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Comprehensive Competitiveness Strategy Report for the Garment Sector

RECOMMENDATIONS FOR ONGOING SABEQ SUPPORT IN JORDAN'S
APPAREL SECTOR

FINAL

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COMPREHENSIVE COMPETITIVENESS STRATEGY REPORT FOR THE GARMENT SECTOR.

RECOMMENDATIONS FOR ONGOING SABEQ SUPPORT IN JORDAN'S APPAREL SECTOR

SUSTAINABLE ACHIEVEMENT OF BUSINESS EXPANSION AND
QUALITY (SABEQ)

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AUTHOR: SERGIO GONZALEZ, J.E. AUSTIN

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1.0 The Economic Context for Jordan Apparel Manufacturing

1.1 Jordan's preferential access to us apparel markets

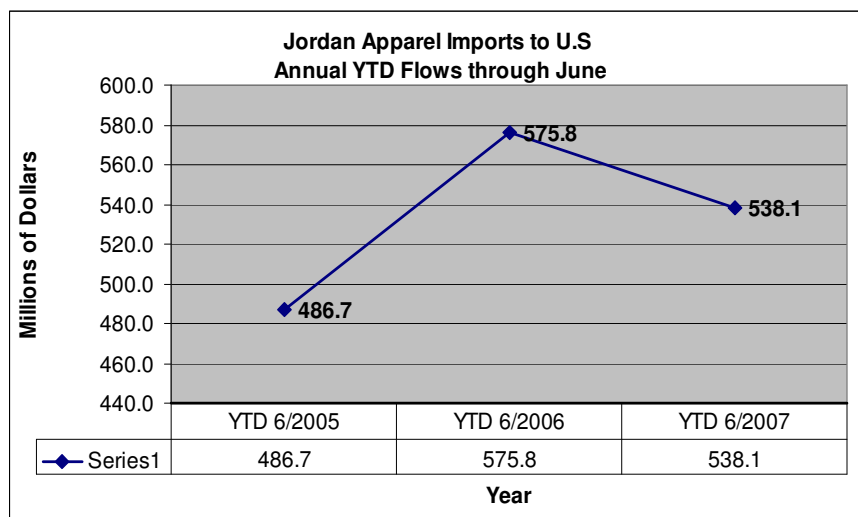
Jordan is an attractive location for United States apparel manufacturers and has been since 1998, when the U.S. initiated the **Qualifying Industrial Zones** (QIZ) program, allowing goods produced in the Jordan parks duty-free access to U.S. markets, provided that the products contain inputs from Israel. This program was designed to foster economic cooperation, closer ties, and peaceful relations between Israel and Jordan.¹

The **U.S.-Jordan Free Trade Agreement** that went into effect in **December 2001**, strengthened Jordan's preferential access and made Jordan just the fourth country to have a free trade agreement with the U.S. As of January 1, 2006, the U.S. was a party to six FTAs.

These programs have significantly impacted Jordan's economy and today, Jordan supports 13 QIZ parks, hosting approximately 50 factories and employing roughly 51,000 people. These QIZ factories and manufacturers operating within Jordan's free trade zones enjoy export to the U.S. duty-free, can repatriate 100 percent of their profits to their country of origin and are also exempt from many Jordan taxes.

1.2 Garment exports from QIZs reached \$1.36 Billion in 2006 however YTD flows are down²

Virtually all imports entering the U.S. from Jordan consist of apparel and export levels from the sector since its inception in 2002, have grown significantly, recording a compound annual growth rate of 37 percent. This growth has come from a combination of growth in exports from existing businesses and in



the addition of exports coming from new businesses. However, looking at growth rates for individual companies across the years, the general population witnessed growth every year, except during 2005 and 2006, when some businesses recorded no or negative growth. Factories attribute this slowdown to workforce availability, the closure of non-compliant factories and substantial reductions in overtime production.

¹ United States International Trade Commission, The Year in Trade 2005, Operation of the Trade Agreements Program, USITC Publication 3875, August 2006

² U.S. Department of Commerce, Census Bureau, Foreign Trade Division, "U.S. Imports of Textiles, Textile Products and Apparel, Top Trading Partners, June 2007

1.3 Jordan's Competitiveness in the garment industry uncertain

Despite the positive impact of apparel to export levels in Jordan, the future of Jordan's manufacturing strength is uncertain. On the one hand, Jordan's low wage rate and preferential duty access to US markets give it a competitive edge, but on the other hand, Jordan's manufacturers face critical challenges in remaining globally competitive. Low wages are not enough to provide a competitive edge. Speed-to-market, labor availability and higher-value added products and services now play a far more crucial role in determining international competitiveness. Jordan's most pressing challenges are in regards to labor shortages and higher productivity costs, and if not addressed, will greatly affect the ability of firms to compete long-term in Jordan. Alarming, many surveyed and visited factories are considering expansion or the direction of future development away from Jordan and into Egypt and South East Asia.

The sustainability of this sector is critical to Jordan's economy as the industry employs over 51,000 workers. The sector is a critical component of Jordan's export-growth strategy and supports employment and export growth targets in Jordan's **National Agenda**.

Jordan's National Agenda Targets for Export and Employment in Apparel

In its **National Agenda**, Jordan has set aggressive employment and export targets for the sector and work to improve competitiveness and remove constraints affecting the sector will be important to achieving them

Selected Performance Indicators for Sector Development

Sector	Curr.	2012	2017	Curr.	2012	2017	Curr.	2012	2017
	Sector Output (JD Million)			Exports (JD Million)			Cumulative Employment		
Apparel	940	3,200	5,100	920	3,100	5,000	44,000	138,000	175,000

2.0 SABEQ accomplishments And Key Findings

Recognizing the importance of immediate, strategic action to improve the competitiveness of Jordan's garment sector, SABEQ undertook an assessment of QIZ factories between May and July, 2007.

SABEQ consultants surveyed 32 factories in Jordan's industrial estates to gain insight into the operational profile of Jordan's garment manufacturers as well as identify the principal constraints to increased trade in the sector. Trends in U.S. apparel market imports, Jordan's apparel exports and the competitiveness of Jordan's factories against other global apparel manufacturers were also analyzed. Additionally, interviews were held with ministry officials to discuss labor regulations, factory compliance and gain input on the needs of Jordan's garment sector.

For additional study, SABEQ Consultants held a series of follow-up field visits across 20 factories to gather additional information and a deeper understanding of factory operations in regards to:

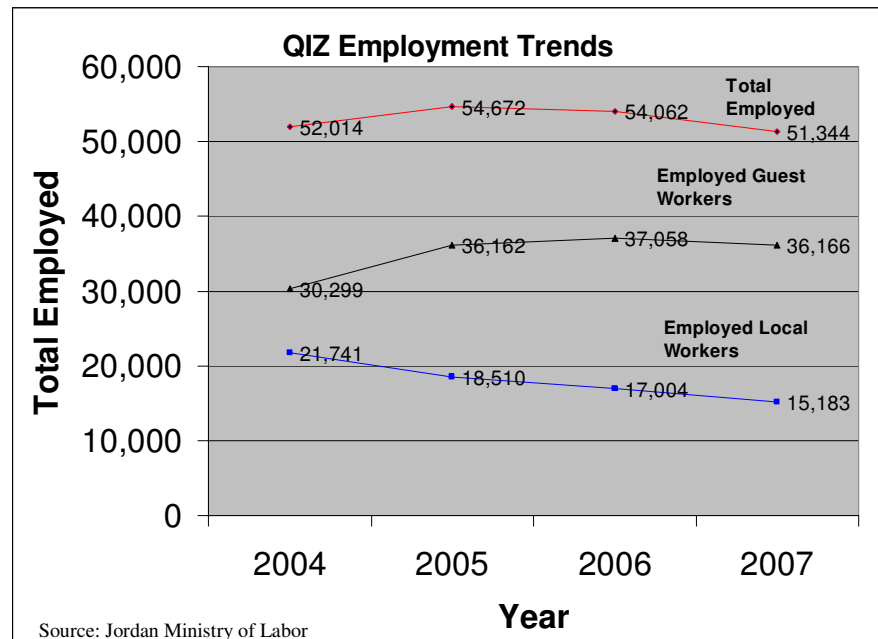
- Efficiency and Quality of Production Processes
- Marketing and Customer Relationship Management Capabilities
- Employee Recruitment and Retention Practices
- Training Programs
- Transportation Processes, Cost and Delivery Speed of Inputs and Outputs
- Compliance to International Labor Standards

2.1 Key Constraints to Jordan's garment manufacturing Competitiveness

2.1.1 Labor Force Availability

The cost and availability of a trained or trainable workforce is critical to this sector and when surveyed, manufacturers expressed concern regarding their available labor supply. Due to shortages in labor, manufacturers' equipment has sat idle, apparel orders have been refused and factory export levels have slowed, with some factories experiencing little to no growth in 2005 and 2006.

Two distinct labor trends have impacted Jordan's export levels:



First, the availability of permits to secure trained, foreign laborers has tightened.

Secondly, the percentage of local workers employed at the factories has dropped 58 percent since 2002, representing a replacement of an average of 342 local employees with foreign employees between 2002 and 2006 at each surveyed factory.

Factory managers admit a declining preference for local labor, despite the fact that the average local worker costs 35 percent less than the foreign one. They site that Jordanian workers are less productive, less skilled and the turnover rate among them is 7 times higher than the rate of foreign worker loss.

For Jordan, this preference for foreign labor is troubling for two reasons. The first is that foreign employees are very costly as they have to be transported, housed, fed, and paid a premium to work overseas, making Jordan a less attractive home for manufacturers in the long-term as their cost of production rises. Secondly, Jordan's communities need jobs and the government would prefer if Jordanians fulfilled the requirements for industries needs for skilled workers, managers and owners.

2.1.2 Training and Workforce Development

Across Jordan's factories training programs are weak or non-existent resulting in productivity levels and craftsmanship that is lower than competitive firms. Due to the lack of strong in-house training programs, locally-employed workers are given non-skilled, mundane tasks while guest workers arrive to Jordan trained. It is apparent that formal training and development programs need to be designed for employees across all levels of operation – from sewers, technicians, quality inspectors and factory supervisors to trainers, supervisors, process engineers and customer-facing employees.

2.1.3 Business Strategy, Market and Customer Development

Items Jordan produces and exports range from outerwear, tops and bottoms to inner wear and surgical gowns; all of which are produced using different materials of cotton, textile fibers, synthetic fibers, wool or animal hair. Main buyers of Jordan's garments include the largest retailers in the United States, including Wal-Mart, JC Penny and Jones Apparel. Manufacturers in Jordan produce large volumes of identical units as opposed to lower-volume, higher-unit cost items.

As far as markets are concerned, the U.S. receives the majority of Jordan's garment exports with the European Union a distant second.

A key finding from the assessment was manufacturers' need to develop their expertise and capacity to deliver higher value-added products and services to their retail customers. Jordanian-owned firms need additional assistance to improve their capacity in business and export strategy design and need guidance in assessing their ability to compete against global apparel manufacturers in the long-term.

There is a consensus across industry specialists that moving towards higher value added products, diversifying export markets beyond the U.S. and integrating vertically across regional supply chains are important elements to Jordan's competitiveness in the apparel sourcing market. As such, manufacturers need to build strategies and capacity to:

- Broaden their Product Mix with Current Customers (Organic Growth Plan)
- Evaluate and React to Market Signals
- Develop Business in New Markets beyond the U.S.
- Assess Efficiency and Competitiveness of Production, Transportation and Supply Chain against Industry Standards and Best-in-Class Factories (Benchmark performance)
- Offer Integrated Product and Service Solutions to Customers

2.1.4 Process Performance

Both the Jordanian and foreign-owned factories could benefit from training and tactical assistance to measure and analyze their production and transportation processes to implement more efficient methods and minimize costs.

Today, Jordan's manufacturers transport product through Israel's port city of Haifa. The competitive environment is such that Jordan's firms need to analyze ways to improve transport speed either through stronger co-ordination and faster flows through the Jordan-Israeli border and customs processes or advocate for Government of Jordan action in strengthening the port infrastructure in Aqaba.

3.0 A Proposal for ongoing SABEQ Support

Through the assessment effort, SABEQ consultants built a collaborative dialogue with factory managers regarding the issues that face them and their priorities for improvement. As the programs and initiatives of SABEQ intend to provide a platform for broad, sustainable sector improvement, SABEQ will partner with the Jordan Garment, Accessories and Textiles Exporters' Association (JGATE) and the Foreign Investment Association (FIA) in its work.

SABEQ's project will include distinct phases for locally-owned versus foreign-owned manufacturers. The first including the undertaking of competitive audits and the provision of technical assistance in designing strategic market and customer relationship development plans for locally-owned firms. The second phase extending to all pilot factories and including all program themes.

As initiatives are intended to support improvements across the sector, approaches will be monitored and evaluated and the project methods, outcomes and lessons learned will be documented for adaptation and replication across the sector.

SECTOR THEMES

- Build Training and Development Programs to Improve Workforce Skills, Employee Satisfaction and Retention
- Enhance Compensation Plans and Design Productivity-based Incentive Pay to Attract and Retain Local Employees
- Increase Jordanian and Guest Worker Employment Levels
- Measure and Analyze Manufacturing Processes to Improve Productivity
- Build Business Strategies and Customer Relationship Management Plans

3.1 Build Training and Development Programs to Improve Workforce Skills, Employee Satisfaction and Retention

To compete globally, Jordan's apparel manufacturers need an abundance of skilled employees at all levels and because the lack of training is a universal problem throughout the region, we recommend a regionally integrated and coordinated solution.

With JGATE partners, SABEQ could more deeply assess the current training needs of factories and organize programs and implementation of training through JGATE. JGATE could offer ongoing leadership in assessing program needs and in designing and sponsoring universal workforce development programs to strengthen the sector.

Specifically and with SABEQ support, JGATE could bring leading training providers and global apparel experts to Jordan as work is done to promote and strengthen manufacturer competitiveness. The association could sponsor conferences on market trends, export strategies, value-added service development, customer growth strategies and process improvement methods.

In addition to universal training, manufacturers need targeted workforce development programs.

- Sewing skills of workers influence the type, quality and range of product that can be produced. Robust training programs to increase sewing skills should be designed and factories must employ trainers in a full-time capacity to lead programs for new employees as well as programs designed to advance the capabilities of the more skilled workers.
- Programs should address areas of weakness and the effectiveness of support teams, which have the day-to-day responsibility for maintaining the reliability of product quality and supply and ensuring the flexibility to change orders as needed.

3.2 Enhance Compensation Plans and Design Productivity-based Incentive Pay to Attract and Retain Local Employees

Factory managers and production supervisors need tools and incentives to strengthen the skills and build productivity of each and every employee. Management reporting could be developed to track learning accomplishments and productivity gains at the employee level and pay incentives could be developed to encourage managers and employees alike to advance their skills.

The compensation structure for all employee levels, especially for Jordanian laborers, should be assessed and after time studies on the production process are completed, a business case for productivity-based pay incentives should be developed.

3.3 Increase Jordanian and Guest Worker Employment Levels

The availability of guest worker permits was tightened after Jordan's QIZ factories came under fire for human rights violations in May, 2006, when the National Labor Committee (NLC) issued its report on human rights violations in Jordan's QIZs. (*"U.S.-Jordan Free Trade Agreement Descends into Human Trafficking and Involuntary Servitude"*).

In the short-term, work needs to be done with key stakeholders across the garment industry and Ministry of Labor to ease restrictions and increase availability of guest worker permits. In the longer-term, the industry must engage leaders across the public-private sectors in their communities in recruiting and attracting Jordanians to factory jobs.

3.4 Measure and Analyze Manufacturing Processes to Improve Productivity

Improvements in cost, quality and efficiency can be achieved in garment production and delivery by leveraging proven process analysis and improvement methodologies.

General Sewing Data (GSD, method and time studies for sewing operators) and Lean Manufacturing³ specialists could be engaged to provide a disciplined framework and tools to measure, analyze and improve the core processes of factories to eliminate variation, streamline workflow and improve the speed and quality of production. Outputs of this work could include:

- Core production and delivery steps defined, documented and measured
- Potential failure points and process risks identified and addressed
- Baseline performance measures (quality and speed) established for production and transportation
- Physical movement of materials mapped, processes streamlined and non-value added movement eliminated

Once baseline performance measures are established, improvement efforts should also involve benchmarking key factory performance measures against best in class manufacturers to achieve higher levels of improvement and breakthrough performance gains in areas such as production volume, unit cost, order-to-delivery cycle-time.

³ Lean Manufacturing can be defined as the identification and removal of all non-value-added activities. It is a manufacturing philosophy, which shortens the time line between the customer order and the product shipment by eliminating waste. The goal of Lean Manufacturing is to eliminate waste. Lean tools focus on reduction of 7 common wastes: over-production ahead of demand, waiting for the next processing step, unnecessary transport of materials, over processing due to poor tool or product design, inventories more than the absolute minimum, unnecessary movement by employees during the course of their work and production of defective material.

3.5 Build Business Strategies and Customer Relationship Management Plan for Foreign and Jordanian Firms

SABEQ along with its key partners from JGATE and FIA could host a series of planning workshops with select Jordanian and foreign-owned factories to refine a garment export strategy for the sector.

Initiatives will be planned and specialists engaged to assist manufacturers in developing their expertise and capacity to plan and deliver higher value-added products and services to their retail customers. Outputs from these activities could include:

- Organic Growth Strategies to Improve Value-Added Services and Deepen Customer Relationships
- Market Expansion Strategies to Source Beyond the U.S.
- Product and Service Development Strategies to Provide Integrated Solutions to Customers

Additionally, Jordanian firms could use additional assistance in crafting their customer relationship approach and product and customer service offerings to optimize their capabilities and competitive advantages.

Sustainable Achievement of Business Expansion and Quality (SABEQ)

BearingPoint, Inc.

Salem Center, Sequleyah Street, Al-Rabiyeh

Amman, 11194 Jordan

Phone: + 962-6 550-3050

Web address: <http://www.SABEQ-Jordan.org>