineers since the early 1970s. Long before WTO accession, trade associations followed guidelines set out by the World Bank and other international organizations to structure the international delivery of their services, and are aware of WTO commitments in this sector. The industry is closely tracking ongoing negotiations for Jordan's accession to the Government Procurement Agreement, as they perceive that they will be harmed by the opening of that market (UNCTAD, 2006b).

Detailed statistics on the exports of this sector are sparse although documentation exists (UNCTAD, 2006b) on important constraints to improving export performance of construction and engineering services. Jordanian firms face restrictions in Arab and Middle East markets in GATS Modes 3 and 4 (commercial presence and movement of natural persons, respectively), although demand appears to be increasing for Jordanian firms in Iraq, Yemen, Saudi Arabia, Sudan, the Palestinian National Authority territories, and the United Arab Emirates despite the acute lack of export financing. In contrast, Jordanian construction contractors face difficulties in obtaining visas to certain Gulf countries, which makes the market access rights afforded under GATS by those countries a moot issue. The extent to which Jordanian firms do business with foreign companies domestically, which reportedly constitutes the export of services, is unknown. However, joint ventures are being formed among international consultants and contractors and local firms to improve competitiveness and capitalize on increased investment in infrastructure-related projects such as airports,

hotels, refineries, communications and broadcasting ventures. In these cases, international firms usually provide specialized technical expertise and local firms contribute their technical services.

The construction and engineering sector has potential to develop its export capacity, yet requires government support to do so. While the NTS recognizes that the sector is well represented by key industry groups, and that government has adopted specific policies to ease restrictions, facilitate business activities, and promote investment in this sector, further support is needed by first helping to reorganize the sector into a national cluster and second by helping to create the framework for the permanent discussion of constraints to exporting.

'Emerging' services

The type of services provided by Jordanians to foreign entities now based in Jordan or wanting to base in neighboring countries such as Iraq has changed dramatically due to recent regional political developments. Professional services are required to help set up and operate those companies that fall outside legal, insurance, banking, and transport service providers. The export of educational services has become important for business people wanting to learn Arabic. Jordan's educated workforce, many of whom have an excellent working knowledge of English, is poised to act as facilitators in many aspects of doing business in the Arab world. Also, Jordan has become a major exporter of security expertise to Iraq.

The GOJ needs to adopt a mechanism to monitor developments in emerging and non-traditional services, and make sure to pave the way for their export using the GATS negotiations with trading partners as a starting point. At the same time, liberalizing the regulations governing market entry into Jordan's service sectors—as outlined above—would provide for a less distortionary market and the allocation of scarce resources toward those sectors that are best positioned to develop exports and generate jobs for Jordanians.

2.3 COMPLEMENTARY TRADE POLICY MEASURES

2.3.1 Competition Policy

An effective domestic competition policy framework is an important complement to liberalizing external barriers to competition. Competition policy is an important to promote competitiveness of domestic industries, and promotes the development of small and medium enterprises. The GOJ has made great strides in aligning its competition policy with international standards, particularly in light of earlier attempts in 1996 and 1998) at competition policy reform. A Competition Directorate was established within the MIT under provisions of the provisional Competition Law 2002 (which was passed by Parliament in 2004) and initial technical assistance and capacity building was provided by the EJADA program to implement the Directorate's mandate to regulate mergers and acquisitions as well as market concentration concerns.

To date, most of the work of the Competition Directorate has focused on consultations, applications for exemptions from the law, and a select number of cases that have been resolved at the administrative level. While some training has been provided to the judiciary on the enforcement of the Competition Law, no cases have been prosecuted in the courts. Looking forward, as the Competition Directorate adopts a more active role in regulating competition, it will be critical that the judiciary be well versed in competition law to ensure adequate enforcement.

There are also a number of institutional issues that need to be addressed to create a more effective framework for competition in Jordan. Institutionally, it would be appropriate to

establish the Competition Directorate as an independent authority, in order to establish an arms-length relationship with industry. This would also enable the agency to recruit and retain the technical staff required to evaluate cases. This has been under discussion for some time. While some consensus exists, much needs to be done in order to move the process toward implementation, including the drafting of required amendments to the existing law and regulations. While it is expected that this process will take some time, it should be initiated as quickly as possible.

Another institutional issue that remains to be addressed is the jurisdiction between the Directorate and other regulatory agencies. While a Competition Affairs Committee, an advisory body set up under the Competition Law, plays some role in synchronizing relations between the Competition Directorate and other sector Regulatory bodies (e.g. telecommunications, transportation, energy), the lack of jurisdictional clarity remains an issue. While, in the longer-term, amendments to the appropriate legislation will be required to ensure such clarity, in the short- to medium-term, Memoranda of Understanding (MOUs) between the Competition Directorate, on the one hand, and the sector regulatory agencies, on the other, would go a significant way in addressing the issue.

2.3.2 Intellectual Property Rights

Intellectual property rights (IPR) enforcement is a critical element of trade policy for Jordan and for all WTO members required to comply with minimum standards of protection outlined in the WTO Trade Related Intellectual Property Rights (TRIPS) Agreement. Additionally, Jordan is required to comply with substantial intellectual property obligations under the Jordan-U.S. Free Trade Agreement (JUSFTA) signed in 2001.

To achieve compliance with both agreements, Jordan's legislative effort in recent years has led to the adoption of many significant intellectual property laws. More than eleven IP-related laws were passed from 1999 to 2004, five of which were introduced for the first time. These included new laws on copyright, patents, trademarks, industrial designs, unfair competition, trade secrets, integrated circuits, geographical indications, and new plant varieties. Moreover, recent intellectual property legislative amendments in Jordan have increased the level of protection to comply with the JUSFTA, although full compliance is yet to be realized.

In the areas of legislative compliance, there have been many positive developments, especially in copyright, trademarks and patents. However, considerable additional actions are needed in the areas of enforcement, government and judicial implementation, market surveys and statistics, piracy and counterfeiting. Priority IPR reforms for Jordan to undertake to support trade and investment policies, include actions in the following areas:

- Patents: Finalize the accession of Jordan to the Patent Cooperation Treaty (PCT)
- Trademarks: Finalize Jordan's accession to the Madrid Protocol on international trademark registration
- Copyright: Adopt draft copyright regulations/instructions to enhance copyright compliance
- Data protection: New chemical entities or new uses of old chemical entities need to be better reflected in the Unfair Competition and Trade Secrets Law and in Jordan Food & Drug Administration regulations and instructions
- Ensuring better IP protection and administration: An essential action is to create an independent IP regulatory agency
- Border measures: Amend the Customs Law to ensure better enforcement and prosecution of trademark and piracy cases

- Trademark counterfeiting: Empower a government administrative body with ex officio powers in the field. The draft amendment to the Standard and Metrology Law is a positive achievement in this regard
- Copyright piracy: The number of ex officio raids is positive but judicial decisions remain ineffective in deterring piracy
- Illegal sales: Expand stringent legal actions against street vendor markets in Amman as well as other major cities engaged in selling pirated goods.

2.3.3 Trade-Related Investment Measures

The Agreement on Trade-Related Investment Measures (TRIMS) is one of the multilateral agreements on trade in goods and prohibits trade-related investment measures (e.g., local content requirements, restrictions on imports, technology transfer, or licensing of technology) that are inconsistent with basic provisions of the GATT. The TRIMS Agreement does not regulate FDI as such but only addresses measures resulting in discriminatory treatment of imports and exports by foreign firms of other WTO Members. Essentially, the TRIMS Agreement requires the elimination or dismantling of FDI-related measures as conditions for either (i) admission or treatment of FDI in a WTO Member country, or (ii) qualification for FDI incentives by a WTO Member.

TRIMs are seen as equivalent to historical trade barriers. For example, by forcing foreign firms to use domestic components, the price of these components rises, with the same effect as tariffs or quantitative restrictions. If equivalent to quantitative restrictions, they violate Article XI of the GATT. TRIMs discriminate between domestic and foreign goods and thereby violate Article III (national treatment) of the GATT. Currently Jordan does not impose TRIMS and does not plan to do so in the future.

2.3.4 Behind-the-Border Trade Facilitation

With Saudi Arabia and the Gulf States to its south and southeast, Syria and Lebanon to its north, Israel, the West Bank and Gaza to its west, and Iraq to its east, Jordan is ideally situated geographically to accommodate an existing regional transit market for goods destined to neighboring countries. Unfortunately, Jordan has been unable to capitalize on this advantage because of high costs and inefficiencies inherent to the structure of the sector, and logistical problems. Indeed, the share of exports of transportation services in total service exports, recorded at 26 percent in 1990, has consistently eroded and in 2003 registered 20 percent (UNCTAD, 2006). Road transport, which is the most important means of transportation and has great potential due to the extensive road network throughout the Kingdom, is characterized by fragmented ownership, an antiquated fleet of vehicles, Government-regulated rates, and cargo loads controlled by a cartel. Moreover, while Jordan is signatory to the TIR Convention, which can facilitate cross-border shipment, few shipments are able to utilize the system due to improper equipment, nor is there an alternative customs bond guarantee scheme to facilitate such trade. This situation has resulted in high costs of transport by truck to and from the port of Aqaba and neighboring countries and has weakened Jordan's competitive position, particularly vis-à-vis regional competitors such as United Arab Emirates, Saudi Arabia and Turkey. World Bank economists estimate that each day's delay reduces trade in time sensitive exports, such as perishable agricultural commodities, by 7 percent.

Service quality has also negatively affected exports. Sailing times from Jordan are long due to the handling of cargo by regional shipping lines and global lines that operate through feeder services. Moreover, inbound container traffic has suffered extensive delays mainly due to humanitarian and military aid destined to Iraq. This situation has driven up costs for manufacturers that are dependent on imported inputs and has prompted international

shipping firms to suspend dealings with the port or impose extra charges (UNCTAD, 2006). In an international marketplace where quick turn-around time is required, such inefficiencies make Jordan less competitive compared with other countries. Finally, the rail system in Jordan will require significant investment to realize the strategy to connect Riyadh, Baghdad, and Cairo via Syria and Turkey to the European rail network, which was set out by the Agreement on International Railways in the Arab Mashreq.

These challenges to the transport sector are reflected in the Logistics Performance Index (LPI), a benchmarking tool recently developed by the World Bank. The LPI is based on a survey of freight forwarders and express carriers who provide feedback on the 'friendliness' of the countries in which they operate and those with which they trade. Figure 2-14 shows a comparison of the index and its components for Jordan and other Middle East and North African countries (MENA). Results indicate that trade operators scored Jordan the second-lowest of the 11 countries on the overall index (Oman scored the lowest) and lower than the MENA average for all components of the index with the exception of domestic logistics costs. These results suggest that while Jordan performs relatively well compared to many others in the region, it cannot compete with the leading transit hubs in the region. Jordan needs to take steps to improve the logistical problems that undoubtedly impact on trade, reducing the competitiveness of *all* export sectors, both merchandise and services.

Despite the various reports prepared (Devlin and Yee, 2005 and Export and Finance Bank, 2002, as reported in UNCTAD, 2006) and workshops held discussing the constraints in detail and offering solutions, little improvement has been made to make the transport industry sustainable. The Ministry of Transport drafted a National Transport Strategy for the period 2005 to 2007 that includes some of the regulatory reforms and infrastructure development projects required to improve Jordan's transport and logistics sector, including deregulation of land transport and the establishment of an inland container depot. A number of achievements have materialized but full progress against its goals have been lagging. Progress against the strategy should be rapidly reviewed and a plan of action developed to implement the remaining items. While the implementation of the National Transport Strategy is beyond the purview of a National Trade Strategy, the success of the former will greatly impact the success of the latter and should, therefore, be supported and actively promoted.

Figure 2-14—International Logistics Performance Index: Jordan Compared with Other MENA Countries

Country	Index	Rank	Customs	Infrastructure	International shipments	Logistics competence	Tracking & tracing	Domestic logistics costs	Timeliness
United Arab Emirates	3.73	20	3.52	3.80	3.68	3.67	3.61	2.80	4.12
Turkey	3.15	34	3.00	2.94	3.07	3.29	3.27	2.71	3.38
Saudi Arabia	3.02	41	2.72	2.95	2.93	2.88	3.02	2.76	3.65
Oman	2.92	48	2.71	2.86	2.57	2.67	2.80	3.25	4.00
Jordan	2.89	52	2.62	2.62	3.08	3.00	2.85	2.92	3.17
Tunisia	2.76	60	2.83	2.83	2.86	2.43	2.83	3.20	2.80
Iran, Islamic Rep.	2.51	78	2.50	2.44	2.59	2.69	2.00	2.93	2.80
Lower Middle Income	2.47		2.31	2.27	2.48	2.40	2.45	3.01	2.93
Middle East & North Africa	2.42		2.24	2.27	2.44	2.33	2.35	2.95	2.88
Morocco	2.38	94	2.20	2.33	2.75	2.13	2.00	2.38	2.86
Egypt, Arab Rep.	2.37	97	2.08	2.00	2.33	2.38	2.62	2.83	2.85
Lebanon	2.37	98	2.17	2.14	2.50	2.40	2.33	3.40	2.67
Yemen, Rep.	2.29	112	2.18	2.08	2.20	2.22	2.30	2.67	2.78
Syrian Arab Republic	2.09	135	2.17	1.91	2.00	1.80	2.00	2.89	2.67
Algeria	2.06	140	1.60	1.83	2.00	1.92	2.27	3.17	2.82
Djibouti	1.94	145	1.64	1.92	2.00	2.00	1.82	2.80	2.30

Source: World Bank, Logistics Performance Index database.

Notes: The Logistics Performance Index (LPI) is comprised of the seven components listed above. It measures performance along the logistics supply chain within a country and has three parts: (i) perceptions of the logistics environment of a trading partner country, (ii) information on the logistics environment in the home country of operation, (iii) real time-cost performance data for country of operation. For details, see <http://web.worldbank.org/WBSITE/EXTERNAL/TOPICS/EXTTRANSPORT/EXTTLF/0,,contentMDK:21514122~menuPK:3875957~pagePK:210058~piPK:210062~theSitePK:515434,00.html>.

2.3.5 Policies related to e-Commerce

E-commerce is increasingly an important tool to promote trade. Various initiatives have been created to promote e-commerce in Jordan, such as the Electronic Business Development (EBDA) initiative through the Amman Chamber of Industry, which aims to foster awareness and provide training to develop e-commerce, but they have yet to materialize fully. Despite a developed banking system that operates with a real time gross settlement system and the legal backing through the Banking Law that allows electronic copies to be as authoritative as the original, the volume of e-commerce in Jordan is limited and the diffusion of ICT into businesses is low.

The Electronic Transaction Law of 2001 provides the legal framework for e-commerce and e-government in Jordan. Based on the United Nations Commission on International Trade model law (UNCITRAL), it recognizes the equivalency of electronic signatures, documents, data, and transactions as having the same legal status as original versions. In addition, the law grants the Central Bank of Jordan the authority for regulating the electronic transfer of funds and methods of payments, and also sets penalties for any crime committed through electronic means (Pepper and Rogers, 2006).

An important issue to the development of e-commerce in Jordan is the inability to establish a business outside a commercial area, which limits the existence of online companies and online businesses. Perhaps of greatest importance are security policies, which remain a viable concern for e-commerce in Jordan. Under the current law, an electronic signature has no evidentiary power until it is authenticated by a certification authority. This absence of certification bodies and a secure public key infrastructure (PKI) are major impediments to the creation of an effective e-contracts and e-transactions environment. To date, the GOJ has not issued electronic payment instructions. Regulations that are hoped to be adopted include: digital certificates; licensing and regulating certification authorities; national digital identify; and foreign certification authorities. The passage of these regulations will have positive impacts across the Jordanian economy by facilitating trade and enabling Jordanian companies to participate in one of the most dynamic segments of the global economy.

2.3.6 Impacts and Role of Tax Policy on Trade

Income tax policy affects, of course, all segments of an economy. However, these impacts vary across segments. The current tax system in Jordan, which includes different tax rates and different incentives for different types of activities. For example, income tax rates are currently higher, and substantially so, for services, despite the strong role of services in the Jordanian economy. This creates distortions that tend to provide a disincentive to investment in the service sectors, despite the great potential for expanding service exports from Jordan.

Also, tax incentive schemes are administered under three separate laws, each providing incentives for different segments of the economy. As discussed in previous sections, some of these incentives, which are directed at exporters, introduce an additional layer of distortions. As discussed in previous sections, while the WTO has granted Jordan an extension to continue granting some such incentives under the Income Tax Law, it is generally not in the overall interest of Jordan, particularly in light of ongoing tax reform efforts that seek to eliminate many of the existing distortions (see below).

A study conducted in 2004 under the USAID-funded AMIR program¹⁰ quantified the effect of the existing tax system on different sectors of the Jordanian economy. In order to quantify the distorting effect of the current investment incentive program, the study calculated

¹⁰ Gabi Afram et al., "Overview of Non-fiscal Measures to Attract Investment," produced for the USAID-funded AMIR program, April 2005.

marginal effective tax rates (METR). METR measures the overall cumulative tax burden incurred by a marginal or new investment project under a given tax regime, including tax incentives. METR analysis is a powerful tool for evaluating the total impact of taxes on investment, as it accurately measures the extent to which taxes paid on an investment project affect the profitability, and therefore the desirability, of the venture. The analysis demonstrates that the current tax and incentive program causes an inter-sector tax distortion of more than twice the amount that would occur in the absence of such investment incentives. The inter-sector tax distortion is measured by the dispersion of marginal effective tax rates across 13 business sectors and sub-sectors of the Jordanian economy. Jordan's wide gap in METR on foreign capital investment between the manufacturing and service sectors (17 percentage points) is second only to UAE (26 percentage points) in the region and indicates a significant sector tax distortion, which discourages investment in the service sectors.

The tax reform program, the details of which are expected to be disseminated during the first quarter of 2008, seeks to create a tax system that encourages capital investment and promotes a more efficient allocation of Jordan's scarce resources. Highlights of the reform program include:

- **Unifying the income tax rates** for most sectors (banking is one sector that will remain an exception, with a higher rate)—this will likely entail a small increase in the tax rate for manufacturing and a substantial decrease for other sectors. It should be noted, however, that the impact of a higher rate on manufacturing is expected to be marginal given the scope to reduce, in parallel, other taxes.
- **Elimination of tax exemptions for exports**—again, as discussed above, a more uniform and transparent tax system will ultimately better serve the development of Jordan's exports, particularly in sectors that heretofore have not benefited from such exemptions, which, in light of the generous incentives provided to some manufacturing and other sectors, provided a disincentive to invest in some of the more dynamic segments of the Jordanian economy (e.g. services and domestic suppliers who may otherwise develop into indirect exporters).
- **Elimination of other taxes and fees** that exist in different forms that further raise the effective rate of taxation, especially for those sectors that do not currently qualify for exemptions.

The aim is, ultimately, to provide for a less distortionary and more transparent system that reduces transaction costs for both tax administration and for the private sector. Again, while some manufacturing export sectors that currently benefit from export subsidies will face higher tax burdens, the overall benefits to the Jordanian economy will far outweigh the costs. Also, the burden on new manufacturing export activities will be mitigated, to some extent, by the introduction of less distortionary allowances, credits and deductions, as well as the elimination of other taxes and the promotion of more efficient and competitive supplier industries, particularly with respect to services.

The introduction of more even-handed tax incentives that are directly linked to capital investment would enable Jordan not only to retain its current tax advantage in manufacturing, but also to become the lowest-taxed country in services among its key regional competitors for investment, while reducing the overall distortion between sectors.

2.3.7 Impacts and Role of Trade Policy in Promoting the Role of Women

Attaining Jordan's vision of becoming a globally competitive economy that is able to generate sustainable economic growth and more and better jobs for its people will be strongly linked to its ability to optimize the use of its most precious resource, its people.

Evidence strongly suggests that overall economic competitiveness is correlated to the role of women in the economic sphere—Jordan ranks amongst the lowest (55 of 58) of those included in the most recent Gender Gap ratings by the World Economic Forum.

Trade and trade policy is often presumed to be gender-neutral. However, trade liberalization does not occur without adjustment costs—the removal of tariffs and other trade barriers may expose previously protected sectors to competition in Jordan and open up new areas to exchange and commoditization. New trade policies are also likely to produce changes in prices, employment and consumption due to asymmetries in the role of men and women in the Jordanian economy (for example, due to asymmetric labor market roles and consumption patterns).

Assessing the impacts of trade policy reforms in Jordan can be conducted through Gender Impact Analyses (GIA). GIA can be applied to legislation, policy plans and programs, budgets, reports and existing policies in each of the five project result areas. GIA delivers policies that are more effective by getting those responsible to think about the different effect policies have on women and men, including potential price effects, employment and wage effects, consumption effects, and interaction with formal and informal laws and norms. It enables policy-makers to picture the effects of a given policy more accurately and to compare and assess the current situation and trends with the expected results of the proposed policy.

A number of methodologies and tools exist to assess the impact of regulatory reform on gender, including both quantitative models (such as computable general equilibrium (CGE) models or intra-household models) and more qualitative assessments. While the ability of the GOJ to carry out a full GIA on every policy reform is limited by resource constraints, as well as data availability, such analyses could be targeted on those policies that can be generally expected to have a differentiated impact on men and women, such as agricultural trade policy reforms. The GIAs should take into consideration a number of questions, such as:

- What is the policy trying to achieve, and who will benefit and who will lose?
- Have previous policies raised gender considerations for this policy?
- What are the views and perspectives of men and women, including their representative organizations regarding the policy-specific issues and expected outcomes?

To the extent possible, GIAs should be conducted in consultation with relevant NGOs and the Jordan National Committee for Women.

2.3.8 Impacts and Role of Trade Policy in Addressing Environmental Concerns

Liberalization of trade is not a goal in and of itself but rather a means to promote prosperity through improved economic efficiency and development. Worldwide, perceived conflicts between efforts to liberalize trade and to protect the environment are driving discussion of the nexus between trade and environment issues. Given Jordan's limited and fragile natural resource base and rising concerns about the impact of energy prices on industry, sustainable development is, rightfully, the ultimate goal of the National Agenda. Jordan's trade and trade policy can have both direct and indirect impacts on the ability of the Jordanian economy to move in a more sustainable direction. Export-led economic development and environmental protection and energy efficiency are needed in Jordan to improve the standard of living—ultimately, neglect of either goal, export-led development or environmental protection and energy efficiency, could impair the other.

Different types of trade policy instruments can give rise to positive or negative environment impacts through different channels. For example:

- **Tariffs** can encourage or discourage imports of environmentally-beneficial or energy-saving products, technologies and services by affecting their prices. Tariffs, particularly when used to protect domestic industries, can distort production and consumption away from environmentally-sustainable patterns. Also, tariff escalation can have environmental effects in their impacts on resource exploitation.
- **Non-Tariff Measures**, such as bans on environmentally-damaging goods (e.g. CFCs and endangered species) can have environmentally-beneficial effects; however, non-tariff measures are often less transparent than tariffs and can also discourage imports of environmentally-beneficial goods and distort trade patterns by protecting domestic industries with related environmental or energy implications.
- **Trade-Related Subsidies**, which are specifically targeted to promoting exports of domestically-produced goods, can support the export of beneficial or harmful environmental technologies or goods, can have implications for trade patterns, can and contribute to environmental distortions in importing and exporting countries.
- **TRIPs** can modify trade in products that enhance or harm the environment and influence patterns of foreign investment and transfer of environmental technologies. TRIPs can also affect the conservation of domestic varieties of plants and animals and other environmental and biological assets.
- **TRIMs** can affect the use or transfer of environmental products and more energy efficient technologies through foreign investment and the environmental performance of foreign firms.

Depending on the sector, the markets and complementary environmental policies, Jordan's trade and trade liberalization may be good or bad for the environment and development—in practice, they will usually be both at once, good in some ways, bad in others. The links between trade and the environment are multiple and complex, and include product effects, scale effects, structural effects and direct effects, which can be both positive and negative:

Figure 2-15—Potential Trade Policy Effects on Energy, Water and the Environment

Effect	Description	Potential Positive Impacts	Potential Negative Impacts
Product effects	Effect of traded product, or technology used in its production	<ul style="list-style-type: none"> ▪ Spread of more environmentally-friendly products or production technologies 	<ul style="list-style-type: none"> ▪ Facilitation of movement of hazardous wastes and toxic materials ▪ Over-exploitation of natural resources
Scale effects	Effect of more efficient production	<ul style="list-style-type: none"> ▪ Use of fewer resources and less pollution for same level of output ▪ Increased economic activity and incomes generates demand for environmental protections 	<ul style="list-style-type: none"> ▪ Increased natural resource use, pollution, waste from expanded production
Structural effects	Effect of reallocation of resources	<ul style="list-style-type: none"> ▪ Shift toward more environmentally-friendly products 	<ul style="list-style-type: none"> ▪ Shift toward less environmentally-friendly products
Direct effects		<ul style="list-style-type: none"> ▪ 	<ul style="list-style-type: none"> ▪ Increased transportation-related pollution and resource utilization

For example, Jordan maintains low or zero tariffs on a wide range of environmental goods for agricultural or industrial use that can promote the adoption of more environmentally friendly production technologies and techniques (though, in many cases, higher tariffs are charged for the same products if purchased for domestic consumption, diluting the potential adoption of more environmentally friendly technologies).¹¹ The most urgent issue at the nexus of trade policy and environment issues in Jordan is the impact of trade policies on the use of scarce water resources. For example, the maintenance of relatively high tariffs on bananas in Jordan (currently 30 percent, plus a JD 250 specific duty) may continue to promote production of a very high water-intensive product, rather than the shift of agricultural resources toward less water-intensive products (e.g. the water required per one ton of bananas is approximately four times as high as that required for eggplants).

The effect of any policy reform on the environment will ultimately be determined by a combination of these different effects. At the same time, environmental policies may have unanticipated effects on trade—again, both positive and negative.

While every trade policy choice cannot be decided solely on its environmental impacts, many of which may not be readily apparent or easily quantified at the time of the decision (such as changes in the use of production technologies), environmental concerns should be taken into consideration to the extent possible. This will be particularly important for Jordan with respect to effects of trade and trade policies on domestic water utilization, as well as the protection of environmentally sensitive areas. While agricultural trade policies may appear to be the most relevant in this respect, it is not simply the level of protection, for example, that is provided to certain water-intensive agricultural crops, but the relative degree of protection, which determines the allocation of resources in Jordan.

Many different types of methodologies could be used in conducting environmental reviews of trade measures and agreements in Jordan, and most likely a different mix of methodologies will be needed for different types of trade measures and agreements with various types of effects. Such assessments, as appropriate, could include both quantitative (e.g. input-output or CGE analyses) and qualitative elements, including sector or product case studies, depending on the availability of data and expectations on the magnitude of environmental impacts. While the development of criteria and guidelines for environmental reviews should be developed in coordination with relevant Ministries (e.g. Ministry of Environment, Ministry of Agriculture, Ministry of Energy and Mineral Resources, Ministry of Planning, Jordan Valley Authority) as well as the private sector (firms and farms) and NGOs, but some typical criteria include:

¹¹ Based on the OECD classification of environmental goods, out of 224 environmental goods defined at HS 6- or 8-digit level, Jordan exempts 133 from duties, while another eight are subject to a 5% duty, and another 18 are in the 5.5% to 10% range. A number of items (36) are subject to dual use (industrial or domestic, as defined by Jordan at the 8-digit level) and are exempted when utilized by industry.

Box 2-2—Criteria for Assessing the Environmental Impacts of Trade Policy

Preliminary Screening (for the selection of trade measures and agreements to be reviewed)

- What is the type of national trade measure (e.g. tariff, non-tariff measure, trade-related subsidy) or trade agreement (e.g. preferential trade agreement, trade liberalization agreement)?
- What are the principle types of environmental effects predicted (e.g. pollution, health and safety, resource degradation)?
- What is the potential magnitude and scope (e.g. national, trans-boundary, global) of the environmental effects predicted?
- What products, processes, sectors and/or regions may be affected by the trade measure or agreement?

Product Effects

- *Product Identification*—Does the trade measure or agreement directly affect the import or export of a specific product?
- *Production Technologies*—Is the trade measure or agreement likely to affect the processes or production methods for a specific product?
- *Environmental Effects*—Does the product have potential positive or negative environmental effects? What are its environmental effects relative to those of alternative products?
- *Policy Responses*—Do environmental standards or trade controls exist with respect to environmentally-damaging products and are they being adequately enforced? Are there means available to enhance the environmental benefits of certain products through the trade measure or agreement? Are there impediments to the diffusion of environmental technologies? If so, what are they and how can they be ameliorated?

Scale Effects

- *Scale of Economic Growth*—Might the trade measure or agreement increase economic growth at the macroeconomic level and by how much? What are the expected environmental benefits in terms of financial resources for environmental protection or the level of environmental preferences?
- *Scale of Pollution*—Might the trade measure or agreement increase or decrease overall levels of pollution and by how much? What are the expected environmental impacts in terms of releases of pollutants to air, water and land?
- *Scale of Resource Use*—Might the trade measure or agreement increase or decrease overall levels of resource use and by how much? What are the expected environmental impacts in terms of the intensity of use of natural resources?
- *Policy Responses*—Are means available to enhance positive scale effects and channel the benefits of growth into environmental protection? Are existing environmental policies sufficient to address negative scale effects? Should changes be made to the trade measure or agreement or are complementary policies needed?

Structural Effects

- *Structure of Production*—Might the trade measure or agreement increase or decrease the production of specific products or sectors? What are the expected environmental impacts of changes in production patterns at the micro-economic level?
- *Structure of Consumption*—Might the trade measure or agreement increase or decrease the consumption of specific products or sectors? What are the expected environmental impacts of changes in consumption patterns at the micro-economic level?
- *Structure of Investment*—Might the trade measure or agreement increase or decrease investment in specific products or sectors? What are the expected environmental impacts of changes in investment patterns at the micro-economic level?
- *Structure of Costs*—Might the trade measure or agreement increase or decrease raw material costs, energy costs, labor costs or capital costs for specific products or sectors? What are the environmental implications?
- *Geographical Structure*—Might the trade measure or agreement increase or decrease production, consumption or investment in particular geographical areas or regions? What are the environmental implications?
- *Policy Responses*—Are means available to enhance positive structural effects? Are environmental policies sufficient to address negative structural effects? Should changes be made to the trade measure or agreement or are complementary policies needed?

Direct Effects

- *Scale of Transport*—Might the trade measure or agreement increase or decrease overall levels of transport and by how much? What are the expected environmental impacts in terms of pollution, congestion, land-use, etc.?

Adapted from OECD, "Methodologies for Environmental and Trade Reviews," 1994.

3. EXTERNAL TRADE POLICIES

This section presents an overview, assessment and recommendations for GOJ's strategy vis-à-vis its external trade policies, i.e. those policies that are negotiated by the GOJ either bilaterally or multilaterally with its trading partners. These policies ultimately determine Jordan's access to international markets and can therefore provide important incentives to investors, exporters, and domestic producers who rely on imports and/or exports. As such policies are not under the independent purview of the GOJ, but are subject to negotiations, and any changes must also be negotiated which is often very difficult if not impossible), very careful consideration should be given to the potential outcomes and impacts on various segments of the Jordanian economy. Therefore, the GOJ needs to ensure that the negotiation of international agreements is compatible with Jordan's development goals, including export development and diversification, as well the development of a sustainable economic development model.

The recommended external trade policy strategies are therefore designed to take stock of Jordan can maximize the benefits and reduce any costs associated with existing agreements, and to use this experience to better formulate negotiating positions in the pursuit of new market access agreements.

The external trade policies addressed here include:

- **Participation in the World Trade Organization**, including non-agricultural market access negotiations, agricultural market access negotiations, services negotiations, and accession to the Government Procurement Agreement;
- **Exploitation of existing regional trade agreements** to boost exports and the overall gains from trade, including the Jordan-US FTA, Jordan-EU Association Agreement, GAFTA, and Singapore; and
- **Guidelines for the negotiation of new agreements** based on lessons learned and new market opportunities.

3.1 PARTICIPATION IN WORLD TRADE ORGANIZATION

Jordan successfully joined the multilateral rules-based trading system of the WTO on April 10, 2000, and agreed to assume all of its WTO obligations upon accession. This in turn necessitated extensive changes to the legal environment, some privatization schemes, and substantial, albeit somewhat uneven, reductions in tariff rates to be fully implemented by 2010. By most accounts, the discipline so imposed has been quite beneficial to the Jordanian economy and is widely supported. Jordan's commitment to the WTO is the single most important external policy, and the GOJ should make its proactive participation a high priority. This year's WTO Trade Policy Review, Jordan's first since accession, should reinforce the progress already made toward more predictability, transparency, and uniformity in policy mandated by the rules-based trading system.

While the current round of WTO negotiations remains stalled, Jordan still needs to be in a position to proactively promote its interests with its negotiating alliances that represent them. A new Arab bloc has recently been formed by regional WTO partners and Jordan should become an active player to promote its interests.

While it is beyond the purview of this current study to develop specific negotiating positions for the GOJ, the following provides some guidelines that should underlie Jordan's discussions with its WTO partners. Moving forward, specific areas of interest include the Non-Agricultural Market Access (NAMA) negotiations, Sector Agreements, the Agriculture

negotiations, the new disciplines under GATS, and the GOJ's ongoing efforts to accede to the Government Procurement Agreement.

3.1.1 Non-Agricultural Market Access Negotiations

Since its accession to the WTO, the GOJ has made great strides in reducing its tariffs. Jordan bound 100 percent of its tariff lines upon accession and has achieved a simple average MFN tariff of 11.5 percent compared to the 16.4 percent average in its bound rate. Within the non-agriculture sector, the comparative figures are, respectively, 10.4 percent and 15.2 percent. Jordan's degree of "tariff overhang"—the degree to which applied tariffs differ from bound rates, moved from an average -1.5 percent (calculated as MFN bound rates minus MFN applied rate, in percent) between 2000 and 2004 to a (positive) 4.0 percent in 2006. With the recent round of zero-rating of intermediate goods, the spread is likely to be even larger. While, to some extent, this measure is not very meaningful, given that establishing bindings is often used as a bargaining chip so that bindings are often higher than actual intentions vis-à-vis future tariff reductions. Nevertheless, Jordan's degree of tariff overhang is significantly lower than other countries in the region.

Figure 3-1—Degree of Tariff Overhang

	Tariff Overhang (bound rate - applied rate, in %)
China	0.760
Jordan	3.99
Egypt, Arab Rep.	17.63
Middle East and North Africa Average	19.55
Philippines	20.22
Morocco	21.87
Middle-Low income Average	23.45
Tunisia	44.37

Source: World Bank, Trade Policy Indicator Database.

While the agrees modalities have yet to be established, it is understood that, unlike the ad hoc approach of the Uruguay Round, the new round of NAMA negotiations will adopt a formula approach. The most likely modality will be a so-called Swiss formula approach, whereby higher tariffs are to be reduced more than lower tariff, with the aim of reducing the degree of tariff escalation that prevails, particularly in developing countries.

While the scope for negotiations will, therefore, be much narrower, the GOJ should use this opportunity to signal its commitment to reduce overall tariff levels as well as the degree of dispersion and escalation. However, depending on the most appropriate means of moving toward a more uniform tariff rate, the GOJ should carefully consider to what degree tariffs should be bound at zero. It would therefore be desirable to establish the direction of tariff reforms at home, and to initiate on that process, prior to the NAMA negotiations—this would send a positive signal to investors and the international community that the GOJ is not only committed to the WTO process, but that it is willing to go beyond the minimum required to liberalize trade. This would go along way to solidify Jordan's reputation as a modern and liberal trade and investment environment.

In addition to the across-the-board NAMA tariff reductions, it is expected that a number of sector-specific agreements will be negotiated. The potential for sector tariff agreements, whether voluntary or not, raises issues of concern regarding the erosion of preferences

under existing preferential agreements (though these preferences are likely to be eroded in other ways—see section 3.2.2.3 below). An agreement on textiles and apparel would, for example, undermine Jordan’s preferential access to the United States. At the same time, many of the other sectors that have been mentioned—including electronics and electrical goods, fish and fish products, footwear and leather goods, motor vehicle parts and components, and stones, gems and precious metals—may result in potential gains for Jordan, given that such agreements would erode the preferences of competitors, enabling Jordan to compete on a more level playing field.

While Jordan should be favorably inclined towards many of these sector agreements, the GOJ should carefully consider the options related to any sector agreements, with a full evaluation of any costs and benefits once these agreements reach a stage where the outcome can be properly assessed.

3.1.2 Agricultural Market Access Negotiations

With regards to Agriculture, the Doha Declaration commits WTO members to substantial cuts in market protection and trade-distorting domestic subsidies as well as reductions of, with a view to phasing out, all forms of export subsidies. The Doha Round negotiations on agriculture have therefore focused on three main pillars: domestic support, market access, and export competition.

A 2006 AMIR study simulated the effect of the agriculture trade liberalization including the elimination of all export subsidies, the reduction of domestic subsidies (the highest for the European Union, then the United States and Japan, medium for other developed countries, lower for developing countries), and the reduction of tariffs (significant for developed countries, relatively so for developing countries). While this is a simplification of the much more complex trade liberalization mechanism, the simulation provides an understanding of the likely impact (at least in terms of trends if not of magnitude of changes) of proposed trade liberalization on domestic farmers, processors, consumers and budget in Jordan.

The elimination of export subsidies and reduction of domestic subsidies result in an increase of world prices for main-traded commodities. The impact of agricultural trade liberalization is expected to be, overall, negative for Jordan as revenue and consumer losses from higher prices will likely outweigh the benefits to producers/exporters in selected sectors (such as powdered milk and tomatoes).

Jordan has the possibility to list a number of sensitive agricultural products (based on criteria of food security, livelihood security and rural development needs) in a Special Product (SP) list for which most of the above-described trade liberalization will not apply. A provisional list of Jordan’s SP includes fresh vegetables, fresh fruits, olive oil, and poultry. While the SP listing will have a limited impact on world market prices, but will have a significant impact on domestic prices in Jordan. Jordan’s SP listing is expected to impact negatively on consumers and positively on domestic producers of listed products but also have secondary effects on other products because of the substitution effects. Total welfare is expected to fall for poultry and fruit but to rise for fresh vegetables. Jordan should therefore reconsider the above results when determining its final negotiating position, particularly vis-à-vis its SP list, which may increase, rather than reduce, the losses associated with multilateral liberalization.

3.1.3 GATS Negotiations

Section 2.2.1.1 above discussed, to a great extent, Jordan’s experience to date with the implementation of the GATS. This section will therefore focus primarily on the course of GATS negotiations to date under the Doha Round and recommendations for the design of Jordan’s future commitments.

The Uruguay Round broadened the scope of multilateral trade negotiations to include services. The inclusion of services in the Uruguay Round negotiations reflected the growing recognition among developed and developing countries of the service sector's important role in the global and national economy. Given the relative size of the service sector in Jordan, the inclusion of services under the WTO framework should be welcome and the GOJ should therefore take a proactive role.

The outcome of the Uruguay Round negotiations was a set of binding rules and disciplines to govern services trade. By the end of this initial round of discussions on services, countries had made commitments on market access and on national treatment commitments in service sectors that they were prepared to table for the negotiations and horizontally across sectors. However, for the most part, countries, including Jordan, made commitments, which basically either bound their existing regulations on services trade and investment or committed to less than the prevailing trade and investment regime.

The negotiations were more successful in establishing the framework for liberalizing services. The tasks of strengthening GATS rules and disciplines, developing new guidelines, and promoting further liberalization in services through deeper and more meaningful commitments was largely left to future rounds of multilateral negotiations on services, which became part of the "built-in" agenda. Various GATS Articles provide for issue-specific negotiations intended to define rules and disciplines for domestic regulation, emergency safeguards, government procurement, and subsidies. These negotiations are currently under way. Jordan should proactively participate in these negotiations as a full-fledged member of the international trading community and demonstrate its commitment to further liberalization.

In terms of specific service schedules, the GOJ should consider binding new horizontal and sector commitments into a revised schedule that reflect the recommendations provided under section 2.2.1.2. To summarize here, these include:

- Reductions or elimination of equity caps on foreign investment in various sectors
- Reduction of the minimum investment threshold
- Removal of nationality requirement in various sectors
- Clearly established criteria for land lease by foreigners
- Removal of MFN exemptions where no longer warranted
- Reductions in restrictions in key services sectors, such as finance, real estate, tourism, ICT, and architecture and engineering, among others as appropriate.

3.1.4 Acceding to and Implementing the GPA

The WTO Government Procurement Agreement (GPA) is a plurilateral agreement that came into force January 1, 1996 that provides a framework for international competition in government procurement. It establishes an agreed upon set of rights and obligations among its parties with respect to their national laws, regulations, procedures, and practices in the area of government procurement. Unlike other multilateral WTO agreements that apply automatically to all countries that have acceded to the WTO, individual member states voluntarily join the GPA. To date, most signatories have been OECD and EU countries. Upon joining the WTO, Jordan undertook to negotiate accession to the GPA in order to have access to this potential market. Jordan has made serious and substantial steps towards accession, including revising its domestic procurement legislation, although further revisions may be necessary to ensure compliance.

Jordan submitted and was negotiating a revised final offer with the WTO GPA Committee as of late 2007. Negotiations and implementation should be encouraged as part of Jordan's

trade strategy, as accession would send a powerful signal to the global trade and investing community that Jordan is firmly committed to an open, transparent, private enterprise economy.

The potential benefits in expanding Jordanian exports could be significant, in addition to the signal of commitment that accession would send. Concerning export expansion, it has been estimated that GPA accession could generate 3.7 percent of additional export revenue from Jordan's export sales, or about JD 50 million annually following accession. Main beneficiary industries would include audio-visual and communications, pharmaceuticals, and furniture. Small negative impacts would be imposed on food, paper, printing, and packaging industries. Adjustment to the medical supply industries could be more significant. Additionally, the government budget would be favorably impacted due to savings from competitive tendering for government procurement. In other countries, savings have been reported to be as much as 20 percent on goods and services expenditures.

In terms of trade policy, there are several key opportunities and concerns. An important finding is that Jordan's export-related gains would be proportional to the enlarged market for selected products in GPA member countries, because of the expanded access to the public sector. Actions to consider include:

- Support finalization of GPA negotiations and accession as soon as possible: Conduct a review of all issues and information required to be provided to the WTO regarding GPA accession, and conduct a final legal review of domestic procurement legislation to ensure GPA compliance.
- Conduct public advocacy campaigns: Raise awareness among industries likely to benefit of the potential opportunities under the GPA and increase awareness of key product and market opportunities. Conduct informational workshops for firms identifying opportunities in conjunction with trade attaches and donor organizations.
- Consider programs to help small and medium firms take advantage of opportunities and impacted industries adjust: In conjunction with final negotiations undertake the analysis and policy formulations to justify having an SME set-aside program based on Jordan's unique circumstances, by conducting a background study of SME conditions and needs, and drafting an SME program acceptable to GPA members.
- Leverage accession into enhanced concessions: Consider negotiating a separate bilateral government procurement agreement with the U.S., an issue broached by the Jordan-US FTA Joint Committee. Initiate preliminary discussions with the EU in the context of the Neighborhood and Partnership Instrument.

3.2 PARTICIPATION IN REGIONAL AGREEMENTS

In addition to commitments under the WTO, Jordan became a signatory to a number of bilateral and plurilateral preferential and free trade agreements, including the JUSFTA, the EU Association Agreement, GAFTA, the Agadir Agreement (with Egypt, Tunisia and Morocco), an FTA with Singapore, as well as one with EFTA.

A number of other agreements are in the planning stages, including FTAs with Turkey and Kazakhstan. Each of these agreements was designed to enhance Jordan's market access through preferential treatment in key export markets. While such regional agreements can enhance market access, and complement Jordan's liberalization commitments under the WTO (and its unilateral reforms), the welfare outcomes are uncertain, depending on the scope of the agreements, in terms of the rules that govern preferential access (product/sector coverage, rules of origin, complementary policy harmonization measures), as well the degree to which Jordanian producers and service providers are able to take advantage of these market access opportunities.

3.2.1 Overview of Existing Agreements

The following provides a brief overview of some Jordan's most important regional agreements—the Jordan-US FTA, the Jordan-EU Association Agreement, and GAFTA—including Jordan's export performance to date, potential opportunities for expansion and diversification, and the identification of any issues that impede such growth. This will enable the identification of specific strategies that can be adopted for Jordan to make the most of these agreements through the promotion of trade and investment, as well as provide lessons learned that inform guidelines for the negotiation of new agreements, which is addressed in section 3.2.3.

3.2.1.1 Jordan-US Free Trade Agreement

In 1996, the United States extended the Israeli-U.S. FTA duty-free status to products of the West Bank, Gaza Strip and Qualifying Industrial Zones (QIZs), thus allowing Jordanian products manufactured in the QIZs the opportunity to gain duty-free access to the U.S. market. The 1997 QIZ Agreement signed between Jordan and Israel managed to attract millions of dollars in foreign investment, created tens of thousands of jobs and massively increased Jordan exports to the U.S. The Jordan – U.S. Free Trade Area Agreement (JUSFTA) signed in 2000, went into force in December 2001 and provides for the elimination of all barriers to bilateral trade in goods and services within ten years. The agreement incorporates flexible rules of origin and provisions for e-commerce, trade related labor and environmental provisions, intellectual property rights protection and a dispute settlement mechanism. To complement the FTA, the Bilateral Investment Treaty (BIT) with the U.S. (signed in 1997), in effect since 2003, provides for reciprocal protection of Jordanian and U.S. individual and corporate investments.

The Qualifying Industrial Zone program and the Jordan-US Free Trade Agreement have together had an unequivocally positive impact on bilateral trade between the two member countries. Between 2001 and 2005, total exports from Jordan to the US grew from US\$229 million to US\$1.25 billion—an increase of more than 450 percent. In practice, these agreements created a brand new market for Jordanian goods. Imports from the US have grown as well, though less dramatically, US\$339.1 million in 2000 to \$607.3 million in 2005, an increase of 80 percent. While JUSFTA-qualified exports are rapidly expanding, QIZ export growth is on the decline. A recent study conducted under the USAID-funded AMIR program¹² not only suggests that JUSFTA exports are higher than expectations, but that these exports not simply displacing QIZ and GSP exports but are, rather, *new* trade.

While, in aggregate, the QIZs and JUSFTA have boosted bilateral trade considerably, exports are highly concentrated in the apparel sector (which accounted for more than 85 percent of Jordanian exports to the US in 2005), largely attributable not only to the duty-free access, which several other apparel-producing countries share, but the more favorable rules of origin (see discussion under section 3.2.2.1 below). These circumstances have enabled Jordan to capture ever-increasing shares of the US market in segments that are, otherwise, growing slower than average (lower right quadrant in Figure 3-2)—these are sectors that are currently subject to higher MFN duty rates, such as synthetics and synthetic blends, though typically at the lower end in terms of value, given Jordan's only recently established apparel export sector. The buyer-driven nature of these apparel segments has made Jordan's market acquisitions almost effortless—enabling the substantial growth of market share in otherwise slow-growing product categories—a circumstance that is unlikely to be easily replicated in other sectors.

¹² James Cassing and Anna Maria Salameh, "Jordan – United States Free Trade Agreement Economic Impact Study: Searching for Effects of the FTA on Exports, Imports and Trade Related Investments," produced for the USAID-funded AMIR program, June 2006.

Nevertheless, Jordan's free trade agreement with the US presents Jordanian exporters with a wealth of opportunities that are expected to grow as duty privileges continue to be phased in. While the lack of diversification to date is evident, current export trends reveal the future promise across a wider range of export categories, including processed foods, pharmaceuticals, and jewelry—these are products that, though smaller in volume than apparel, may be defined as “champions”—they are fast growing exports in higher-than average growing markets in the US and, moreover, Jordan has developed a revealed comparative advantage in many such sectors in the US market.

In addition to manufacturing and processed food sectors, the JUSFTA provides Jordan with a broad range of opportunities in the service sector. The services commitments made under JUSFTA went into effect after Jordan's accession to the GATS. The commitments mainly mirror those presented to the WTO with the exception of a few. Limited statistics are available on the types of services that Jordan has exported to the United States since that bilateral agreement went into effect. In contrast, According to the United Nations Conference on Trade and Development (UNCTAD, 2006a), U.S. services exported to Jordan have doubled as a result of U.S. franchising licenses, electronic payment processes, business management and business education licenses, energy management services, electronic business services, information technology services, value-added financial services, value-added telecommunication services, and construction services.

Figure 3-2—Growth in Jordan’s Market Share in the US Market for Agricultural Products, 2001-2005

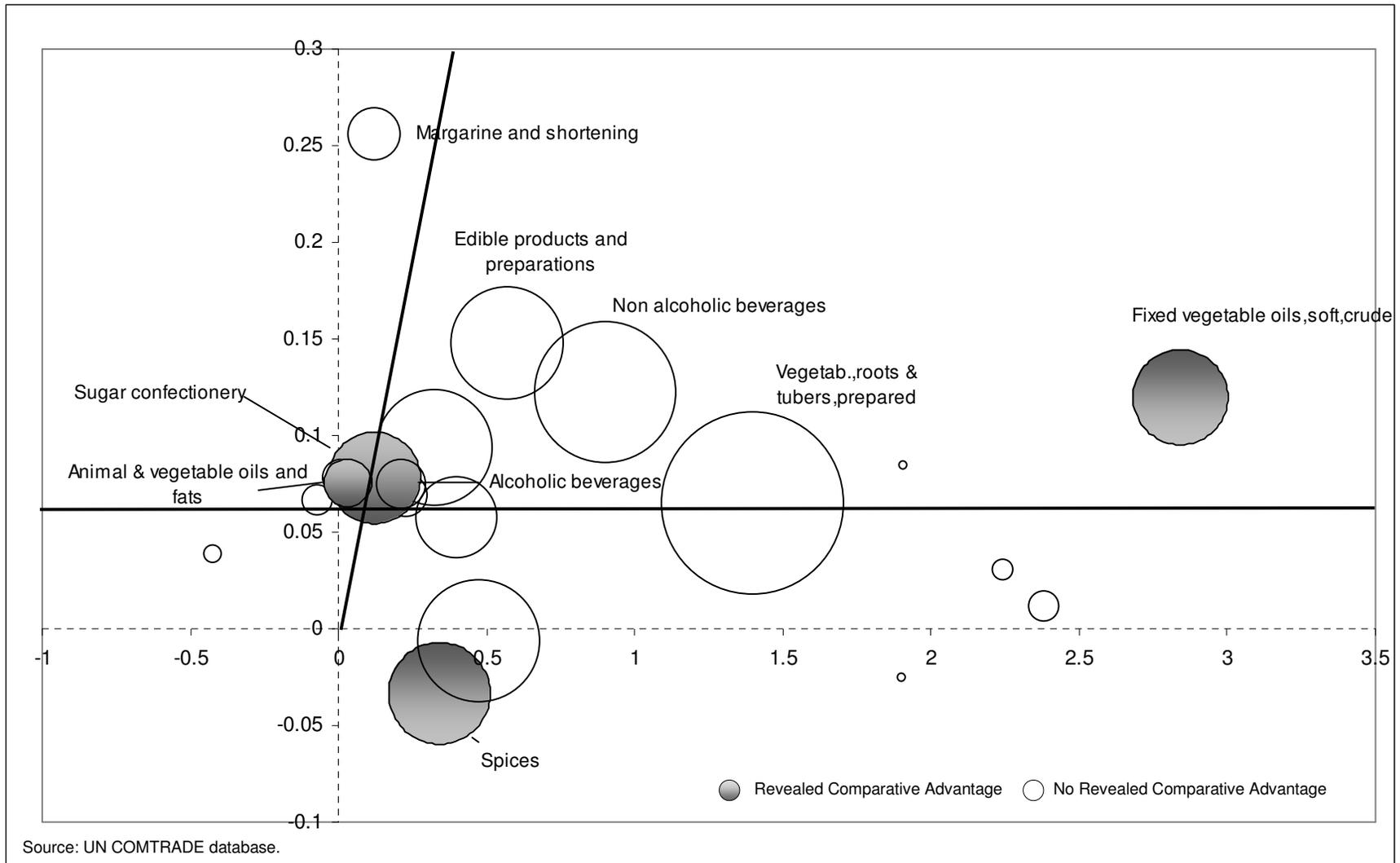
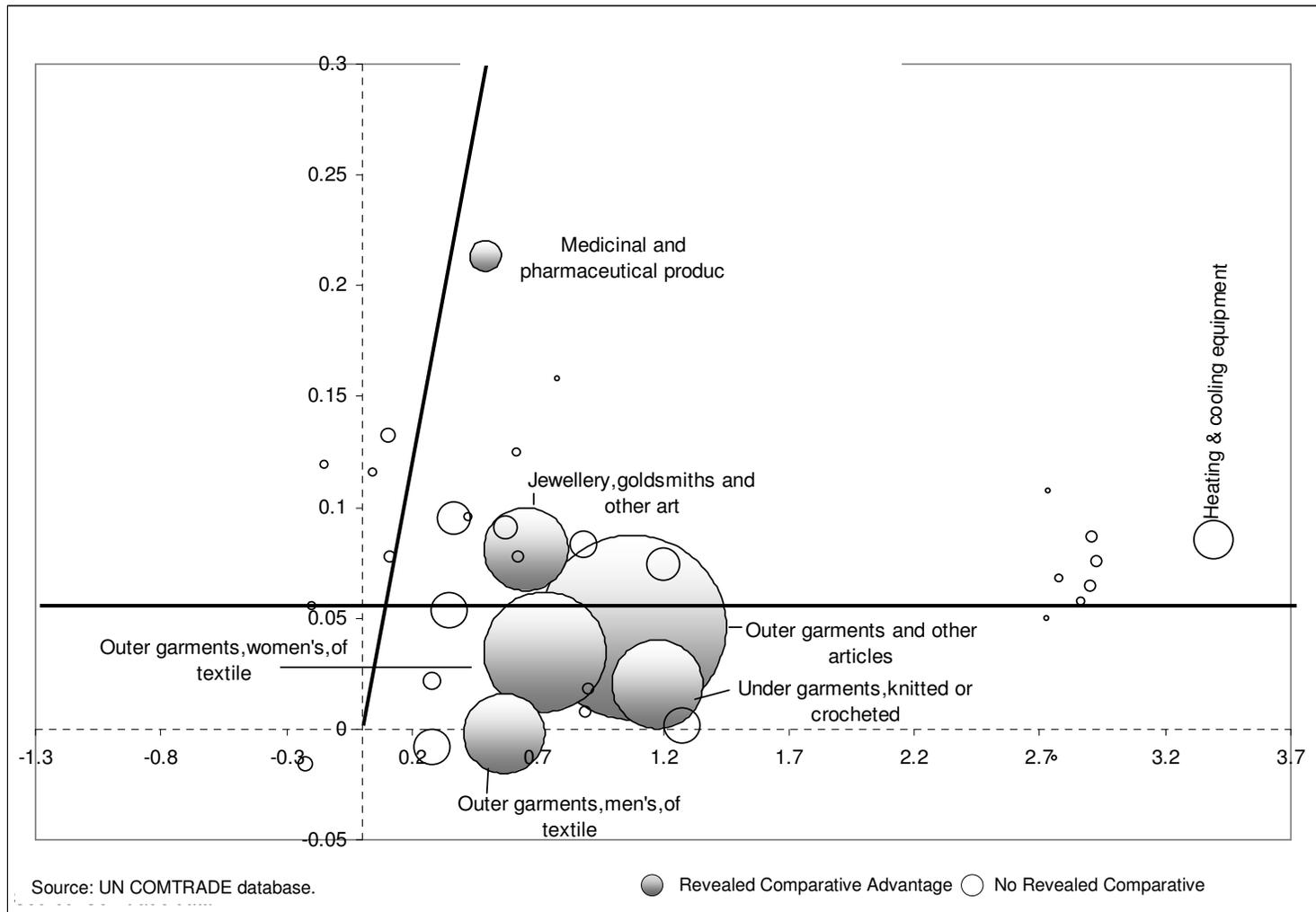


Figure 3-3—Growth in Jordan’s Market Share in the US Market for Manufacturing Products, 2001-2005



Taking advantage of JUSFTA service sector provisions could expand exports not just to the US but to other trade partners—potential examples include medical services, education, architecture and engineering, and ICT. While these sectors are currently included in Jordan’s Service Schedule under JUSFTA, restrictions on Mode 4 entry (i.e. presence of natural persons, for example nationality restrictions on engineers and physicians) may substantially restrict the real potential to promote the development of these potential export sectors. By and large, these opportunities have not been realized as it requires substantial efforts to make the necessary sector-specific reforms to reduce regulatory barriers as well as supply-side upgrading, which is largely the purview of the private sector (though public sector entities, such as Jordan Enterprise, can and should play a role in supporting the export-readiness of these sectors).

As the preference margin that Jordanian exporters enjoy may be limited in time (see discussion on preference erosion under section 3.2.2.2 below), it is important that domestic trade policies are in place in Jordan to better promote the exploitation of the existing level of preference and the expansion of exports to the US. In the AMIR study done of the JUSFTA, it appears that the JUSFTA has indeed had an impact on trade and investment over and above the impact of QIZs. While both theory and the predictions of the stylized economic model used in the study anticipate increased bilateral trade, the actual trade flows exceeded the predictions. The more detailed industry level data and firm level analysis seems to corroborate that the FTA was viewed as important in the exporting and investment decisions of at least some firms. Also, this latter data seem to indicate that much of the FTA trade is not merely a customs reclassification from other duty-free options such as the GSP or QIZ.

In order to give some perspective to the industry analysis the AMIR study contacted a number of relevant parties in the private sector for interviews. Specifically, the study reported on:

- Awareness of the FTA, utilization, and perceived advantages
- Compliance costs and potential rules of origin impediments
- The new legal environment, and, specifically, IPR issues
- Domestic constraints to taking advantage of the FTA

Interviews and anecdotal evidence suggested a general awareness of the FTA. Perceptions of the benefit of the program differed, however. While things varied by industry, the magnitude of the tariff preferences for Jordanian exporters was often seen as useful but not the major consideration in the export decision. Also, tariff preferences were already available through the existing GSP program. More important to exporters were the regulatory constraints on exports, including local labor conditions, and transport costs and trade facilitation. Other domestic constraints stem from the lack of capacity to meet US market standards, which need to be upgraded—while meeting market standards is largely the purview of the private sector, Jordan Enterprise has an important role to play in providing access to the technical assistance required to upgrade standards in the private sector. In short, taking full advantage of the duty-free access to the vast US market will require a combination of government actions to facilitate and promote trade and private sector actions to build capacity to meet US market requirements.

3.2.1.2 Jordan-EU Association Agreement

The Euro-Jordanian Association Agreement between Jordan and the European Union, in effect since 2002, aims at establishing a free trade area over a period of twelve years. The Association Agreement was part of the 1995 Barcelona Conference with its key objective of creating a free trade area in industrial goods between the EU and 12 Mediterranean countries by the year 2010, later modified to 2012 and then to 2014 in the context of the

European Neighborhood and Partnership Instrument. Jordan negotiated its Association Agreement with the EU in 1997, but for political and economic reasons it was not ratified by both sides until 2002.

Europe is Jordan's closest developed market and its Association Agreement with the EU largely served to expand existing duty-free privileges that Jordan enjoyed under its earlier Cooperation Agreement with EU, as well as to reciprocate, providing the EU duty-free access to the Jordanian market. The Agreement, in practice, only provided it with a slightly bigger margin of preference than it enjoyed prior to the Agreement, though the separate 2006 agreement on agriculture products that had previously been excluded greatly expanded the scope of eligible products. Therefore, the actual impacts, in terms of exports, can be expected to be proportionately marginal—a 2005 study by ERF¹³ projected, based on a gravity model, that Jordan's exports to the EU would increase by around 4.3 percent per annum following implementation of the agreement.

Europe has long been a major import partner for Jordan, supplying a large range of consumer goods and industrial machinery and equipment, accounting for approximately one-third of Jordan's total imports. However, the EU remains a relatively small export market for Jordan, accounting for only 8 percent of total exports (Jordan's exports have only recently regained its level of exports to the EU after falling between 1996 and 2001).

Figure 3-4—Jordan's Exports to the EU

Year	Exports to EU		Trade Balance (US\$ million)
	Value (US\$ million)	% of Total Exports	
1996	120.7	8.3	-1,228
1997	108.9	7.3	-1,217
1998	96.6	6.6	-1,146
1999	85.3	5.8	-1,084
2000	49.7	3.3	-1,454
2001	70.0	3.7	-1,455
2002	62.9	2.9	-1,380
2003	77.4	3.3	-1,392
2004	70.0	2.1	-1,383
2005	126.0	3.5	-2,374
2006	140.0	3.4	-2,509

Despite the "recovery", and the fact that Jordan's exports actually grew substantially faster than predicted, Jordan's modest exports to the EU remain disappointing, given the growing potential of complementarities with the EU market and its geographic proximity. Jordan's poor performance vis-à-vis the EU reflects both supply-side and competitive factors that have worked together to suppress Jordan's exploitation of the growing EU market. The enlargement of the EU and its strong ties to the Central and Eastern European and Balkan countries still outside its borders remain formidable competitors to Jordan. Also, stringent EU

¹³ Anna Ferragina, Giorgia Giovannetti, Francesco Pastore, "EU Actual and Potential Trade with Mediterranean and Central and Eastern European Countries. A Gravity Study." Prepared for Economic Research Forum, 12th Annual Conference, Cairo, Egypt, December 2005.

standards and SPS regimes, including private standards, remain significant barriers for many Jordanian exporters.

However, despite the current low volumes of exports, Jordanian exporters have made inroads in a range of “champion” and niche agricultural and manufacturing sectors that may provide opportunities for expansion and diversification. Since most agricultural products only obtained preferential access under a separate agreement that went into force in 2006—this includes fresh vegetables, fruits and nuts—Jordan’s potential to provide higher value, late- and off-season fruits and vegetables to the EU has not been fully exploited and is likely to grow now (though some products are subject to quotas). For example, a recent study conducted by the Femise Research Programme¹⁴ estimates substantial unmet demand for “off-season” strawberries in selected EU markets, a product category that Jordan has proven to be efficient producer, both in terms of water usage and other domestic resources.

Recent trends also point to the potential of vegetable oil, pharmaceuticals, manufactured fertilizers, jewelry, and a range of organic and inorganic chemical products. Strengthening policies related to trade facilitation and logistics, as well as the domestic standards regime will be critical to encourage the expansion of these exports and diversification, within the EU market, in other product categories where Jordan has proved to have a revealed comparative advantage (such as preserved fruits and vegetables and fresh tomatoes). A number of exporters, particularly food processors, have pointed to the unfavorable rules of origin (see section 3.2.2.1 below) that discourage the export to the EU of products that are not wholly originated in Jordan, such as processed chickpeas.

¹⁴ Femise Research Programme, “The Impact of Euro-Mediterranean Partnership on the Agricultural Sectors of Jordan, Palestine, Syria, Lebanon and Egypt (The Case of Horticulture Exports to EU Markets).” Directed by Seyfeddin Muaz of the Royal Scientific Society, Jordan, in collaboration with the University of Jordan, Research No. FEM21-03, August 2004.

Figure 3-5—Growth in Jordan’s Market Share in the EU Market for Agricultural Products, 2001-2005

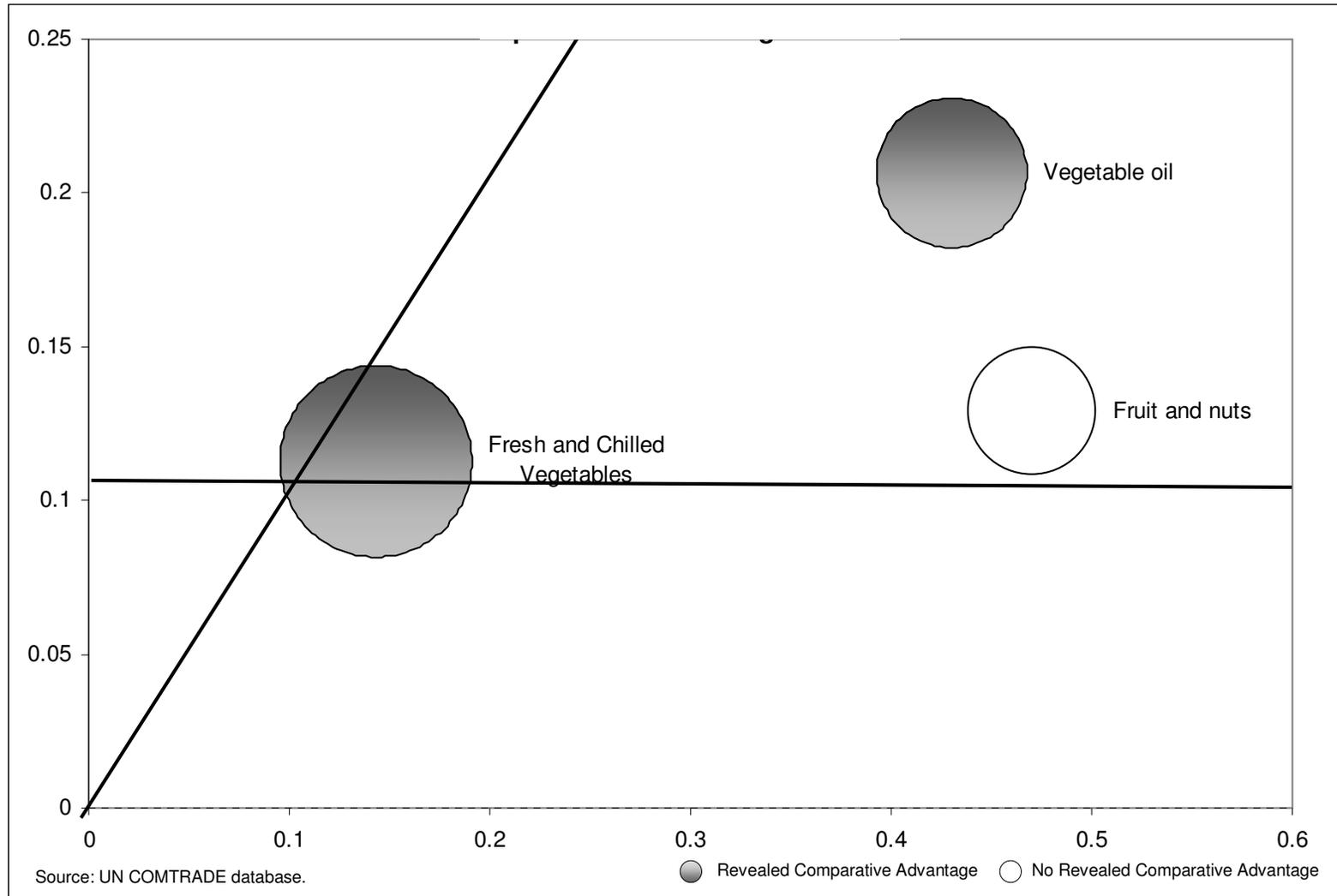
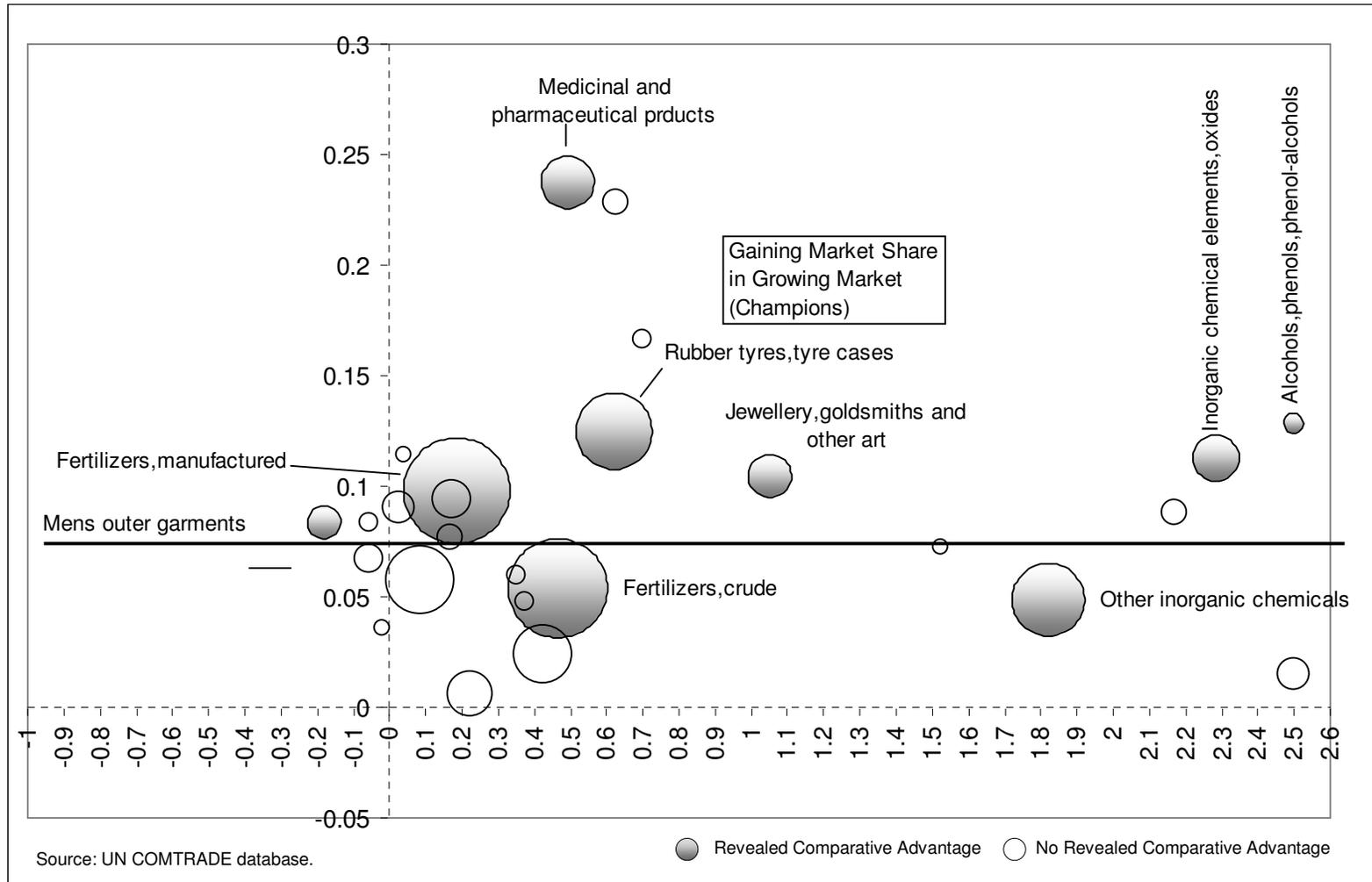


Figure 3-6—Growth in Jordan’s Market Share in the EU Market for Manufacturing Products, 2001-2005



3.2.1.3 Greater Arab Free Trade Area

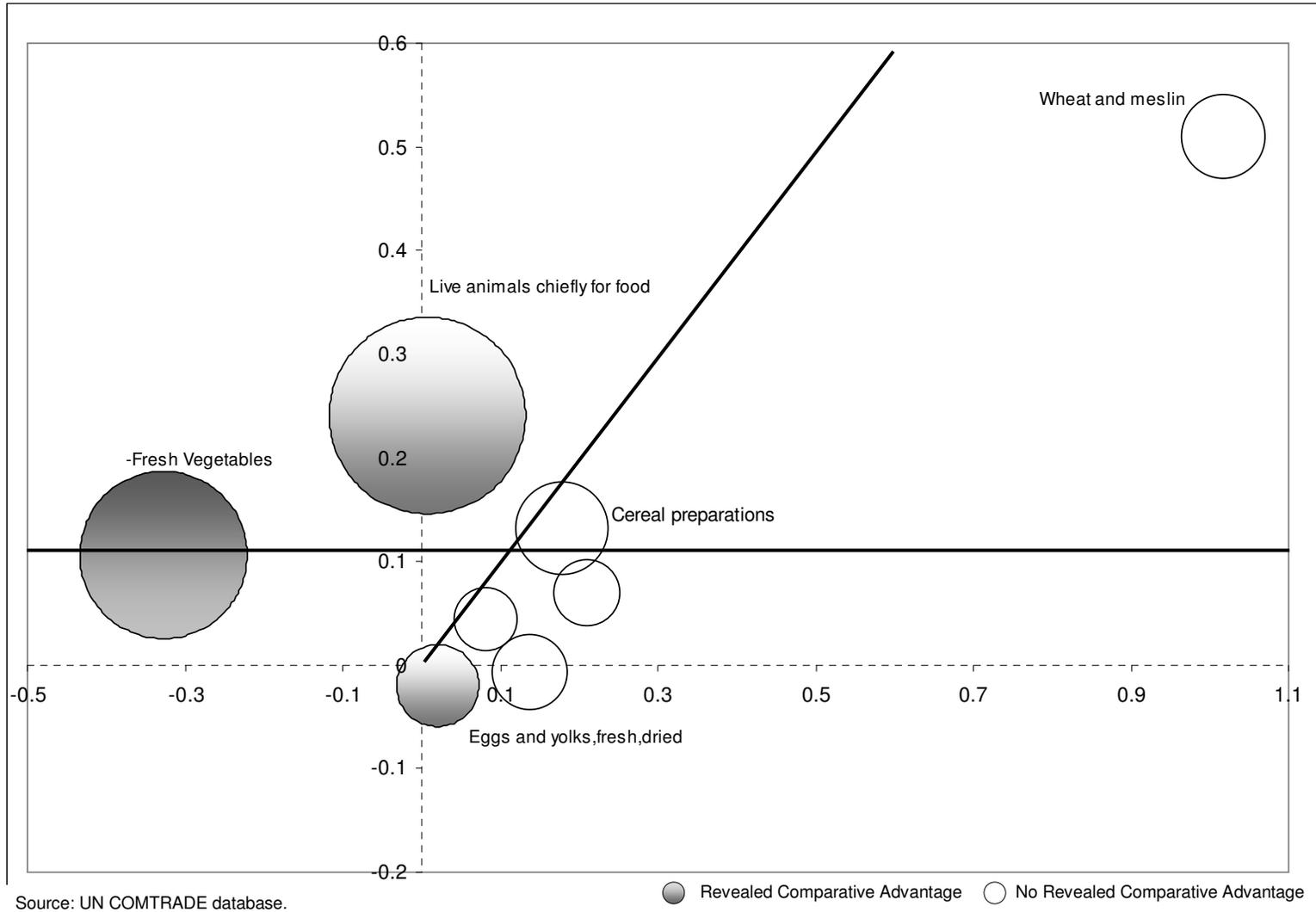
Regionally, the country is party to the Greater Arab Free Trade Area (GAFTA) since 1998, which covers goods but not services. GAFTA, which is the largest export market for Jordan, is the most dynamic market of the three assessed here, with regional imports growing at an average 15 percent per annum, far exceeding the growth of US imports (5 percent) and EU imports (8 percent), albeit from a lower base. GAFTA appears to be Jordan's most 'natural' trading partner—the potential complementarities within the region, particularly between the Mashreq and Maghreb countries, on the one hand, and the Gulf markets, on the other hand, provide Jordan with a wide range of export opportunities. Jordan's geographic location makes it a potentially strategic platform for exporting the region.

While intra-regional trade within GAFTA is generally low, compared to other regional groupings, Jordan has been the exception to this rule. Jordanian exports to the region have, largely, kept pace with this rapid growth. Jordanian manufacturing exports to the region are more diversified than to the US and EU, with substantial exports of pharmaceuticals, inorganic chemicals, manufactured fertilizers, as well as a wide range of electrical equipment and household goods. This latter category appears to be one of the most promising manufacturing opportunities for Jordan, given the very rapid growth in demand in the region for household appliances. Looking to the future, the challenge will be for Jordan to not simply maintain but to grow its market share in the region in these well-established industries.

On the other hand, Jordan's agricultural exports have not kept pace with the region's import growth, i.e. Jordan has been losing market share in key export segments, including live animals and fresh vegetables. In the latter category, Jordan's exports have not only failed to keep up with growing demand, but have actually declined, with a negative growth rate. Jordan needs to take careful stock of its losses in this important market segment.

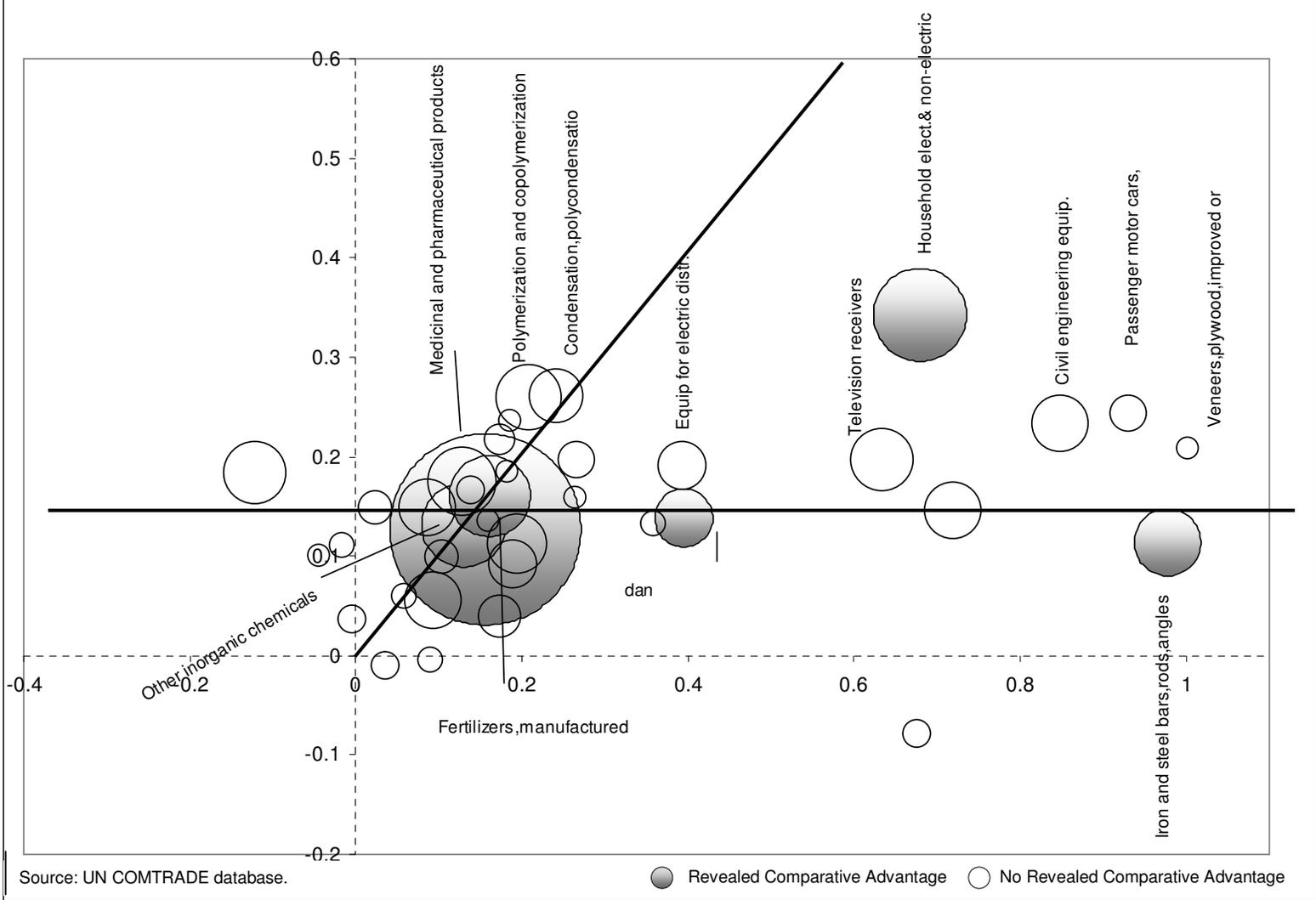
The GAFTA agreement does not currently include a services schedule despite the importance of this market for many of Jordan's existing service exports, including construction and medical services. The latter's growth may be attributed, in part, to the fact that bilateral healthcare protocols or cooperation agreements are in place with selected Arab countries to facilitate overseas treatment. Other sectors have not been exploited to date, including ICT and call centers, but would like benefit from a regional services agreement. This would also stem Jordan's ongoing "brain drain" of engineers to the Gulf. With appropriate agreements in place, these engineers would have the opportunity to tap the lucrative Gulf market in a way that can better benefit the Jordanian economy than can be effected through remittances.

Figure 3-7—Growth in Jordan's Market Share in the GAFTA Market for Agricultural Products, 2001-2005



Source: UN COMTRADE database.
 SABEQ: Assessment of Trade Policy in Jordan and Recommendations for Reform

Figure 3-8—Growth in Jordan’s Market Share in the GAFTA Market for Manufacturing Products, 2001-2005



3.2.2 Lessons Learned from Existing Agreements

While Jordan has clearly benefited in many ways from its regional trade agreements, the evidence suggests that these agreements have yet to be fully exploited. Greater gains could be achieved if the GOJ is able to address some of the key issues that face exporters to each of these markets, particularly rules of origin, as well as more effective export and investment promotion that fully exploits the advantages that these agreements provide to Jordan as an export platform. At the same time, it needs to be recognized that these preference-induced advantages will ultimately be limited in time as these preferences are eroded and Jordanian exporters are forced to compete on a more level playing field. Each of these issues is addressed in turn below.

3.2.2.1 Rules of Origin

One of the burdens of regional free trade agreements is that trade needs to be monitored for local content in order to disallow transshipped or lightly processed re-exported products from qualifying for duty exemptions (also called trade deflection). Preferential rules of origin (ROO) provide the criteria that exporters must meet in order to take advantage of the preferential duties offered through a given agreement.

Rules of origin impose a number of costs on exporters. There are both economic costs and compliance costs. Economic costs are associated with costs incurred to change production methods or input mixes, or to change input sourcing in order to meet origin requirements. These costs can be extensive if they lead to less efficient production techniques or sourcing. Compliance costs accrue from the cost of paperwork or red tape associated with filling out forms to satisfy customs requirements and the cost to business associated with determining, meeting, and proving origin.

Both economic and compliance costs are directly affected by the design of the rules of origin. For example, rules of origin may take the form of a simple content rule, defined either as the minimum of local content required (*de minimis* rule) or the maximum foreign content permitted (*de maximus* rule). In some cases, cumulation of content between partners may be permitted to meet these origin rules. Rules of origin may also take the form of minimum processing requirements, typically defined by changes in tariff headings or may take the form of specific processes. These two methods are often combined. Content and processing rules may apply across-the-board, or may be defined at a disaggregated level, for example at the 6-digit HS code level. The economic costs take the form of both the direct costs associated with changing production or sourcing (such as adjusting production patterns at the factory-level or search costs for suppliers) but also indirect costs if such changes imply a shift away from more efficient production and sourcing techniques to less efficient means.

Compliance costs stem from the administrative and bureaucratic costs involved with administering rules of origin, including certifications, audits and inspections, as well as the bookkeeping, that may be involved in verifying that goods meet the content or processing rules. There are three different methods of certifying origin, including self-certification (with *ex poste* audits), certification by an industry umbrella group, and certification by a government agency. While compliance costs will vary between methods, on average, rules of origin compliance ranges anywhere from 2 percent to 8 percent of the value of exports—this can significantly erode the margin of preference offered by an agreement.

Moreover, the perception that rules of origin are an issue of “technical detail”, coupled with and perhaps driven by their technical opaqueness, has meant that it often discourages small and medium scale industries from taking advantage of duty-preferences, which may in practice restrict preference utilization beyond a mere calculation of the share of exports qualifying for duty preferences in destination markets (only 13.5 percent for the US and EU

combined), as such utilization rates do not, of course, take account of exports that never took place because of ROO restrictions deterred exporters.

Another source of complications related to rules of origin are restrictions on the application of preferences to goods that have benefited from duty-exemption schemes in the exporting country (such as under GAFTA or, in the case of non-originating goods, the Euro-Med Agreement), such as duty drawbacks or goods produced within the confines of a free zone, despite the fact that they are aligned with World Customs Organization guidance on the treatment of imports used in the production of exports. Given that most developing countries, including Jordan, make such schemes available, and a large share of exporters avail of such schemes, such a restriction can drastically curtail the ability of exports to take advantage of a preferential trade agreement.

In the case of Jordan's regional agreements, the costs of compliance vary greatly. The EU Association Agreement includes the most complex rules, and likely the most costly in terms of compliance. Compliance costs associated with the Jordan-EU Association Agreement stem from a two-step process to obtain a certificate of origin. An initial application is submitted to the Chamber of Industry and then must be endorsed by Customs. Rules of origin are determined on a product-by-product basis, mostly at the HS 4-digit level and are based on either or both content rules and processing rules. In addition to the complex rules of origin, the Agreement does not allow goods that receive duty exemptions to enjoy preferential access to the EU. Jordan is now a party to the Pan Euro-Med system for cumulation, which allows Jordan to cumulate "diagonally" with other Euro-Med countries, provided the other countries have an association agreement with the EU and that Jordan has concluded bilateral agreements with the same countries that are in line with the EU requirements (the so-called "FTA network"). In the case of Jordan, the Pan-Euro-Med System can only be used with the 27 EU countries, the EFTA countries (Iceland, Liechtenstein, Norway and Switzerland), the Agadir countries (Morocco, Tunisia, and Egypt), and Israel.

Indeed, much of the impetus for the Agadir Declaration stems from the potential beneficial effect of being able to treat traded inputs among another three Pan-Mediterranean countries as "originating" for exports to the EU. To some extent, the FTA that is under consideration with Turkey is similarly motivated. In the future, should bilateral protocols be established, Jordan may also cumulate with several other countries with which the EU has free trade relations, including Syria, Algeria, and Libya. To date, no exports have been recorded under the Euro Med system.

Exporters report that they are suffering from the very rigorous rules of origin under the EU Association Agreement. While no one has filed an official complaint, protests have been channeled through the Chamber of Industry. Sectors that are most dissatisfied include garments and processed foods. Any opportunity to renegotiate the stringent ROO should be aggressively pursued.

Under GAFTA, the rules of origin stipulate a minimum 40 percent value-added, with regional cumulation permitted with no restrictions on the value-added coming from other partner countries. Certificates of origin are a one-step process. The GAFTA rules, while less onerous than the EU provisions, free zone goods are not qualified for preferential treatment. This provision is, reportedly, under reconsideration and its removal would potentially stimulate exports from Jordan to the region.

The JUSFTA (and QIZ) ROO are the most simple of the three major agreements. The JUSFTA ROO apply a simple, based on a 35 percent local value content, including a maximum 15 percent from the other party to cumulate towards this value, provided that the product has undergone substantial transformation in Jordan (typically a change in HS 4-digit classification is sufficient to meet this rule). While these rules apply generally across

products, in the case of textiles and apparel, additional specific rules apply, though they remain relatively liberal compared to the EU Association Agreement or other US free trade agreements or concessions (NAFTA, CAFTA, AGOA), which include either “forward-yarn” or “forward-fabric” rules and/or sourcing restrictions that limit the applicability of the preferences. The Certificate of Origin is a one-step process and is issued by either the Chamber of Industry or the Chamber of Commerce.

In addition to the costs associated with individual rules of origin, there is an issue of compatibility between agreements. For example, GAFTA, the EU, and the JUSFTA all require different criteria for “sufficient processing” ranging between i) change of HS tariff heading, ii) value percentage (percentage of ex-works price), iii) specific process, and iv) combination of criteria. Nonetheless, failure to meet the ROO disqualifies an exporter from preferential treatment in a preferential trade agreement and so become an essential market-access instrument. The compatibility or incompatibility of the ROO regimes is particularly important for a small country like Jordan because exported products are likely to contain considerable imported content. Thus, it would be costly if exporters had to use different processes to satisfy the ROOs of different export destinations. Differing ROO can deprive would-be exporters to achieve scale economies and reinforce destination-specific industries—a pattern that is evident in Jordan’s exports to the three markets.

ROOs present a challenge to market access in some sectors and some regions, especially the EU. As part of the NTS Jordan should clearly continue to negotiate compatibility among ROOs and study the potential positive effects of future FTAs in this light. Currently, there is some evidence that both the garment and car assembly sectors could benefit from the Agadir Agreement, as might footwear and construction materials. Indications are that most diagonal cumulation from Agadir would be between Egypt and Jordan, given both the proximity and complementarities in resources.

3.2.2.2 Exploiting Spillover Effects

Despite issues related to rules of origin, Jordan’s regional agreements provide it with a strategic comparative advantage that has not been fully exploited. In *Trade Strategy for Jordan* (UNDP, 2006), it was noted that despite quota free and duty free access through trade preferences, Jordan’s exporters of manufactured goods did not fully exploit them due to supply capacity issues and difficulties in meeting local content requirements, especially for the US and EU markets. While investment in the garment sector has been driven by Jordan’s preferential access to the US market first under the QIZs and, increasingly, under JUSFTA), other sectors have not fully capitalized on Jordan’s market access opportunities. While supply-side issues have contributed to the current state, opportunities exist to promote FDI and joint ventures to take advantage of the FTAs. With the implementation of the Pan-Med rules of origin, Jordan has a wide range of untapped opportunities for forge regional alliances through trade and investment.

The high-level trade analysis conducted here for each of the agreements should be deepened to provide a better indication of the specific market opportunities, based on existing exports. Jordan Enterprise has an important role to play in conducting such analyses and should target assistance to those sectors that can best take advantage of Jordan’s market access agreements. However, due consideration should be given to strengthen entire value chains, including the supplier base (i.e. indirect exports) that will drive the development of more competitive industries. This would enable not only greater exploitation of existing preferences but would mitigate any erosion of such preferences (see section 3.2.2.3 below) by strengthening competitiveness and market positions that would be sustainable as the playing field is leveled over time. Such analyses should be complemented by sector- and market-specific export promotion strategies to assist beneficiary sectors and firms to penetrate export markets.

Such analyses and studies should also inform the development of an aggressive, well-targeted investment promotion campaign by the JIB. Given the growing importance of cross-border production networks, Jordan's regional market access should be fully leveraged to attract investment in production segments that could make the best use of Jordan's comparative advantages with its regional partners to contribute to exports to the EU and GAFTA markets, in particular.

3.2.2.3 Preference Erosion

While Jordan has benefited in many ways from the trade preferences that it enjoys, and there is room to expand and diversify these benefits, the value of such preferences is expected to be eroded in the coming years, which will reduce the price-based comparative advantage that Jordan currently faces in these markets, though the extent of this erosion may only be marginal. There are two expected sources of preference erosion: (1) new trade agreements between Jordan's trading partners and its competitors, and (2) multilateral trade liberalization. Jordan's vulnerability to preference erosion from trade liberalization arises from a combination of the following factors:

1. The margin of preferences for which Jordan is eligible.
2. The degree of utilization of preferences.
3. The degree of export dependence on the partner markets.
4. The degree of export-product concentration.
5. The robustness of Jordan's economic environment and the macroeconomic significance of the sector(s) dependent on the preferences.

The US, EU and many of Jordan's GAFTA partners are already actively pursuing trade negotiations with some of Jordan's main competitors, which will provide these competitors with similar preferences to those markets. For example, the US is negotiating agreements with the UAE, as well as the states of the Southern African Customs Union (SACU).¹⁵ The EU is also in the process of concluding FTAs with many of Jordan's competitors in the Africa, Caribbean, and Pacific (ACP) regions through the EU-ACP Partnership Agreements that will provide access similar to that which is provided under Jordan's own Association Agreement with the EU. In practice, however, these agreements are not likely to significantly erode Jordan's preferences to the US and EU markets, since most of the beneficiaries already receive duty-free treatment in the partner markets for the majority of their goods. For example, more than 92% of US imports from AGOA eligible countries such as the SACU members already enter the US duty-free. Similarly, in the case of the EU, most ACP countries already enjoyed duty-free access to the EU market under the GSP and earlier unilateral concessions offered through the Lomé Convention.

With regards to the US market and apparel exports, any preference erosion arising from new agreements by the US will depend largely on the rules of origin. The QIZs and JUSFTA have been, in many ways, privileged with respect to the rules of origin, which do not include any forward-yarn or forward-fabric restrictions nor sourcing restrictions, which are embodied in all other US bilateral trade agreements and concessions (including AGOA). The more "liberal" rules of origin under the QIZs and JUSFTA have been one of the primary drivers of the growth of the apparel sector; stricter rules of origin, similar to other US trade partners, would likely have limited the scope of that sector's export development in Jordan. Given political pressures in the US, it is expected that such unrestricted rules of origin with respect to apparel will not be on offer to future trade partners, which will enable Jordan (and Egypt) to maintain a privileged position in the US market for the foreseeable future.

¹⁵ SACU member states include Botswana, Lesotho, Namibia, South Africa and Swaziland.

The largest source of preference erosion for Jordan is expected, instead, to result from multilateral tariff reductions under the WTO Doha Round. Despite its slow progress, Doha negotiations are expected to reduce MFN tariff rates substantially, particularly in regards to non-agricultural products. Unlike during the Uruguay Round under the GATT, where tariff bindings were negotiated on a product-by-product basis, the Doha negotiations will apply a standardized, across-the-board formula approach (with some special and differential treatment for developing, least developed and newly-acceded country members) to arrive at bound rates. The aim is to reduce tariff escalation, peaks and dispersion by cutting higher tariffs by more than lower tariffs. The implementation of the bound rates will be phased in, also using a formula with equal annual cuts. Though sector agreements may be negotiated, it is understood that such agreements must result in *more*, not less, ambitious cuts. Therefore, the products in which Jordan currently enjoys the greatest preference (such as apparel) will be eroded the most. However, the current draft modalities provide for a longer implementation period for selected items exported to the US and EU, including a number of apparel items, in order to reduce the incidence of preference erosion.

In practice, however, recent studies on the expected impact of Doha negotiations on preference margins highlight that such erosion is expected to be only minor in the case of Jordan,¹⁶ though, in some sectors (such as apparel) and some markets (such as the US where exports are heavily concentrated in apparel), Jordan may face higher degrees of erosion. While these do not take into consideration the latest draft modalities that were tabled in July 2007, it is expected that their adoption would reduce the degree of preference erosion for Jordan if the implementation of bound tariffs on selected apparel items of interest to Jordan were extended.

While it is clear that some Jordanian export sectors will certainly face preference erosion in the coming years, the Government of Jordan will be at a loss to mitigate any such erosion directly. However, rather than view preference erosion as a loss of competitiveness, the existing preferences should be viewed as a window of opportunity to upgrade Jordan's export sectors. In this respect, the GOJ can help to mitigate the effects *indirectly* by increasing the awareness of the affected sectors within the Jordanian export community of the potential impacts of such erosion and to play a facilitating role, through Jordan Enterprise and other relevant agencies, to improve the underlying competitiveness of those sectors. In short, the GOJ and private sector must recognize that any negotiated tariff preferences can only be expected to provide a price-advantage in the short- to medium-term, but eventually Jordanian exporters will need to be positioned to compete on a more level playing field and, to do so, will need to upgrade their capacity—in terms of scale, quality and delivery. At the same time, the GOJ must upgrade its own capacity to facilitate trade through the removal of border and behind-the-border constraints that reduce the ability of Jordanian exporters to reduce trade-related transaction costs (and therefore price-competitiveness) and reduce import-export times that impede Jordanian exporters from meeting strict time-bound delivery requirements.

At the same time, the GOJ must take a lead role in both heeding and delivering to the private sector the important message that while there may be some costs associated with preference erosion, Jordan stands to benefit considerably from improved access to global markets, through liberalization by other emerging market economies and by Jordan itself, which will at least partially offset the more direct losses from preference erosion. However,

¹⁶ In an IMF Working Paper (WP/04/169, September 2004) by Katerina Alexandraki and Hans Peter Lankes, "The Impact of Preference Erosion on Middle-Income Developing Countries," it is estimated that a 40 percent reduction in MFN tariffs by the Quad countries (US, EU, Japan and Canada) would result in a 0.5 to 1.2 percent reduction in exports from Jordan (depending on the export supply elasticity). These figures likely overestimate the potential impact as the authors' calculations assume that Jordan preference utilization rate is 100 percent, i.e. all exports to the four countries benefit from the applicable preference regime.

research suggests that what matters most in terms of own reform by is the pursuit of complementary reforms and public investments that, again, enhance private sector productivity.¹⁷

3.2.3 Assessment of options for negotiation of new FTAs

Looking to the future, the Government of Jordan is already actively pursuing a number of new trade agreements, with Turkey and Kazakhstan, while others are in earlier stages of discussion (e.g. Canada). While each of these opportunities cannot be evaluated in the current context, lessons from the implementation of Jordan's existing agreements, and the experience of other free trade arrangements, suggests a number of considerations that should be taken into account in the decision to enter trade talks and the design of any agreements that may ensue from such talks.

Firstly, the question then arises as to the advisability of negotiating future free trade agreements and if so, with whom? This issue needs to be studied more systematically than in the past because the obvious agreements—with the US, EU, and Arab states—are already in place and additional agreements could be risky as they bring on new, potentially incompatible rules of origin, necessitate yet another layer of bureaucracy, and could distract attention from lowering customs duties generally which should be a higher priority.

Nonetheless, viewed cautiously, one strategy could be to pursue future agreements as a bargaining chip for gaining market access into heavily protected markets such as Pakistan, or for gaining access to inputs that can be counted under cumulation as local content for exporting to the EU, as with Turkey. Also, an agreement with Canada has a certain logic to it and an agreement with Kazakhstan or others might present some opportunities. The risks here are two-fold. First, it needs to be determined that any future agreement opens markets for Jordanian exporters and does not merely divert imports to a relatively inefficient producer country that displaces current Jordanian imports but with little price reduction or cumulation advantage for Jordanian buyers and the loss of tariff revenue for the Jordanian budget. Second, it needs to be ensured in the negotiations that rules of origin are reasonable and congruent with other agreements. It is worth noting that as Jordan lowers its MFN tariffs generally, FTAs are somewhat more attractive in the sense that while less will be gained on the import side, export markets can be opened with less risk of trade diversion.

Consequently, the GoJ, in partnership with the private sector and research community, needs to carefully study the impact of existing agreements as well as any proposed future agreements. The methodology for this might include that provided by the World Bank (2002) and the MIT Manual for Evaluating Potential Future FTA (developed by SABEQ and the MIT, 2007).

The essence of these methodologies is to use readily available trade data and simple “rules of thumb” based on past evidence of successful trade expanding agreements in order to indicate which countries represent the most promising potential FTA partners. A more ambitious approach to identifying the impact of preferential trading arrangements is to pursue more complicated supply side structures or even a full-blown computable general equilibrium (CGE) model as is commonly employed by the US International Trade Commission (USITC).¹⁸ A combination of methodologies may be appropriate, with different methodologies used at different stages of exploration and negotiation, with a reliance on simple rules of thumb in the early stages, before any letters of understanding are signed with potential partner countries.

¹⁷ World Bank and IMF. 2005. Global Monitoring Report, 2005. Washington DC.

¹⁸ For a recent evaluation of the US-South Korea FTA, for example, see http://www.usitc.gov/publications/abstract_3452.htm.

Whatever methodology is adopted, there are a number of issues that should be addressed, including:

- **Product coverage.** Negative lists are often used to protect domestic industries from competing partner industries. Such negative lists can severely restrict the actual gains from any agreement, particularly if more competitive industries are excluded *a priori* (rather than through safeguard provisions). The EU Association Agreement, for example, initially excluded many of Jordan's agricultural products, including those that had proven to be successful in the EU market, such as fresh vegetables and olive oil. The omission of such products is a limiting factor on Jordan's ability to reap the gains from trade (and to balance welfare losses associated with trade diversion see below)
- **Potential welfare effects, trade creation and trade diversion.** Both producer and consumer welfare should be taken into effect. While regional agreements are most often discussed in terms of the export opportunities, the impact on import sourcing should be taken into consideration, as well as the domestic price effects and, hence, on consumers and domestic industries). The potential net benefits for a regional trade agreement are ambiguous—whether a given country experiences overall welfare gains or losses depends on the balance between trade creation and trade diversion. Even in cases where, overall, an agreement is welfare-enhancing, it is important to understand the asymmetries associated with such benefits so that can appropriate action can be taken to mitigate losses by a particular segment of the economy.

The potential for trade diversion, whereby trade is diverted from lower cost suppliers located in non-partner regions that must still bear the additional costs of Jordanian border taxes, needs to be fully assessed. There is already some evidence of trade diversion in the case of JUSFTA. For example, consider the impact of the Jordan-US Free Trade Agreement (JUSFTA) on imports of cars into Jordan (contained in HS2002 code 8703). Customs imposed on vehicles depend on engine size and this represents a disadvantage for large American cars (US Department of Commerce, 2007). Because of JUSFTA, American vehicles and pick-ups now enjoy an advantage that reduced the custom duties only on American manufactured vehicles from 30% to 25% for cars and to 18% for pick-ups. This tariff preference given to American vehicles appears to be reflected in the trade data as trade diversion.¹⁹

The simplest and most effective means of reducing the incidence of such trade diversion is the parallel reduction in MFN tariff levels—a strategy successfully applied in Asia (IMF, 2007), the US, EU, and Chile. Such parallel tracks promoted a more beneficial outcome for their respective economies, and made their approach to regionalism more likely to result in market access agreements that enhanced, rather than detracted, from efforts to integrate globally.

- **Structure of Rules of Origin and impact on export sectors, as well as compatibility with existing agreements.** As discussed in the previous section, ROO can be complex and can have a negative impact on the ability of Jordan to effectively take advantage of preferences. Careful consideration should be given to the capacity of the private sector to meet origin requirements to ensure that

¹⁹ For example, Jordanian imports of HS2002 code 8703 from the U.S. increased from a mere 652 vehicles valued at US\$11.9 million in 2002 to 11,408 vehicles (US\$88.25 million) in 2005 and stood at US\$107.6 million in 2006 (UNSD Comtrade Database, 2007). At the same time, imports from the Republic of Korea to Jordan fell dramatically over this period from US\$176.6 million in 2004 to US\$75.3 million in 2005 and only US\$ 42.3 million in 2006. The number of actual vehicles imported from the Republic of Korea fell by half from 21,912 in 2005 to only 10,881 in 2006. Nonetheless, over the same period, Korea's exports of vehicles to world markets in total increased from US\$8.3 billion in 2003 to USD 8.6 billion in 2006.

negotiated rules do not make an agreement moot from an exporter's point of view. A simple survey of local industries would provide a baseline that the GOJ could utilize to understand to what degree Jordanian industries can benefit. Such information would put GOJ negotiators in a better position to deal with offers (or the renegotiation of ROO) rather than anecdotal information.

As discussed, ROO can also be complex and costly in their application, particularly where numerous agreements are already in place. The experience with the JUSFTA ROO versus those applicable under the EU Association Agreement demonstrates the value of negotiating simple, direct rules that, to the extent possible, apply across the board. Again, if regional agreements are to give rise to scale economies, this can only be realized if rules of origin under various agreements do not dictate different production processes and input sourcing.

- **Implications of other complementary policy harmonization measures.**

Increasingly, Jordan's trade partners are encouraging the incorporation of complementary policies into trade agreements, such as standards, competition policy, labor and environmental standards, and the like. This is particularly true of the EU Association Agreement. Generally, such "deep integration" can confer benefits on Jordan, both directly, through improved policies and "harmonized" policies and procedures that can reduce transaction costs and facilitate regional trade, and indirectly through a demonstration effect that the GOJ is committed to policy reform and international standards. The "harmonization" of standards, which can be effected through Mutual Recognition Agreements, is likely to confer the highest direct benefits given that standards are the oft-most mentioned barrier to market access.

However, as in the case of ROO, there are potential compatibility issues at stake, given the proliferation of such provisions in regional trade agreements. The GOJ should conduct full compatibility analyses with respect to such policy provisions to ensure that any resulting agreements do not conflict with existing agreements and, instead, truly broaden market access in a way that Jordanian exporters can take advantage of scale economies that market access agreements in theory provide.

4. TRADE POLICY INSTITUTIONAL FRAMEWORK

This section provides an overview of the current institutional framework for trade policy formulation in Jordan and offers some recommendations on how to strengthen it to ensure that, looking forward, trade policies are developed in an integrated way that can best promote Jordan's integration into the global economy through increased competitiveness. As Jordan continues to become more committed to the global market and strives to send the signal to traders and investors that Jordan is a reliable, business friendly place to locate and do business it will become increasingly important to support the institutions capable of making and assessing the impacts of policies, as well as those providing services to exporters, and to ensure compliance with the rules based trading system of the WTO or regional agreements.

The following sections draw heavily on studies and recommendations made by the USAID-funded AMIR program (Wright, 2005) and the UNDP (2007) and address the following key elements:

- Institutional Structure that promotes inter-agency coordination
- Consultation in policy making
- Institutional Capacity Building to improve analytical capacity and trade policy formulation

4.1 INSTITUTIONAL STRUCTURE

In Jordan, three ministries currently lead trade policy formulation:

1. The **Ministry of Industry and Trade (MIT)** is responsible for all policy issues relating to the World Trade Organization (WTO), the Greater Arab Free Trade Agreement (GAFTA) and the Jordan – United States Free Trade Agreement (USFTA), the European Free Trade Agreement (EFTA) and all Jordan's bilateral trade agreements. The Foreign Trade Policy Directorate administers the WTO, JUSFTA, Singapore FTA and the EFTA. The Industrial Development Directorate regulates Qualifying Industrial Zones in Jordan. The Regional Economic Cooperation Directorate administers GAFTA and the Arab bilateral agreements.
2. The International Cooperation Department of the **Ministry of Planning (MoP)** is responsible for the European Union Association Agreement (EUAA).
3. The **Ministry of Agriculture (MoA)** formulates and implements agriculture-related trade policy and under all trade agreements.

A wide range of other agencies and institutions are engaged in various aspects of trade policy formulation. Many of the entities involved are housed in the MIT including the Directorate for Foreign Trade, National Production Protection Directorate, Industry Development Directorate, Foreign Trade Policy Directorate, and Industrial Property Protection Directorate. External to MIT are the Ministry of Finance (MoF), including the Customs Directorate, as well as various entities within MoA, MoH, JISM, and MoP. All these agencies, together with the private sector, should be playing a role in advising on and/of formulating trade policy.

A number of studies have suggested that a more coordinated approach to trade policy formation is required in Jordan (UNDP, National Agenda). The institutional structure of trade policy formulation in Jordan has been identified as having the following broad weaknesses:

- Fragmented proposal preparation and approval among different government departments lead to lack of consistent and coordinated policies;

- Policy proposals lack detailed analytical and research to guide negotiating positions and the economic impact of the multilateral/bilateral trade agreements;
- Few formal mechanisms exist for departments to consult with each other;
- Absence of a follow-up mechanism for trade policy commitments and effects;
- Redundant resources between MIT and MOP, each of which are responsible for different trade agreements (MOP is responsible for the EU Association Agreement, while MIT is responsible for all others); and
- Lack of a sustainable, transparent mechanism for coordination with the private sector and allied institutions.

The result has been an often uncoordinated and less than effective trade policy framework. The 2005 AMIR study found, for example, that trade negotiating positions are not prepared and coordinated in advance and often lack adequate analytical basking to ensure that the negotiation outcomes are truly in the best interests of the Jordanian economy.

Emerging from these issues is, first, just how to restructure the policy formation process. The majority of small countries with an effective trade policy consultation process have an institutional structure with the following characteristics:

- A Cabinet-level committee to decide policy
- A senior official level inter-departmental committee to manage research and submit policy proposals to the higher committee
- A Ministry of Trade to negotiate and implement trade policy and service both committees
- Representation by or consultation with Parliament during the formulation process in order to ease future Parliamentary approval of trade initiatives
- A system of private sector and civil society advisory councils to act as a sounding board and provide input into policy making.

Jordan already has a Ministerial Development Committee that fulfills the role of the Cabinet-level committee. However, there remains an effective gap at the senior officials' level. At the MIT, the Foreign Trade Policy Directorate currently leads efforts to coordinate policy, including consultation with stakeholders and the coordination of GOJ policy positions and negotiating strategies that are fed to a Ministerial Development Committee. However, the FTPD is understaffed and focuses much of its time on trade agreements (though some trade agreements are under the purview of other bodies, adding an additional layer of complexity to policy coordination).

While a Tariff Committee, with representation from senior members from Customs, MIT and MoF, has been established, it has a narrow focus on tariffs. The Ministry of Industry and Trade has established five other issue-specific trade committees (e.g. one on non-agricultural market access, one on services, one on standards, etc.) that are hosted by different governmental or private bodies. The aim of such committees has been to create a coordinating mechanism for the formulation of trade policy, at least on the multilateral level. A recent UNDP report highlights that interviews with some government officials outside the MIT identified that the system for consultations on trade matters is weak. No other established committee exists to deal with the breadth of trade policies issues that need to be addressed in an integrated and comprehensive trade strategy.

While each of these committees should continue to play their respective roles, a more integrated approach is required. One potential way forward would be to establish a senior

officials committee on trade issues. This committee would be the focal point of commissioning research, soliciting ideas, proposals and suggestions with regard to trade and convey to the Cabinet-level committee for discussion and debate. The main government counterparts that should form the inter-ministerial committee on trade should consist of core institutions including the MIT and its autonomous agencies, MOA, MOP, MOF, and Customs Directorate. The existing committees could then act as sub-committees that meet on specific issues but do so in a more coordinated framework.

UNDP (2006) and several AMIR reports (Wright, 2005a, 2005b), have emphasized the importance of such an institutional arrangement that would immediately reinforce efforts by:

- Improving mechanisms for policy formulation
- Strengthening coordination of policy implementation across GOJ agencies
- Coordinating research and analysis on trade policy.
- Publicizing and explaining research results and recommendations

In order to ensure its effectiveness, the lines of communication could be established and institutionalized with other organizations that should provide inputs to the policy-making process and provide feedback on the impact of policies. These lines would include consultation with the private sector, broadening the scope of inputs, and the identification and establishment of a research network (potentially including the University of Jordan, the Royal Court and the Royal Scientific Society).

Once this inter-ministerial committee is identified and established, the intergovernmental system of trade policy consultations should be strengthened and should be based on clear steps to ensure proper coordination as well as transparency. For example, it is important that members of the Committee of senior officials remain in regular communication with each other. Meetings should take place at fairly regular intervals, as well as when specific issues warrant it. However, email traffic should keep members up to date. Members can form *ad hoc* subcommittees, including the existing committees which may draw on other expertise or technical staff, as required) to deal with specialized issues and report back to the main committee.

4.2 CONSULTATION IN POLICY MAKING

In improving the quality of its decisions, MIT and other agencies in the Government cannot act in isolation. An important means of making better policy decisions that are consistent with the needs of an open trading environment is through consultation with affected stakeholders. Governments engage citizens in policy processes in many ways. *Public consultation* is a systematic process of asking citizens for information on specific policy issues, and using the information received to make better policy decisions. Consultation is part of the process by which governments become more transparent to citizens, better informed about problems and solutions, and hence able to develop policies that are more effective and lower-cost. Consultation in regulatory and other policy decisions has become a global norm of good government policy and an essential component of collecting the information needed to make reliable decisions.

The Government of Jordan does not have a government-wide consultation policy and has not established standard methods of stakeholder consultation. Each ministry has its own consultation methods. However, enhanced government transparency and accountability for government decisions are explicitly included in Jordan's current development plans. For example, the National Agenda contains a commitment to "Build trust between citizens and institutions and adopt principles of transparency, good governance and accountability."

MIT has committed to piloting in 2008 a consultation program based on international norms of good consultation practices, such as those published by the OECD. MIT will adopt a mandatory consultation practice, and will create new consultation institutions such as a regulatory advisory council to improve dialogue and information collection, at an early stage, of the consequences of draft proposals before they are adopted. Trade impacts can be a part of this discussion of government policy. MIT will also publish drafts of new regulations as part of the consultation program, which can help satisfy WTO requirements for notification and disclosure of regulations with potential trade impacts.

As the MIT program is implemented, it could create a useful platform to expand the consultation practices across the entire government to ensure that all important policy decisions with potential impacts on the private sector, trade and other impacts, are identified and assessed before the government takes action.

4.3 INSTITUTIONAL CAPACITY BUILDING FOR POLICY-MAKING

An institutional structure is only as strong as its capacity to understand the impacts of its policies. The availability of ad hoc technical assistance from donors has enabled the Government to focus on priorities other than research capacity until now. Now that many of these priorities have been addressed, a more sustainable system of trade research is urgently needed to formulate appropriate policy for Jordan. Therefore, in parallel to efforts to strengthen the policy coordination process, capacity building is required to strengthen the overall structure. This includes all actors involved in the policy-making process, whether the decision-makers themselves, their institutions, or those that need the capacity to effectively contribute to trade policy-making. This latter group includes the private sector, think tanks, consumer protection agencies and NGOs.

Currently, this role remains largely empty. Given the policy research vacuum, a number of proposals are under consideration to develop research and analytical capacity within various institutions. JAED, Jordan Enterprise and other entities have been forward as potential 'nexus' to support policy research and analysis. While these entities should certainly form part of the consultation network for trade policy development, such entities are not the most appropriate to fill the vacuum. First, such entities are likely to view trade policy through the lens of the private sector only, though trade policy must serve not only the interests of the private sector, but also of consumers, the environment, etc.—i.e. the full welfare impacts must be assessed to ensure that trade policies are supportive of Jordan's over-riding strategy to promote sustainable development.

The MIT does have a wider mandate than simply to support industry, so should be expected to have at least some indigenous capacity. A program, therefore, needs to be established with the patronage of the GOJ and donor community to form a unit or actively support existing units to support to build the skill sets required to undertake complementary studies related to investment, agriculture and other trade policy related research. The Economic Research and Studies Division (ERS) at MIT has only one economist among five staff members, and output is limited to a monthly bulletin of trade statistics. In order to build an effective institutional framework, there is the need for both more personnel and some skill enhancement to overcome the current perceived weak capacity to design and formulate trade policy. Staff within MIT needs to be enhanced, both quantitatively and qualitatively, to perform the daily demands of monitoring and participating in an increasingly complex array of trade agreements and mandates and coordinating functions that involve other public and private sector stakeholders. While in a small country such as Jordan, and with the existing civil service constraints, it cannot be expected that MIT staff have the capacity to undertake sophisticated modeling, there is a need to have internally the capacity to utilize basic research tools and apply simple analyses, such as trade flow analysis, as well as to

'consume' and 'interpret' external research that is commissioned to support trade policy formulation.

The establishment of such a unit should not, however, deter other Ministries and individual agencies, individuals, think tanks, universities and other organizations from undertaking complementary research analysis, comments and dialogues independently of this process, but recognize the need for a focal point as a pre-requisite in institutional capacity building exercise. These other entities should, on the contrary, be supported in their respective areas to enable them to more effectively contribute to policy debates. The analysis, information and technical dialogue that are so essential to a sound trade policy cannot be produced and consumed solely by government.

Moving forward, it will therefore be important to develop research capacities outside of government, such as in universities or independent research institutes. The needs of trade policy research is now ever more demanding as issues that are confronted in the context of an integrated international trading system is broad requires analytical and research skills of fairly complex order and require specialized skill sets to conduct partial and general equilibrium analysis to understand welfare and sector effects of trade policies and proposals, as well as revenue studies, macroeconomic analyses, labor-impact studies, etc. In many cases, it is also valuable to have a more objective, external entity provide research and analysis to reduce any biases that may color the outcome of research conducted by agencies that represent a narrow segment of the Jordanian economy.

A few independent research organizations already exist, including the Jordan Center for Policy Research and Dialogue, which was established in 2004 with funding from the Higher Center for Science and Technology. As part of the Economic Research Forum network of policy research organizations based in Cairo, the JCPRD facilitated a country briefing on Jordan that included independent trade research. However, the scope of the research to date has not been sufficient to meet policy-making needs. Policy-makers need to be linked through informal and formal networks to non-governmental sources of trade-related research, analysis and dialogue. In this regard, there is a need of a research institute or network of researchers to could undertake analysis and research related to domestic policy issues, the impact of the multilateral trade agreements and to the preparation of the negotiating positions.

5. SUMMARY OF FINDINGS AND RECOMMENDATIONS

This section provides a brief summary of the findings and recommendations of this trade policy assessment. In general, the GOJ has made enormous strides in liberalizing its trade environment. Jordan's accession to the WTO assisted in the modernization of its policy framework and progress toward adopting international standards across a wide range of trade policy related disciplines. In parallel, the GOJ has entered into a number of regional trade agreements that have enhanced market access. Together, these policies have enabled a rapid expansion of trade, though, with the exception of garments exports to the US, little has been achieved in the way of export diversification, particularly towards high value-added, more sustainable export production.

Further refinements to Jordan's trade policy environment could help facilitate this shift. This document outlined some important ways in which policies could be refined to better enable the private sector to take advantage of these opportunities.

5.1 INTERNAL TRADE POLICIES

These national policies are directly under the control of the GoJ and, if properly formulated, can create a business environment wherein the private sector can take advantage of opportunities to expand and diversify exports. The recommended internal (unilateral) trade policy reforms are therefore designed to maximize the potential allocation of Jordan's scarce resources towards those activities that will provide the greatest welfare impacts through job creation and consumer welfare and to better facilitate the movements of goods and services to realize that potential.

5.1.1 Trade Policies related to Agriculture and Manufactured Goods

Trade in merchandise, i.e. agriculture and manufactured goods, accounts for 66 percent of Jordan's total exports. Agriculture and processed foods and beverages account for 10 percent, mining accounts for 8 percent and manufactured goods, close to 48 percent. Jordan has the potential to substantially expand its exports of both agricultural and manufacturing goods and designing an appropriate trade policy regime will greatly enhance Jordan's capacity to realize this potential. Given the growing importance of cross-border production networks, Jordan's potential for expanding merchandise exports, especially manufactured goods, can only be achieved through the liberalization of both imports and exports.

5.1.1.1 *Import Measures*

Policies related to merchandise imports have the most direct impact on the allocation of resources in Jordan. The rationalization and liberalization of import measures can therefore reduce distortions that otherwise prevent full exploitation of Jordan's comparative advantages and market access, and therefore the Jordanian economy's ability to promote the export-led development and diversification that is required to generate new opportunities and reduce the incidence of poverty.

- **Tariffs and Other Import Taxes.** The GOJ has made substantial efforts in recent years to reduce tariff barriers. Jordan's simple average tariff was reduced from 19 percent in 2000 to 11.5 percent in 2006. Given the recent rounds of zero-rating for non-dual use intermediate goods, the simple average tariff, particularly for manufacturing goods, is likely to be even lower. While barriers to imports are not particularly high, the overall tariff structure retains a number of distortions—including high dispersion and tariff escalation—that prevent the more efficient allocation of scarce resources, which may be more appropriately allocated toward more skill-intensive “intermediate” stages of productions (versus final assembly, which is often

lower skills based). The realization of Jordan's export potential can be best promoted through the reduction in dispersion and escalation in tariffs in concert with ongoing efforts to lower tariff rates more generally. This may be realized through a 3-prong approach that reduces the number of tariff bands (and exceptions to those bands) to perhaps four, and, at the same time, reduces both the simple average tariff and the differences between bands.

- **Contingency Trade Remedies.** As Jordan continues to lower tariffs and encourage competition, imports will become increasingly visible and put pressure on less competitive firms and industries in Jordan. This in turn will undoubtedly lead to legitimate pleas for protection ("trade defense measures") from Jordanian firms confronted with sudden surges of imports, or with unfairly priced or subsidized imported goods. Jordan has codified such remedies in legislation governing the use of safeguards, anti-dumping, and countervailing duties, which is administered by the National Production Protection Directorate at MIT. The GOJ should closely review its application of contingency trade remedy rules to ensure that they not only conform to WTO requirements but also are truly in the interest of the Jordanian economy. In its application of contingency measures, the GOJ should consider not just the minimum criteria required by the WTO but the economy-wide impacts, both positive and negative, both for the competing domestic industry and consumers. In order to do effectively, the NPPD requires additional capacity building, particularly with respect to anti-dumping. This needs to be coupled with increased awareness, by both the private sector and the judiciary, of the role and limitation of contingency trade measures and the need to apply them judiciously.
- **Non-Tariff Barriers.** While tariffs and other taxes on imports are the most easily identified and quantifiable trade costs, non-tariff barriers can impose both direct and indirect costs that raise the price of imports and can discourage imports, as well as the exports that depend on imported inputs.

While the Government of Jordan does not excessively rely on import licensing—the majority of these items are restricted for legitimate reasons (i.e. national security, public health and safety)—some of these approvals may be redundant and/or unnecessary and therefore could easily be reduced without compromising such concerns. This would also free up these agencies' scarce resources to focus on controlling the import of those items that truly need to be restricted to address such concerns.

With respect to standards, Jordan has aligned its legislation and institutions to meet the requirements of the WTO Agreements on Technical Barriers to Trade and Sanitary and Phytosanitary Standards. JISM, the primary institution involved, as well as the JFDA have benefited from considerable capacity building in this respect. Moving forward, an audit of ongoing capacity building and technical assistance needs within JISM and JFDA should be conducted to ensure that they are able to capitalize on and sustain the forward momentum. Some specific areas that have been raised at the conclusion of the EU Twinning Program with JISM include the passage of the amended Law on Standards and Metrology, the passage of the draft Accreditation Law that will embody the mandates of the JISM Accreditation Unit and establish its independence, fully establish a National Notifying Authority for notifying conformity assessment bodies, and the establishment of the National Market Surveillance Council to implement the market surveillance program.

- **Border Procedures.** Several entities in the GoJ have border responsibilities including the Customs Department, the Ministry of Agriculture (MoA), Ministry of Health (MoH), and Jordan Institute of Standards and Metrology (JISM). Past efforts

have sought to coordinate the various roles; for example, a committee comprising officials from JISM, MoH, MoA and Customs department carry out inspections of food and agriculture products at the border. Customs has also developed standards for certifying operators to implement the WCO Framework of Standards to Secure and Facilitate Global Trade through the “Golden List” program, established in 2005. This effort should be enhanced and the operator/product coverage expanded. In progress are efforts to establish a one-stop shop for imports. A number of agencies have already delegated their border responsibilities to Customs, though it is expected that JISM, JFDA, and MoA will retain their roles in a more streamlined environment that will ensure information-sharing between them. There is widespread support to continue with the Golden List and one-stop shop initiatives and these should be supported to ensure their success. Also to be addressed are the ongoing difficulties associated with the presence of two different customs organizations at the Aqaba Port—a solution needs to be designed to bring customs operations under a single umbrella and the facilitation of the movements of goods to the domestic customs territory.

5.1.1.2 Export Measures

Policies related to merchandise exports can play an important role in promoting export development and diversification, including the streamlining of export licensing and approvals, the rationalization of free and special economic zone regimes, the streamlining of other duty- and sales tax- free schemes, the rationalization of export incentives, and the promotion of private-sector adoption of international standards.

- **Export Licensing and Other Approvals.** All goods exported from Jordan are exempted from an export license, except where trade agreements with other countries require such a license. At the same time, exports of certain products require a “prior authorization”, which essentially acts as a license, from the relevant Jordanian government authority. As in the case of import licensing, while Jordan does not excessively impose export licensing or approval requirements, any that exist should be reviewed to ensure that they do not unnecessarily impede trade in goods that do not concern national security, the environment, or violate international agreements (e.g. in the case of protected wildlife).
- **Free and Economic Development Zones.** One important role of government with respect to trade facilitation is the provision of infrastructure and its supporting regulatory framework. Jordan is of course well advanced in these dimensions. Jordan provides a range of infrastructure facilities and services to promote export development, including industrial estates, free zones, the Aqaba Special Economic Zone, and, more recently, the establishment of new economic zones such as King Hussein Bin Talal Economic Zone in Mafraq and another proposed zone in Irbid. Each of these zones has its own legislative and regulatory framework and provides their own package of incentives. While the underlying aim of these zones is to streamline the trade and investment environment to promote export and related economic development, the experience with zones in Jordan has been mixed to date.

While zones and industrial estates can be made consistent with the Jordan’s economic development strategy, the experience to date should be closely reviewed in order to put in place a rational framework that both supports the expansion of trade and investment, as well as Jordan’s other development imperatives, including the environment and socio-economic development. This includes the rationalization and merger of the regulation of industrial estates and free zones, and more judicious application of other special economic zones that can distract from wider national and local economic policy reforms.

- **Other Duty-free and Duty-Remission Schemes for Exporters.** In addition to free and economic zones, Jordan offers several schemes to exporters to facilitate trade, including duty-drawback, temporary admission, sector-specific duty exemptions, and bonded warehousing, which, in principle, enables exporters to benefit from duty-free inputs. While such schemes are in principle consistent with the WTO and World Customs Organization (WCO) standards and guidelines, the experience in Jordan has been mixed in terms of the actual benefits accrued to exporters in light of the administrative and other costs involved. The experience of the GST program, in particular, needs to be reviewed, using the drawback procedures as a model for granting refunds. This would eliminate pressures to provide selective zero-rating of inputs for various sectors and would offer benefits to the widest community of exporters, whether they are regular or occasional exporters.
- **Other Export Incentives.** Upon accession to the WTO, Jordan was granted special and differential treatment with respect to the full implementation of the Agreement on Subsidies and Countervailing Measures (SCM). Exporters are granted a range of other fiscal incentives under various laws. While Jordan may be permitted by the WTO to continue to offer exemptions to exporters, such exemptions are often more harmful than beneficial. They introduce distortions that, like different tariffs for different products, encourage the misallocation of resources towards activities that may not reflect Jordan's comparative advantages. While it can be expected that some industry sectors will lobby against such action, it should be noted that a comprehensive tax reform package is being developed that will greatly simplify the income tax system, with the introduction of a uniform tax rate. This would greatly reduce the rate of taxation for the service sectors, would eliminate the large number of extra taxes and fees that are currently levied, and will reduce the cost of administration, for both the Government of Jordan and for individual enterprises.
- **Export-related Border Procedures.** While actual border procedures are relatively swift in Jordan, a range of other approvals and documentation may be required that are not included in these time and cost estimates, including product-specific approvals and licenses. Jordan Enterprise is in the process of assessing ways to streamline export procedures, including the establishment of a one-stop shop that would bring together the various entities engaged in approving exports in order to better facilitate export development. This is an effort worth exploring, given the positive impact it can have on reducing transit times for sensitive items, though the concept should be fully evaluated to ensure the design of a system that is not simply a "one more stop shop" for exporters but provides the type of value added and facilitation that is intended.
- **Standards-related Market Access Issues.** One major constraint that is cited by the private sector, across a wide range of export industries (including agriculture, manufacturing, and services) is that lack of capacity, know-how and/or technical expertise required to access markets in terms of standards. Standards have also increasingly become a source of trade disputes. Making sense out of the labyrinth of standards, understanding the processes and technologies required to meet those standards, and the ability of developing country institutions to verify those standards has become one of the greatest hurdles that an exporter will face in accessing new markets. While the burden of turning comparative advantage into competitive advantage is mostly carried by the private sector, the GoJ has an important role to play in proactively securing and monitoring market access for Jordanian exporters. Some specific actions that the GOJ can take include active participation in multilateral standards-setting bodies to promote the interests of Jordanian exporters; workshops, pilot demonstration projects, and effective extension programs to

address poor farm-level handling practices; the negotiation of Mutual Recognition Agreements; and information dissemination.

5.1.2 Trade Policies related to Services

Trade in services accounts for only 34 percent of Jordan's total exports, though the sector accounts for 64 percent of GDP. While some inroads have been made with respect to selected other services, such as medical services and higher education particularly vis-à-vis GAFTA countries, Jordan has not yet fully capitalized on its comparative advantages with respect to engineering skills that should position Jordan to better promote its ICT and architecture and engineering sectors. While each of these sectors requires supply-side support to build their capacity to export (which Jordan Enterprise and several donor projects are actively supporting), many policy related constraints restrain trade in services. Given the size and breadth of the existing service sectors in Jordan, further opening these markets to international trade would have positive impacts on service exports, as well as spillover effects on the agriculture and manufacturing sectors that depend on a wide range of support services.

As in the case of merchandise, policies related to service imports have the most direct impact on the allocation of resources in Jordan. The rationalization and liberalization of import measures can therefore reduce distortions that otherwise prevent full exploitation of Jordan's comparative advantages and market access, and therefore the Jordanian economy's ability to promote the export of services.

5.1.2.1 Import Measures

- **Jordan's Services Commitments under GATS and Free Trade Agreements.** Upon accession to the WTO in 2000, Jordan committed to liberalize trade in 110 service sectors under the framework of the General Agreement on Trade in Services (GATS). While addressing the main service infrastructure sub-sectors, the commitments bound the status quo with no increased liberalization. Jordan made additional commitments under the Jordan-US FTA. While Jordan's trade restrictiveness with respect to services is typical of a lower-middle income country, but at the same time suggest that the country would benefit from further liberalization measures in the insurance, fixed telecommunications, and mobile telecommunications sectors. It would be beneficial to undertake a systematic and logical review of the limitations imposed horizontally on all sectors (including foreign investment equity caps, minimum capital requirements, and nationality restrictions), as well as MFN exemptions, which can delay necessary improvements of competitiveness and, hence, export development and job creation.
- **Safeguard measures.** Safeguard measures are as applicable to trade in services as they are to trade in goods, although more complicated due to unresolved technical issues. Jordan's negotiating team should remain aware of progress made on EMS as they relate to services without using them in the interest of over-protecting their domestic market.

5.1.2.2 Export Measures

- **Market Access Issues.** Just as Jordan has implemented a multitude of service commitments at the multilateral and bilateral levels, so have other countries that make up Jordan's current and potential export markets. Unfortunately, given the high volume of this information, the lack of knowledge on where to investigate, and most importantly the absence of a strategic approach, most Jordanian businesses know little about accessing the service markets in foreign countries. The private sector should play a pivotal role in helping to determine policy for services exports, first by

providing information to policymakers on the problems they encounter in their markets and second by learning how their competitors are tapping existing and potential traditional and non-traditional export markets. A survey should first be carried out to learn more about exporters' constraints to improving their performance; second, a formal mechanism should be established to gather feedback on a continual basis.

- **Service Standards.** In addition to market access constraints, a key element of a successful export promotion strategy for merchandise goods involves standards and product conformity; likewise, this element should be included in an export strategy for services.
- **Sector-specific Issues.** While it is beyond the purview of the current study to conduct sector-specific analyses of constraints to export development in the services sectors, recent work by UNCTAD provides an indication of the types of issues that some of the leading sectors face, in terms of both domestic constraints and market access issues. The GOJ should carefully review the actions required to support leading and potential export sectors, including financial services, ICT, tourism, architecture and engineering, and others.

5.1.3 Complementary Trade Policy Measures

In addition to “traditional” trade policies, a number of other complementary policies can have a significant impact on trade and investment and, therefore, the ability of Jordan to diversify into value-added export sectors.

- **Competition Policy.** An effective domestic competition policy framework is an important complement to liberalizing external barriers to competition. Competition policy is an important to promote competitiveness of domestic industries, and promotes the development of small and medium enterprises. The GOJ has made great strides in aligning its competition policy with international standards. However, a number of capacity and institutional factors need to be addressed to effectively enforce competition policy, including training or judiciary; jurisdictional issues between the Competition Directorate at MIT and other sector regulatory agencies in Jordan; and the establishment of the Competition Directorate as an independent agency.
- **Intellectual Property Rights.** Jordan has adopted a wide range of substantive IP laws in recent years, but needs to take additional action to enforce legislation on the books. Priority IPR reforms for Jordan to undertake include in various IP areas. In patents, finalize accession to the Patent Cooperation Treaty (PCT). In trademark, finalize Jordan’s accession to the Madrid Protocol on international trademark registration. In copyright, adopt draft copyright regulations and instructions to enhance copyright compliance. In data protection, better reflect new chemical entities or new uses of old chemical entities in the Unfair Competition and Trade Secrets Law and in JFDA regulations and instructions. In the administrative area, an essential action is to create an independent IP regulatory agency. Regarding border measures, Jordan needs to amend the Customs Law to ensure better enforcement and prosecution of trademark and piracy cases. In copyright piracy, the number of ex officio raids is positive but judicial decisions remain ineffective in deterring piracy. To combat piracy, Jordanian laws need to be enforced more stringently against street vendor markets in Amman and other cities where sales of pirated goods are strong. To support enforcement, support ongoing training of judges and prosecutors.

- **Trade-Related Investment Measures.** TRIMs are seen as equivalent to historical trade barriers. Currently Jordan does not impose TRIMS and should not do so in the future.
- **Behind-the-Border Trade Facilitation.** With Saudi Arabia and the Gulf States to its south and southeast, Syria and Lebanon to its north, Israel, the West Bank and Gaza to its west, and Iraq to its east, Jordan is ideally situated geographically to accommodate an existing regional transit market for goods destined to neighboring countries. Unfortunately, Jordan has been unable to capitalize on this advantage because of high costs and inefficiencies inherent to the structure of the sector, and logistical problems. The Ministry of Transport drafted a National Transport Strategy for the period 2005 to 2007 that includes some of the regulatory reforms and infrastructure development projects required to improve Jordan's transport and logistics sector. While the implementation of the National Transport Strategy is beyond the purview of a National Trade Strategy, the success of the former will greatly impact the success of the latter and should, therefore, be supported and actively promoted. Progress against the strategy should be rapidly reviewed and a plan of action developed to implement the remaining items.
- **Policies related to e-Commerce.** E-commerce is increasingly an important tool to promote trade. Various initiatives have been created to promote e-commerce in Jordan. However, the absence of certification bodies and a secure public key infrastructure (PKI) are major impediments to the creation of an effective e-contracts and e-transactions environment. To date, the GOJ has not issued electronic payment instructions. Regulations that are hoped to be adopted include: (i) digital certificates; (ii) licensing and regulating certification authorities; (iii) national digital identify; and (iv) foreign certification authorities. The passage of these regulations is essential and will have positive impacts across the Jordanian economy by facilitating trade and enabling Jordanian companies to participate in one of the most dynamic segments of the global economy.
- **Impacts and Role of Tax Policy on Trade.** Income tax policy affects, of course, all segments of an economy. However, these impacts vary across segments. The current tax system in Jordan includes different tax rates and different incentives for different types of activities. Also, tax incentive schemes are administered under three separate laws, each providing incentives for different segments of the economy. Some of these incentives, which are directed at exporters, introduce an additional layer of distortion. While the WTO has granted Jordan an extension to continue granting some such incentives under the Income Tax Law, it is generally not in the overall interest of Jordan, particularly in light of ongoing tax reform efforts that seek to eliminate many of the existing distortions.
- **Impacts and Role of Trade Policy in Promoting the Role of Women.** Attaining Jordan's vision of becoming a globally competitive economy that is able to generate sustainable economic growth and more and better jobs for its people will be strongly linked to its ability to optimize the use of its most precious resource, its people. Evidence strongly suggests that overall economic competitiveness is correlated to the role of women in the economic sphere. Trade and trade policy is often presumed to be gender-neutral. However, trade liberalization does not occur without adjustment costs—the removal of tariffs and other trade barriers may expose previously protected sectors to competition in Jordan and open up new areas to exchange and commoditization. New trade policies are also likely to produce changes in prices, employment and consumption due to asymmetries in the role of men and women in

the Jordanian economy. Assessing the impacts of trade policy reforms in Jordan can be conducted through Gender Impact Analyses (GIA).

- **Impacts and Role of Trade Policy in Addressing Environmental Concerns.** Liberalization of trade is not a goal in and of itself but rather a means to promote prosperity through improved economic efficiency and development. Given Jordan's limited and fragile natural resource base and rising concerns about the impact of energy prices on industry, sustainable development is, rightfully, the ultimate goal of the National Agenda. Jordan's trade and trade policy can have both direct and indirect impacts on the ability of the Jordanian economy to move in a more sustainable direction. Many different types of methodologies could be used in conducting environmental reviews of trade measures and agreements in Jordan, the criteria for which should be developed in coordination with relevant Ministries (e.g. Ministry of Environment, Ministry of Agriculture, Ministry of Energy and Mineral Resources, Ministry of Planning, Jordan Valley Authority) as well as the private sector (firms and farms) and NGOs.

5.2 EXTERNAL TRADE POLICIES

External trade policies are those that are negotiated with trading partners. These policies ultimately determine Jordan's access to international markets and can therefore provide important incentives to investors, exporters, and domestic producers who rely on imports and/or exports. The GOJ needs to ensure that the negotiation of international agreements is compatible with Jordan's development goals, including export development and diversification, as well the development of a sustainable economic development model.

5.2.1 Participation in World Trade Organization

Jordan successfully joined the multilateral rules-based trading system of the WTO on April 10, 2000, and agreed to assume all of its WTO obligations upon accession. Jordan's commitment to the WTO is the single most important external policy, and the GOJ should make its proactive participation a high priority. This year's WTO Trade Policy Review, Jordan's first since accession, should reinforce the progress already made toward more predictability, transparency, and uniformity in policy mandated by the rules-based trading system.

- **Non-Agricultural Market Access Negotiations.** Since its accession to the WTO, the GOJ has made great strides in reducing its tariffs. While the agrees modalities have yet to be established, it is understood that, unlike the ad hoc approach of the Uruguay Round, the new round of NAMA negotiations will adopt a formula approach. While the scope for negotiations will, therefore, be much narrower, the GOJ should use this opportunity to signal its commitment to reduce overall tariff levels as well as the degree of dispersion and escalation. This would go along way to solidify Jordan's reputation as a modern and liberal trade and investment environment.

In addition to the across-the-board NAMA tariff reductions, it is expected that a number of sector-specific agreements will be negotiated. While Jordan should be favorably inclined towards many of these sector agreements, the GOJ should carefully consider the options related to any sector agreements, with a full evaluation of any costs and benefits once these agreements reach a stage where the outcome can be properly assessed.

- **Agricultural Market Access Negotiations.** With regards to Agriculture, the Doha Declaration commits WTO members to substantial cuts in market protection and trade-distorting domestic subsidies as well as reductions of, with a view to phasing out, all forms of export subsidies. The Doha Round negotiations on agriculture have

therefore focused on three main pillars: domestic support, market access, and export competition. The elimination of export subsidies and reduction of domestic subsidies result in an increase of world prices for main-traded commodities. The impact of agricultural trade liberalization is expected to be, overall, negative for Jordan as revenue and consumer losses from higher prices will likely outweigh the benefits to producers/exporters in selected sectors (such as powdered milk and tomatoes).

Jordan has the possibility to list a number of sensitive agricultural products (based on criteria of food security, livelihood security and rural development needs) in a Special Product (SP) list for which most of the above-described trade liberalization will not apply. Jordan's SP listing is expected to impact negatively on consumers and positively on domestic producers of listed products but also have secondary effects on other products because of the substitution effects. Jordan should therefore reconsider the above results when determining its final negotiating position, particularly vis-à-vis its SP list, which may increase, rather than reduce, the losses associated with multilateral liberalization.

- **GATS Negotiations.** The Uruguay Round broadened the scope of multilateral trade negotiations to include services. Given the relative size of the service sector in Jordan, the inclusion of services under the WTO framework should be welcome and the GOJ should therefore take a proactive role. The second round of GATS negotiations is currently under way. Jordan should proactively participate in these negotiations as a full-fledged member of the international trading community and demonstrate its commitment to further liberalization. In terms of specific service schedules, the GOJ should consider binding new horizontal and sector commitments into a revised schedule that reflect the recommendations provided above, including reductions or elimination of equity caps on foreign investment in various sectors; reduction of the minimum investment threshold; removal of nationality requirement in various sectors; clearly established criteria for land lease by foreigners; removal of MFN exemptions where no longer warranted; and reductions in restrictions in key services sectors, such as finance, real estate, tourism, ICT, and architecture and engineering, among others as appropriate.
- **Acceding to and implementing the GPA.** On joining the WTO in 2000, Jordan agreed to negotiate accession to the GPA, but as of early 2008, Jordan had still not joined, despite serious and substantial steps. Final negotiations and implementation should be encouraged as part of Jordan's trade strategy, not only because of the large potential benefits in expanding exports, but also because accession would send a powerful signal to the global community that Jordan is firmly committed to an open, transparent, private enterprise economy. Among actions to support accession, Jordan should conduct a review of all issues and update of information required by the WTO regarding GPA accession. The government should raise awareness among industries likely to benefit from potential opportunities under the GPA and increase awareness of key product and market opportunities by conducting informational workshops for firms identifying opportunities in conjunction with trade attaches and donor organizations. It should consider appropriate programs to help small and medium firms take advantage of opportunities, and conduct the analysis necessary to justify having an SME set-aside program based on Jordan's unique SME conditions and needs, and drafting an SME program acceptable to GPA members. It should also leverage accession into enhanced concessions by considering a separate bilateral government procurement agreement with the U.S., an issue broached by the Jordan-US FTA Joint Committee, and initiate preliminary discussions with the EU in the context of the Neighborhood and Partnership Instrument.

5.2.2 Participation in Regional Agreements

In addition to commitments under the WTO, Jordan became a signatory to a number of bilateral and plurilateral preferential and free trade agreements, including the JUSFTA, the EU Association Agreement, GAFTA, the Agadir Agreement (with Egypt, Tunisia and Morocco), an FTA with Singapore, as well as one with EFTA. A number of other agreements are in the planning stages, including FTAs with Turkey and Kazakhstan. Each of these agreements was designed to enhance Jordan's market access through preferential treatment in key export markets. While such regional agreements can enhance market access, and complement Jordan's liberalization commitments under the WTO (and its unilateral reforms), the welfare outcomes are uncertain, depending on the scope of the agreements, in terms of the rules that govern preferential access (product/sector coverage, rules of origin, complementary policy harmonization measures), as well the degree to which Jordanian producers and service providers are able to take advantage of these market access opportunities.

5.2.2.1 Lessons Learned

While Jordan has clearly benefited in many ways from its regional trade agreements, the evidence suggests that these agreements have yet to be fully exploited. Greater gains could be achieved if the GOJ is able to address some of the key issues that face exporters to each of these markets, particularly rules of origin, as well as more effective export and investment promotion that fully exploits the advantages that these agreements provide to Jordan as an export platform. At the same time, it needs to be recognized that these preference-induced advantages will ultimately be limited in time as these preferences are eroded and Jordanian exporters are forced to compete on a more level playing field. Each of these issues is addressed in turn below.

- **Rules of Origin.** Preferential rules of origin (ROO) provide the criteria that exporters must meet in order to take advantage of the preferential duties offered through a given agreement. Rules of origin impose a number of costs on exporters. There are both economic costs and compliance costs. In the case of Jordan's regional agreements, the costs of compliance vary greatly. The EU Association Agreement includes the most complex rules, and likely the most costly in terms of compliance. The JUSFTA (and QIZ) ROO are the most simple of the three major agreements. In addition to the costs associated with individual rules of origin, there is an issue of compatibility between agreements. Differing ROO can deprive would-be exporters to achieve scale economies and reinforce destination-specific industries—a pattern that is evident in Jordan's exports to the three markets. ROOs present a challenge to market access in some sectors and some regions, especially the EU. The GOJ should clearly continue to negotiate compatibility among ROOs and study the potential positive effects of future FTAs in this light.
- **Exploiting Spillover Effects.** Despite issues related to rules of origin, Jordan's regional agreements provide it with a strategic comparative advantage that has not been fully exploited. While investment in the garment sector has been driven by Jordan's preferential access to the US market first under the QIZs and, increasingly, under JUSFTA), other sectors have not fully capitalized on Jordan's market access opportunities. While supply-side issues have contributed to the current state, opportunities exist to promote FDI and joint ventures to take advantage of the FTAs. With the implementation of the Pan-Med rules of origin, Jordan has a wide range of untapped opportunities for forging regional alliances through trade and investment.

The high-level trade analysis conducted here for each of the agreements should be deepened to provide a better indication of the specific market opportunities, based on existing exports. Jordan Enterprise has an important role to play in conducting such

analyses and should target assistance to those sectors that can best take advantage of Jordan's market access agreements. Such analyses should be complemented by sector- and market-specific export promotion strategies to assist beneficiary sectors and firms to penetrate export markets. Such analyses and studies should also inform the development of an aggressive, well-targeted investment promotion campaign by the JIB.

- **Preference Erosion.** While Jordan has benefited in many ways from the trade preferences that it enjoys, and there is room to expand and diversify these benefits, the value of such preferences is expected to be eroded in the coming years, which will reduce the price-based comparative advantage that Jordan currently faces in these markets, though the extent of this erosion may only be marginal. There are two expected sources of preference erosion: (1) new trade agreements between Jordan's trading partners and its competitors, and (2) multilateral trade liberalization. While it is clear that some Jordanian export sectors will certainly face preference erosion in the coming years, the GOJ will be at a loss to mitigate any such erosion directly. However, rather than view preference erosion as a loss of competitiveness, the existing preferences should be viewed as a window of opportunity to upgrade Jordan's export sectors. The GOJ must also upgrade its own capacity to facilitate trade through the removal of border and behind-the-border constraints that reduce the ability of Jordanian exporters to reduce trade-related transaction costs (and therefore price-competitiveness) and reduce import-export times that impede Jordanian exporters from meeting strict time-bound delivery requirements.

5.2.2.2 Assessment of options for negotiation of new FTAs

Looking to the future, the Government of Jordan is already actively pursuing a number of new trade agreements, with Turkey and Kazakhstan, while others are in earlier stages of discussion (e.g. Canada). While each of these opportunities cannot be evaluated in the current context, lessons from the implementation of Jordan's existing agreements, and the experience of other free trade arrangements, suggests a number of considerations that should be taken into account in the decision to enter trade talks and the design of any agreements that may ensue from such talks. Consequently, the GoJ, in partnership with the private sector and research community, needs to carefully study the impact of existing agreements as well as any proposed future agreements. The methodology for this might include that provided by the World Bank (2002) and the MIT Manual for Evaluating Potential Future FTA.

Whatever methodology is adopted, there are a number of issues that should be addressed, including product coverage, potential welfare effects (trade creation and trade diversion), the structure of Rules of Origin and impact on export sectors, as well as compatibility with existing agreements, and implications of other complementary policy harmonization measures.

5.3 TRADE POLICY INSTITUTIONAL FRAMEWORK

As Jordan continues to become more committed to the global market and strives to send the signal to traders and investors that Jordan is a reliable, business friendly place to locate and do business it will become increasingly important to support the institutions capable of making and assessing the impacts of policies, as well as those providing services to exporters, and to ensure compliance with the rules based trading system of the WTO or regional agreements.

5.3.1 Institutional Structure

A number of studies have suggested that a more coordinated approach to trade policy formation is required in Jordan (UNDP, National Agenda). The institutional structure of trade policy formulation in Jordan has been identified as having the following broad weaknesses: fragmented proposal preparation and approval among different government departments lead to lack of consistent and coordinated policies; policy proposals lack detailed analytical and research to guide negotiating positions and the economic impact of the multilateral/bilateral trade agreements; few formal mechanisms exist for departments to consult with each other; absence of a follow-up mechanism for trade policy commitments and effects; redundant resources between MIT and MOP; and lack of a sustainable, transparent mechanism for coordination with the private sector and allied institutions. The result has been an often uncoordinated and less than effective trade policy framework. A rationalized structure with clear lines of responsibility and communication needs to be developed—a number of proposals have already been made and should be considered.

5.3.2 Improving Openness and Consultation in Policy Making

In improving the quality of its decisions, MIT and other agencies in the Government cannot act in isolation. An important means of making better policy decisions that are consistent with the needs of an open trading environment is through consultation with affected stakeholders. Governments engage citizens in policy processes in many ways. *Public consultation* is a systematic process of asking citizens for information on specific policy issues, and using the information received to make better policy decisions.

MIT has committed to piloting in 2008 a consultation program based on international norms of good consultation practices, such as those published by the OECD. MIT will adopt a mandatory consultation practice, and will create new consultation institutions such as a regulatory advisory council to improve dialogue and information collection, at an early stage, of the consequences of draft proposals before they are adopted. Trade impacts can be a part of this discussion of government policy. MIT will also publish drafts of new regulations as part of the consultation program, which can help satisfy WTO requirements for notification and disclosure of regulations with potential trade impacts.

5.3.3 Institutional Capacity Building for Policy-Making

An institutional structure is only as strong as its capacity to understand the impacts of its policies. The availability of ad hoc technical assistance from donors has enabled the Government to focus on priorities other than research capacity until now. Now that many of these priorities have been addressed, a more sustainable system of trade research is urgently needed to formulate appropriate policy for Jordan. Therefore, in parallel to efforts to strengthen the policy coordination process, capacity building is required to strengthen the overall structure.

The MIT does have a wider mandate than simply to support industry, so should be expected to have at least some indigenous capacity. A program, therefore, needs to be established with the patronage of the GOJ and donor community to form a unit or actively support existing units to support to build the skill sets required to undertake complementary studies related to investment, agriculture and other trade policy related research.

While in a small country such as Jordan, and with the existing civil service constraints, it cannot be expected that MIT staff have the capacity to undertake sophisticated modeling, there is a need to have internally the capacity to utilize basic research tools and apply simple analyses, such as trade flow analysis, as well as to 'consume' and 'interpret' external research that is commissioned to support trade policy formulation.

Moving forward, it will therefore be important to develop research capacities outside of government, such as in universities or independent research institutes. Policy-makers need to be linked through informal and formal networks to non-governmental sources of trade-related research, analysis and dialogue. In this regard, there is a need of a research institute or network of researchers to could undertake analysis and research related to domestic policy issues, the impact of the multilateral trade agreements and to the preparation of the negotiating positions.

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