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EXPANDING TRADE AND ECONOMIC COOPERATION WITH JORDAN'S NEIGHBORS

Recommendations for Promoting Trade and Investment between
Jordan, Iraq, and West Bank

December 14, 2009

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1. INTRODUCTION

1.1 BACKGROUND

Jordan's economic relations with its closest neighbors, Iraq and West Bank, have grown over recent years despite the ongoing tensions and security concerns in the region. Iraq remains one of Jordan's primary export destinations, accounting for just under one-seventh of total Jordanian exports. Jordan is, in return, one of Iraq's largest sources of imports, behind China, Turkey and the US. Iraqi exports to Jordan, however, have actually declined over recent years, both in terms of oil and non-oil goods. While Jordan's trade ties with Iraq are already relatively strong, economic ties with the West Bank remain weak. Jordan's exports to West Bank amounted to \$50 million in 2008, one percent of Jordan's total exports to the world. Imports from West Bank were less than \$35 million in 2008.

It has been recognized that regional economic integration would contribute to sustainable economic development and stability in the three entities. While many of the barriers to such trade are well known, at least conceptually—security issues, administrative constraints to trade, and lack of adequate transport infrastructure (in the case of West Bank)—regional efforts to overcome, or to mitigate, these barriers have been slow to materialize. In terms of USAID funding, although combined funding of these three USAID offices comprises the largest share of USAID's programs in the Middle East region, and each have addressed some of the issues at a national-level, there have not been any serious attempts to coordinate activities within these three important Arab entities, nor to explicitly drive a program to enhance trade between Jordan and Iraq, and Jordan and the West Bank.

1.2 STUDY OBJECTIVES

This concept paper was prepared at the request of USAID Jordan to serve as a background document for a meeting to be held in Amman with USAID Iraq and USAID West Bank during December 2009. This paper provides a summary of the opportunities and constraints to trade expansion between these countries, and draws up an agenda for collaboration between the USAID offices in these countries.

The Paper therefore serves to identify key constraints that could be addressed or mitigated by the Governments of Jordan, Iraq and the West Bank to boost trade and economic cooperation among these entities with the support of joint USAID programs. It focuses on the identification of issues that are cross-border in nature and suggests projects that are multi-rather than single-country interventions. While each country may need to undertake reforms to promote this regional cooperation (or trade and investment, more generally), the focus is on projects in which more than one country will cooperate.

In the case of West Bank, while past efforts have focused on how best to engage Israel to facilitate regional cooperation (such as the QIZs), which will remain important, the emphasis here is on joint programs that can be implemented without the engagement of the Government of Israel.

1.3 REPORT STRUCTURE

The remainder of this paper is structured as follows:

- Chapter 2 presents a summary of current **merchandise trade** between Jordan and Iraq and between Jordan and West Bank, as well as the key impediments to regional integration.
- Chapter 3 presents a summary of current **services trade** between Jordan and Iraq and between Jordan and West Bank, as well as the key impediments to regional integration.
- Chapter 4 presents a summary of current **investment** between Jordan and Iraq and between Jordan and West Bank, as well as the key impediments to regional integration.
- Chapter 5 identifies the economic **complementarities** that underlie the potential for deeper integration in terms of trade in both goods and services, as well as cross-border investment.
- Chapter 6 presents **practical and actionable joint projects and programs** that could be supported by USAID to promote greater economic cooperation, as well as proposed next steps for USAID Jordan, USAID Iraq and USAID West Bank-Gaza to develop and implement a multilateral program of assistance.

2. TRADE IN GOODS

2.1 RECENT BILATERAL MERCHANDISE TRADE PATTERNS

2.1.1 JORDAN-IRAQ MERCHANDISE TRADE PATTERNS

Jordan and Iraq share a long history of trade ties. Iraq has historically been Jordan's primary export market and largest trading partner overall. Since 1980, as a result of the Iraq-Iran war, Jordan became the main gateway to Iraq. Before the first Gulf war, more than 20 percent of Jordan's domestic exports were destined to Iraq. This role further expanded in 1990 after the first Gulf War whereby Jordan became Iraq's main supplier of goods through the "Oil-For-Food Program" which was terminated in late 2003. Bilateral trade reached a low point in 1999, when Jordanian exports fell to US\$140 million. With the disruptions to Iraq's oil production, Iraqi exports to Jordan declined precipitously.

Since 2000, Jordan's exports to Iraq have grown steadily. While the US emerged, for the first time, as one of Jordan's primary export destinations, following the implementation of the QIZs and JUSFTA, Iraq continues to rank high. Jordan's domestic exports (i.e. net of re-exports) grew from US\$140 million in 2000 to US\$440 million in 2002, accounting for half of Jordan's exports to Arab countries (see Figure 1). In 2003, with the onset of the war, Jordan's exports to Iraq dipped in both absolute and relative terms to US\$316 million, after which growth rebounded with domestic exports rising to US\$800 million in 2008. During this period, Jordan also became an important transshipment hub to Iraq. Between 2000 and 2008, Jordanian re-exports to Iraq grew from a mere US\$35 million to more than US\$475 million, dominated by vehicles, prepared foods and machinery.

Figure 1: Jordan's Total Exports to Iraq, US\$ Million

Year	Exports to Iraq	Re-Exports to Iraq	Total Exports to Iraq
2000	141	35	176
2001	422	112	534
2002	440	164	604
2003	316	227	543
2004	510	222	733
2005	535	200	736
2006	462	173	634
2007	534	194	727
2008	810	476	1,287

Source: Department of Statistics, Jordan.

Jordan's export growth has been accompanied by a change in its composition. Prior to 2003, Jordan's exports were dominated by Animal and Vegetable Oils, Pharmaceuticals, and Dairy Products. Figure 2 provides a snapshot of Jordan's exports to Iraq in 2000, at the 3-digit level of the Standard International Trade Classification system (SITC), Revision 2. With the advent of the Gulf War, and the end of the Food-for-Oil program, the composition of trade shifted and became much more diversified. Jordan currently exports a broad range of goods to the Iraqi market. Figure 3 provides a snapshot of Jordan's top twenty export categories in 2008, together with their growth from 2000. The top products now include fresh Vegetables, Articles of Aluminum, Articles of Plastic, Electrical Distribution Equipment, Steel Tubing, Non-Alcoholic Beverages and Prepared Foods. With the exception of Pharmaceuticals, Jordan's major exports are low skill-intensive. It should be recognized, however, that this diversification has been partly driven by the demands of US troops in Iraq.¹ In terms of "dynamism", while some of the former top products have fallen in terms of their ranking, a few products have continued to expand at a rapid pace, indicating some potential dynamism that may be sustainable beyond the presence of US troops; these include Pharmaceuticals and prepared food stuffs (including Animal and Vegetable Oils and Dairy Products).

Figure 2: Jordan's Major Exports to Iraq in 2000

Product Code	Description	2000 US\$ '000
431	Animal & vegetable oils and fats,pr	6,876
541	Medicinal and pharmaceutical produc	4,382
025	Eggs and yolks,fresh,dried or other	2,712
024	Cheese and curd	1,676
278	Other crude minerals	1,083
058	Fruit,preserved,and fruit preparati	989
098	Edible products and preparations n.	840
112	Alcoholic beverages	670
424	Other fixed vegetable oils,fluid or	247
048	Cereal prepar. & preps. of flour of	144
772	Elect.app.such as switches,relays,f	121
022	Milk and cream	91
071	Coffee and coffee substitutes	69
046	Meal and flour of wheat and flour o	65
056	Vegetab.,roots & tubers,prepared/pr	48
081	Feed.stuff for animals(not incl.unm	36
423	Fixed vegetable oils,soft,crude,ref	19
047	Other cereal meals and flours	8
062	Sugar confectionery and other sugar	3
941	Animals,live,n.e.s.,incl. zoo-anima	2

Source: UNCOMTRADE.

¹ The Iraq's War Impact on Growth and Inflation in Jordan. Center for Strategic Studies – University of Jordan.

Figure 3: Jordan's Main Exports to Iraq, 2008 (US\$ '000)

Code	Product	2000	2008
054	Vegetab.,fresh,chilled,frozen/pres.	1	97,683
692	Metal containers for storage and tr	0	83,357
893	Articles of materials described in	0	54,532
773	Equipment for distributing electric	0	51,851
642	Paper and paperboard,cut to size or	0	42,958
678	Tubes,pipes and fittings,of iron or	0	39,209
111	Non alcoholic beverages,n.e.s.	0	36,206
098	Edible products and preparations n.	840	34,151
122	Tobacco manufactured	0	31,220
554	Soap,cleansing and polishing prepar	0	29,051
081	Feed.stuff for animals(not incl.unm	36	25,813
541	Medicinal and pharmaceutical produc	4,382	25,417
011	Meat,edible meat offals, fresh, chi	0	22,059
533	Pigments,paints,varnishes & related	0	16,031
661	Lime,cement,and fabricated construc	0	12,448
056	Vegetab.,roots & tubers,prepared/pr	48	12,163
583	Polymerization and copolymerization	0	11,168
892	Printed matter	0	11,024
058	Fruit,preserved,and fruit preparati	989	10,475
821	Furniture and parts thereof	0	10,335

Source: UNCOMTRADE.

In terms of Iraq's exports to Jordan, they have historically been dominated by oil. Prior to 2003, Jordan's imports from Iraq consisted exclusively of oil (approximately 97 percent of total imports from Iraq), and at heavily subsidized prices. Between 1995 and 2003, Jordan imported an average of US\$516 million per annum. Since 2003, Jordan's imports of oil dropped precipitously, due to the disruptions in oil production, reaching zero in 2006. Non-oil exports to Jordan ranged from US\$3 million (2008) to US\$30 million (2002). In terms of composition, no clear patterns have emerged, with the basket of goods changing from year to year, suggesting that most non-oil trade flows from Iraq to Jordan represented one-off exchanges.

Figure 4: Jordan's Imports from Iraq, US\$ Million

Year	Oil Imports	Total Imports from Iraq	Oil as a % of Total Imports from Iraq
1995	445.82	446.06	100%
1996	505.54	505.57	100%
1997	513.76	513.76	100%

Year	Oil Imports	Total Imports from Iraq	Oil as a % of Total Imports from Iraq
1998	332.39	332.41	100%
1999	417.52	417.52	100%
2000	682.52	682.54	100%
2001	661.90	684.88	97%
2002	720.21	750.96	96%
2003	365.18	374.63	97%
2004	38.34	64.31	60%
2005	3.93	27.76	14%
2006	0.00	7.26	0%
2007	8.10	12.14	67%
2008	68.70	72.17	95%

Source: Department of Statistics—Jordan.

Figure 5: Jordan's Major Imports from Iraq, US\$ millions

Product	Product Name	2008
333	Petrol.oils,crude,& c.o.obtain.from	25,245.65
692	Metal containers for storage and tr	1,689.43
562	Fertilizers,manufactured	1,474.86
288	Non-ferrous base metal waste and sc	125.15
659	Floor coverings,etc.	75.39
897	Jewellery,goldsmiths and other art.	32.41
274	Sulphur and unroasted iron pyrites	28.13
522	Inorganic chemical elements,oxides	12.84
641	Paper and paperboard	9.06
892	Printed matter	4.50
898	Musical instruments,parts and acces	3.37
896	Works of art,collectors pieces & an	2.99
741	Heating & cooling equipment and par	2.11
842	Outer garments,men's,of textile fab	0.86
282	Waste and scrap metal of iron or st	0.85
642	Paper and paperboard,cut to size or	0.42
726	Printing & bookbinding mach.and par	0.42
874	Measuring,checking,analysing instru	0.28
635	Wood manufactures,n.e.s.	0.21

Source: Department of Statistics—Jordan.

2.1.2 JORDAN-WEST BANK MERCHANDISE TRADE PATTERNS

Jordan-West bank trade relations have been far more modest, in both directions. Jordan's domestic exports to West Bank (inclusive of Gaza) amounted to a meager US\$27 million 2000, and reached only US\$55 million by 2008. Jordan's primary exports to the West Bank include Aluminum products, Animal and Vegetable Fats and Oils, Other Prepared Foods, Tanning chemicals, and Articles of Paper. Unlike in the case of Iraq, re-exports have only comprised a small amount of Jordan-West bank bilateral trade, ranging between US\$2 million and US\$11 million per annum.

Figure 6: Jordan's Trade with West Bank and Gaza, US\$ million

Year	Imports	Exports	Re-Exports	Total Exports	Trade Balance
2000	14	27	4	31	17
2001	13	24	4	28	15
2002	12	23	4	27	15
2003	10	24	2	26	15
2004	13	30	3	32	19
2005	16	35	5	40	24
2006	23	33	5	38	14
2007	31	39	6	45	14
2008	35	55	11	67	32

Source: Department of Statistics—Jordan.

Figure 7: Jordan Major Exports to West Bank and Gaza, 2000-2008, US\$ million

Product	Product Name	2000	2008
Total	Total Trade	27,256	50,865
76	Aluminium and articles thereof.	3,299	10,229
15	Animal/veg fats & oils & their clea	63	7,135
21	Miscellaneous edible preparations.	259	4,082
32	Tanning/dyeing extract; tannins &	3,341	3,630
48	Paper & paperboard; art of paper pu	1,198	3,095
84	Nuclear reactors, boilers, mchy & m	1,224	2,637
72	Iron and steel.	310	2,255
27	Mineral fuels, oils & product of th	64	2,160
22	Beverages, spirits and vinegar.	59	2,071
39	Plastics and articles thereof.	1,361	1,640

Product	Product Name	2000	2008
94	Furniture; bedding, mattress, matt	1,099	1,631
19	Prep.of cereal, flour, starch/milk;	397	1,393
20	Prep of vegetable, fruit, nuts or o	236	1,258
30	Pharmaceutical products.	216	1,212
34	Soap, organic surface-active agents	242	884
28	Inorgn chem; compds of prec mtl, r	828	800
85	Electrical mchy equip parts thereof	252	594
18	Cocoa and cocoa preparations.	400	588
08	Edible fruit and nuts; peel of citr	19	513
73	Articles of iron or steel.	1,624	446

Source: Department of Statistics—Jordan.

Figure 8: Jordan's Imports from West Bank and Gaza, US\$ millions

Product	Product Name	2008
661	Lime,cement,and fabricated construc	16,367
014	Meat & edib.offals,prep./pres.,fish	3,412
821	Furniture and parts thereof	1,315
334	Petroleum products,refined	1,163
282	Waste and scrap metal of iron or st	905
554	Soap,cleansing and polishing prepar	898
893	Articles of materials described in	896
431	Animal & vegetable oils and fats,pr	873
273	Stone,sand and gravel	799
054	Vegetab.,fresh,chilled,frozen/pres.	795
111	Non alcoholic beverages,n.e.s.	773
098	Edible products and preparations n.	752
663	Mineral manufactures,n.e.s	679
075	Spices	571
423	Fixed vegetable oils,soft,crude,ref	454
699	Manufactures of base metal,n.e.s.	443
691	Structures & parts of struc.;iron,s	442
851	Footwear	436
057	Fruit & nuts(not includ. oil nuts),	346
541	Medicinal and pharmaceutical produc	302

Source: Department of Statistics—Jordan.

West Bank exports to Jordan are even lower, amounting to US\$35 million in 2008, and up from US\$14 million in 2000. Though small in volume, the composition of imports to Jordan originating from West Bank have been more consistent. The top-ranked items include Articles of Stone, Fresh Fruits and Nuts, and Meat or Fish Preparations.

2.1.3 IRAQ-WEST BANK MERCHANDISE TRADE PATTERNS

Reliable data on trade between Iraq and West Bank is non-existent, as neither report to UN Comtrade or maintain detailed trade databases. Given the level of exports from each of these countries to Jordan, it can be expected that Iraq-West Bank bilateral trade is extremely low and dependent on one-off business transactions. Based on data available through the Palestinian Central Bureau of Statistics, total exports to its Arab neighbors amounted to US\$33 million in 2007. Jordan accounted for US\$31 million, leaving US\$2 million in exports to other neighboring countries, which may or may not have included Iraq. In terms of imports, West Bank imported some US\$50 million goods from the region, of which US\$38 million were sourced in Jordan, leaving a maximum US\$12 million in goods that could have been imported from others in the region, including Iraq.

2.1.4 KEY IMPEDIMENTS TO EXPANDING TRADE IN GOODS

The following sections provide an overview of the key obstacles that have impeded the growth and diversification of bilateral trade between Jordan and Iraq, on the one hand, and between Jordan and West Bank, on the other hand. The discussion focuses around three key barriers to trade integration between these partners: policy constraints (especially related to trade agreements), customs and other administrative or procedural barriers (both at the border and behind the border), as well as transport-related weaknesses.

2.2 IMPEDIMENTS TO EXPANDING MERCHANDISE TRADE

2.2.1 POLICY CONSTRAINTS: TRADE AGREEMENTS

Historically, Jordan, Iraq and West Bank each entered into a web of bilateral trade and economic cooperation agreements that governed their respective trade relations. In the case of Jordan and Iraq, a 1975 Technical and Economic Cooperation Agreement that removed some impediments to trade. Though the agreement did not go as far as a free trade agreement, it likely contributed, at least to some degree, to the growth of bilateral trade relations that were largely driven by the fallout of regional tensions, which opened the door to Jordan's position as the gateway to Iraq.

Currently, bilateral relations are governed by the Greater Arab Free Trade Agreement (GAFTA), which provides duty-free treatment. Exports from Iraq to Jordan under GAFTA benefit from a hefty preferential margin, compared to Most-Favored Nation tariffs that range from 20 percent on agriculture and processed food to 30 percent on manufactured goods. Exports to Iraq under GAFTA benefit only marginally. Customs duties have been suspended in Iraq since 2004 and replaced with a flat five percent Reconstruction Levy.

While most goods have been effectively zero-rated in both markets under GAFTA, the current Rules of Origin, require a minimum 40 percent local value addition (which may be cumulated with other members to reach this threshold). This relatively high threshold, and the lack of vertical linkages between GAFTA members, has hindered the full exploitation of

the agreement within the region, and it is likely that bilateral relations have been similarly hindered.

In order to circumvent these restrictive rules, Jordan and Iraq have recently initiated in September 2009 a new bilateral trade agreement, the details of which have yet to be negotiated. While the objective is to remove all tariff and non tariff barriers that impede trade between the two countries, it is not yet clear as to when the preparatory work to make the FTA effective will be completed, and when a detailed negotiating document will be ready for the governments to finalize the FTA and begin implementing it. Such FTAs normally take a few years to finalize after detailed negotiations on the items to be protected for economic and other considerations (negative or sensitive list), and an agreed decision on the rules of origin, more so since Jordan's exports to Iraq include a significant portion of re-exports. Nevertheless it emphasizes the importance that both Iraq and Jordan attach to their bilateral trade partnership.

Trade relations between Jordan and West Bank are also governed by overlapping agreements. West Bank also benefits (and is subject to the same restrictions) under GAFTA. The two entities have also signed an Interim Agreement in 1998 that provides preferential tariffs for goods traded between Palestine and Jordan. Goods in Lists A1, A2, and B of the Paris Protocol entering Palestine and the agreed-upon products entering Jordan are duty-free, provided that the import volume does not exceed predetermined quotas and the goods meet the Jordanian Rules of Origin. Lists A1, A2 and B are included in the Paris Protocol. Goods imported under List A1 must be locally produced in Jordan, Egypt or in other Arab countries. Goods imported under List A2 can be imported from Arab, Islamic or other countries. Goods imported under List B are not subject to quantitative restrictions but are subject to Israeli standards.

Figure 9: Bilateral Trade Agreements

Agreement	Details	Constraints
Greater Arab Free Trade Area	As of January 1st, 2005, the agreement reached full trade liberalization of goods through the full exemption of customs duties and charges having equivalent effect between all Arab countries members of the GAFTA, except Sudan and Yemen being less developed countries where customs duties and charges having equivalent effect will be reduced by 16% annually as of January 1st, 2005 to reach full exemption by the end of 2010 (pursuant to the resolution of the Arab League Council at its 14th meeting in Beirut regarding offering less developed Arab countries preferential treatment).	High Rules of Origin, lack of provisions for trade in services
Jordan-Iraq Technical & Economic Cooperation Agreement (1975)	Provides for specific allowances for Iraq's use of Jordanian ports and funding for related infrastructure development.	Lack of provisions for preferential tariffs nor trade in services
Jordan-West Bank/Gaza Trade Cooperation Agreement	Total exemption of customs duties and other charges having equivalent effect on all exchanged goods of Jordanian and Palestinian origin, taking into consideration goods allowed to be exchanged mentioned in lists (A) & (B) according to Paris Protocol.	Lack of provisions for trade in services

Given West Bank's current political status, no further trade agreements are on the horizon. Nevertheless, both entities are committed to expanding commerce and have an agreement to liberalize trade. In line with the decisions of the 2000 Arab Summit, Jordan exempted all Palestinian goods from duties and fees and canceled quotas on Palestinian agricultural products coming into Jordan.

2.2.2 BARRIERS TO THE MOVEMENT OF GOODS

While trade agreements have reduced the incidence of tariff barriers on trade relations between the three parties, other barriers to entry remain, largely in the form of trade logistics and transport related costs, attributable, in both cases, to a combination of administrative barriers and security-related constraints.

Before turning to specific bilateral barriers to trade, a snapshot of each entity's overall performance with respect to trade and transport facilitation is presented. In general, all three entities rank low in terms of the administrative and logistical barriers to trade. According to the latest World Bank *Doing Business* indicators, with regards to trading across borders, Jordan ranks 71, followed by the West Bank and Gaza at 139, and Iraq at the lowest at 180.

Figure 10: Doing Business - Trading Across Borders

Country	Overall Rank	Cost to Export (US\$ per Container)	Cost to Import (US\$ per Container)	Documents to Export (Number)	Documents to Import (Number)	Time to Export (Days)
Iran	134	1,060	1,706	7	8	25
Iraq	180	3,900	3,900	10	10	102
Turkey	67	990	1,063	7	8	14
Syria	118	1,190	1,625	8	9	15
Jordan	71	730	1,290	7	7	17
West Bank and Gaza	139	835	1,225	6	6	25

Doing Business Report 2010.

All the three parties have reasonably high trade transaction costs, with Jordan taking 17 days to export and 19 days to import. The West Bank and Gaza figures are 25 days and 40 days for export and import. Iraq has one of the highest transaction cost with over 100 days needed for export and import. Translated into value, the transaction costs could easily run into 10 percent of total trade value for Jordan (US\$ 2.5 billion), and at least 15 percent or more for the West Bank and Gaza (US\$ 550 million), and Iraq (US\$ 9.9 billion). The full process of documentation prior to trading takes as much as 10-12 days for Jordan, a cost that is totally avoidable.²

The overall logistical situation is captured in the Logistical Performance Index of the World Bank. All the three countries fare poorly in comparison with other Middle Eastern countries. Jordan is third last among the regional countries listed in the Logistics' Performance Index

² Wilson, John, Mann, Catherine, and Otsuki, Tsunehiro (2004), Trade Facilitation and Economic Development: Measuring the Impact, World Bank Policy Research Working Paper No. 2988

Report followed by Egypt and Lebanon. Iraq and the West Bank are total outliers. Jordan fares extremely poorly in terms of Domestic Logistic Costs (Rank 77), and Timeliness (rank 68).

Added to these overall barriers, bilateral trade relations are subject to a number of more specific constraints. The following provides a summary of the types of impediments that exist and the impact on trade.

Figure 11: Logistics Performance Index

Country	Logistics Performance Index		Customs		Infrastructure		Logistics Competence		Domestic Logistic Costs		Timelines	
	LPI Rank	Score	Rank	Score	Rank	Score	Rank	Score	Rank	Score	Rank	Score
UAE	20	3.73	20	3.52	18	3.80	20	3.67	98	2.80	17	4.21
Israel	33	3.21	43	2.73	37	3.00	32	3.23	145	2.17	41	3.58
Bahrain	36	3.15	22	3.40	27	3.33	47	3.00	84	3.00	34	3.69
Saudi Arabia	41	3.02	45	2.72	38	2.95	51	2.88	106	2.76	39	3.65
Qatar	46	2.98	67	2.44	55	2.63	43	3.00	56	3.00	38	3.67
Oman	48	2.92	46	2.71	43	2.86	67	2.67	20	3.25	24	4.00
Jordan	52.0	2.9	54.0	2.6	56.0	2.6	41.0	3.0	77.0	2.9	68.0	3.2
Morocco	94	2.38	101	2.20	77	2.33	119	2.13	133	2.38	95	2.86
Egypt	97	2.37	119	2.08	119	2.00	96	2.38	94	2.83	96	2.85
Lebanon	98	2.37	106	2.17	102	2.14	93	2.40	11	3.40	115	2.67

Source: Trade Logistics and Facilitation—Logistics Performance Index (LPI) 2007, World Bank.

2.2.3 BARRIERS TO THE MOVEMENT OF GOODS BETWEEN JORDAN AND IRAQ

Trade with Iraq is limited by the inefficient customs and other clearance agencies in Iraq, and the overall security situation that adds up to the cost of trade. Lack of security in Iraq severely impedes trade activity. Infrastructure is weak and impedes business activity and much of the rail and road networks require upgrading and better maintenance. There is practically no real authority for cargo clearance at the border with Jordan. All clearances need to be obtained from Baghdad, adding to several days for clearance. It appears that these procedures, especially for cargo carrying farm products that need approval from the Agricultural Department in Baghdad, can take about 15 days. Moreover, the Jordanian trucks must off load their consignments and load them up in Iraqi trucks that may at times take up to 20 days to get full clearance according to some importers. These delays were confirmed in discussions with the Customs Director and the Clearing House Agents at a visit

to the Al Karama Border Post. It appears that the Iraqi Diaspora in Jordan are mainly responsible for large Jordanian exports to Iraq since they have ways of dealing with these massive trade transaction costs in Iraq. It is not surprising that over 75 percent of Jordanian exports are carried in Iraqi trucks arranged by the Iraqi Diaspora.

2.2.4 BARRIERS TO THE MOVEMENT OF GOODS BETWEEN JORDAN AND WEST BANK

In the West Bank, the problem is acute with tremendous restrictions in flow of goods and people to and from the West Bank. For security reasons, all goods are examined by the Israelis at the border, and goods need to be unloaded and transferred to different trucks, adding to a massive delay in cargo clearance. It is not surprising that over 90 percent of Palestinian trade is with Israel. Experts believe that trade facilitation reforms are urgently needed to sustain growth in the West Bank.

According to a recent World Bank report, the movement of cargo to and from Jordan is severely constrained by the operations at the King Hussein Bridge. Trade through King Hussein Bridge requires back-to-back transfer of pallets as containers may not be used. The loading and unloading not only raises costs but can lead to significant damage to goods. There are no cold storage facilities at King Hussein and the loading and unloading areas are not protected from the weather. Given that the crossing takes four to eight hours, this significantly limits the shipment of perishable goods. Moreover, the Bridge crossing is not open during Israeli holidays or in the evening. As part of the easing of restrictions at several checkpoints in the West bank, Israel announced in August that the Allenby Bridge crossing, between the West Bank and Jordan, will now be open for commercial shipments for 24 hours at weekends (Friday and Saturday). Previously, the crossing was closed for commercial shipments at weekends, as well. Nevertheless, the still relatively restricted hours make it difficult for shippers to meet the just-in-time shipping schedules that are required to be internationally competitive in many sectors. These complex, costly, and unreliable trade logistics prevent Palestinian firms from growing to an efficient scale and make Palestinian goods increasingly uncompetitive in the global trading system that demands on time and dependable delivery.

2.2.5 LACK OF MARKET INFORMATION AND BUSINESS LINKAGES

Beyond these policy and procedural barriers to trade, there is evident a lack of adequate market information available. In the case of Iraq, as discussed above, the large majority of Jordanian exports were channeled, in the past, through tendering under the UN Food-for-Oil Program. Prior to that, much trade was driven by Iraqi Government Procurement. Consequently, business-to-business market linkages and access to market information remain weak. Those that have succeeded, as discussed above, have depended on the Iraqi Diaspora in Jordan to facilitate such market linkages.

In terms of Jordan-West Bank trade, despite the dominant presence of the Palestinian Diaspora in Jordan, most are generations removed from their homeland across the border and therefore lack current economic ties that could be leveraged to enhance trade.

3. TRADE IN SERVICES

While data on merchandise trade is easily obtained and analyzed, similar data on trade in services is aggregated and/or sparse, at best; in the case of bilateral flows, such data is completely absent. The findings here are, therefore, based on available information on the service sector trade growth in the three locations, based on available levels of disaggregation, which vary between the three entities, as well as anecdotal information on actual bilateral trade flows between the partners.

Trade in services occurs through a number of modes (or channels), including:

- **Mode 1** Cross border trade, which is defined as delivery of a service from the territory of one country into the territory of other country (such as IT outsourcing and BPO services);
- **Mode 2** Consumption abroad - this mode covers supply of a service of one country to the service consumer of any other country (such as tourism);
- **Mode 3** Commercial presence - which covers services provided by a service supplier of one country in the territory of any other country, i.e. foreign direct investment undertaken by a service provider;
- **Mode 4** Presence of natural persons - which covers services provided by a service supplier of one country through the presence of natural persons in the territory another economy.

The analysis below largely focuses on Modes 1, 2 and 4 above. Section 2.3 discusses Mode 3 (FDI).

3.1 SERVICES SECTOR PROFILES AND TRADE PATTERNS

3.1.1 JORDAN SERVICES SECTOR PROFILE AND SERVICES TRADE PATTERNS

Jordan's economy is dominated by a growing and vibrant services sector, which currently accounts for 75 percent of GDP, though service exports currently account for one-third of total goods and services exports. The following provides highlights on the key services sectors in Jordan and, wherever possible, highlights available information on trade flows, including bilateral trade flows to Iraq and West Bank.

3.1.1.1 TOURISM

Travel and tourism comprises the largest share of service exports and is the single largest earner of foreign exchange for the Jordanian economy. Tourism generated around US\$3 billion to Jordan's economy and accounted for around 12 percent of GDP in 2008. In 2007, number of bed nights grew by 6.6 percent compared to 2006, registering a new record of over 4 million nights. During the same year, all regions across the world recorded levels of growth in excess of expected levels, with the Middle East ranking in top position in terms of growth, registering a 16 percent increase with around 48 million international tourist arrivals. Based on data from Jordan's Tourism Board on bed nights, Palestinian visitors to Jordan account for three percent of Tourism trade in Jordan, while Iraqi visitors to Jordan account for 8.5 percent of Tourism trade.

Figure 12: Jordan's Services Exports, 2001-2008

Service Code Description	200 Total Services	EBOPS Transportation	236 Travel	291 Government services, n.i.e.	983 Services not allocated
2001	1,487,000,000	260,000,000	700,000,000	91,000,000	436,000,000
2002	1,773,000,000	292,000,000	1,048,000,000	31,000,000	402,000,000
2003	1,748,000,000	303,000,000	1,061,000,000	32,000,000	352,000,000
2004	2,073,000,000	426,000,000	1,330,000,000	21,000,000	296,000,000
2005	2,334,000,000	470,000,000	1,441,000,000	94,000,000	329,000,000
2006	2,907,000,000	528,000,000	2,060,000,000	57,000,000	262,000,000
2007	3,431,000,000	637,000,000	2,311,000,000	112,000,000	371,000,000
2008	4,421,000,000	837,000,000	2,946,000,000	125,000,000	513,000,000

Source: UNCTAD.

3.1.1.2 HEALTH SERVICES

Healthcare in Jordan is among the best in the Middle East and has quickly emerged as a hub for high-quality and specialized medical care. With treatment costs as low as 25 percent of those in the West, along with high medical care standards, the abundance of highly qualified physicians and medical staff, and medical centers equipped with cutting-edge technology, the sector has witnessed a 10 percent annual increase in the number of foreign patients since 2004. Jordan medical tourism is renowned in areas of organ transplantation, orthopedic surgeries, cardiac procedures, plastic and neurological surgeries as well as dental treatments.

In a recent 2008 study of medical tourism, which falls under “Other Services”, it was found that over 250,000 patients from around 84 Arab and other foreign countries were treated in Jordanian private hospitals, clinics and medical centers in 2007. Iraq is the second largest source of foreign patients, following Sudan. Medical tourism is also becoming an increasingly important contributor to the national economy. It has been estimated to bring in revenues of approximately US\$1 billion annually and has been witnessing a yearly steady increase of around 10 percent of foreign patients.

3.1.1.3 ICT AND BPO SERVICES

The liberalization of telecommunication services in Jordan over a decade ago has opened the sector to foreign investments and injected a major stimulus into the growth and development of the ICT sector. Today, the ICT sector has flourished into more than a billion-dollar industry, and is poised for further growth. Jordan is endowed with the region's most technologically literate workforce and has one of the highest penetrations of IT and internet. Jordan's highly sophisticated technical workforce has also proven attractive to international firms that have invested in world class research and development labs, centers of excellence

and incubators. Firms such as Oracle, Cisco, Sun and Intel are already in Jordan and are part of a very flourishing ICT ecosystem with a favorable investment climate.

Export data on IT and Business Process Outsourcing remains anecdotal. It is estimated that in 2008, total exports reached US\$200 million, up from US\$70 million in 2003, including US\$22 million to West Bank and US\$10 million to Iraq. In the BPO segment, neither West Bank nor Iraq feature as export destinations. In the ICT segment, some Jordanian firms have entered into partnerships and joint ventures with West Bank firms, with the Jordanian firms often providing the managerial and project support, with technical services provided by their Palestinian counterparts.

3.1.1.4 EDUCATIONAL SERVICES

In the area of education reform, Jordan is considered to be the MENA region's top performer. The country has been pushing towards attaining the highest international standards and quality. There are currently 26 private and public universities located throughout the country. The number of private universities is also set to witness a 40 percent growth over the next few years due to demographic pressures caused by the rapid growth of Jordan's young population.

Today, higher education in Jordan is regionally renowned to offer high-quality education with more than 27,000 foreign students enrolled in Jordanian universities, comprising over 11% of total enrollment in undergraduate programs alone. Approximately half of the foreign students studied in private universities. Arab students constitute the majority of foreign students, with more than one-fourth from West Bank and Gaza, followed by Syrians (12 percent), Saudis (12 percent), Kuwaitis (7 percent), Omanis (7 percent) and Iraqis (6 percent).

3.1.1.5 ARCHITECTURE & ENGINEERING (A&E) CONSULTING SERVICES

Jordan is distinguished for having the largest per capita percentage of engineering degree graduates in the world and as such, the country has much latent and diverse talent. The A&E services sector is one of Jordan's fastest growing service industries. There are currently close to 1,200 registered A&E offices in Jordan with a total gross output of around US\$100 million, contributing to around one percent of GDP. The sector has experienced healthy growth during the last 10 years with an average growth of 10 percent over the past four years.³ Moreover, Jordanian architecture and engineering companies have distinguished themselves regionally and globally; for example the 'Agha Khan Award' has been bestowed upon more Jordanian firms than any other nationality.

The sector has the opportunity and potential to leverage its latent talent and increase its service exports into the region. Now, more than ever, Jordanian engineering firms are increasingly exporting their services to the GCC, including Iraq, and currently many companies serve as design back offices for larger international engineering companies operating in the Gulf region. The sector exports knowledge-intensive services to over 30 countries. Export markets include the Gulf, Sudan, Libya, some countries in Africa, Central and South East Asia.

3.1.1.6 FINANCIAL SERVICES

³ "Supporting the Development of Business Plans for the FOR the Members of the Architects/Engineers Business Council", USAID report – March 2008.

Financial liberalization has given way to the establishment of a well regulated and modern banking system in Jordan that is comprised of 23 banks, 8 of which are foreign. This sector is considered Jordan's major driver of activity and a mirror of the local economy. The system offers a wide range of banking and financial products and services to corporate and retail customers through a variety of channels. Over the years, substantive expansion and growth took place in the retail services, bank reward schemes, credit cards, insurance for mortgage holders, ATM networks, and online banking services. Jordanian banks historically have engaged in cross-border trade of services, mainly with West Bank and Gaza.

The liberal regulatory regime, coupled with the efficient operations and high liquidity of the Amman Stock Exchange (ASE) has also lured in a large number of foreign investors. Shares owned by non-Jordanians represent close to half of ASE's capitalization. The efficient functioning of the capital market has also provided for the smooth lending practices to both the private and public sectors.

3.1.1.7 LEGAL SERVICES

This sector is highly experienced, capable and global. Propelled by Jordan's liberalization program, growth in this sector has been high. Jordanian law firms have been actively involved in corporate and commercial transactions, agency distributorship and franchising, insurance and maritime law, intellectual property and information technology, legislation and arbitration and mergers and acquisitions on both the local and regional scales. On the regional level, several local firms have established major affiliate offices in the West Bank, Iraq and the Gulf region notably in Saudi Arabia, U.A.E and Kuwait with an eye to expand their professional legal advice and services to the region. Several prominent local laws firms have assisted local and foreign companies, as well as governments in a wide range of industry sectors, including transportation, supply management, energy, media, telecommunications, banking, and contracting. More importantly, Jordanian firms have distinguished themselves by contributing extensively to the multilateral effort of restructuring Iraq by working on updating several new Iraqi legislations in the areas of labor, employment, foreign investments, construction, contracting and on several key joint venture agreements.

3.1.2 IRAQ SERVICES SECTOR PROFILE AND SERVICES TRADE PATTERNS

The Iraqi economy is showing slow, yet very promising prospects for growth. Major reform initiatives have swept certain sectors, and the country is showing healthy growth indicators in the energy, construction, trade and telecommunications sectors.

Privatization initiatives in the ICT and mobile sectors are also exhibiting tremendous growth. Between the period 2003 and 2008, mobile phone subscriptions have expanded over a hundredfold to over 10 million users nationwide. Similarly, the banking sector, where several restrictions were removed on international bank transactions and the Central Bank of Iraq was freed from government control and concurrently, in its first year of operation contributed much to limiting Iraq's inflation. Furthermore, a number of foreign banks received licenses to operate in Iraq, one of which is partially owned by Jordan's Capital Bank.

Service exports from Iraq have grown far faster than merchandise trade, from US\$355 million in 2005 to almost US\$2 billion in 2008. The largest segment is Business Travel, followed by Transportation, which is closely linked to the former. Iraq also exports a small amount of Communications and ICT services.

Figure 13: Iraq Exports of Services, 2000-2008

Service Code	Description	2000	2008
200	Total EBOPS Services	220,400,000	1,966,800,000
205	1 Transportation		768,100,000
236	2 Travel		843,600,000
245	3 Communications services	6,100,000	30,800,000
253	5 Insurance services		1,600,000
260	6 Financial services	2,700,000	2,600,000
262	7 Computer and information services		55,100,000
268	9 Other business services	16,800,000	14,500,000
287	10 Personal, cultural, and recreational services	1,100,000	3,100,000
291	11 Government services, n.i.e.	7,700,000	247,400,000
983	Services not allocated	14,500,000	150,000,000

Source: UNCTAD.

3.1.3 WEST BANK SERVICES SECTOR PROFILE AND SERVICES TRADE PATTERNS

The services sector in the West Bank is the largest employer and contributor to GDP (just under 80 percent). Traditionally, this sector has consisted mainly of private businesses in tourism, financial intermediation, transportation, and ICT. As is the case with merchandise trade, service exports from West Bank and Gaza remain extremely low in volume. Total service exports reached US\$179 million in 2007, up from US\$117 in 2001. The largest contributor is Travel. Israel is the primary export market for non-Travel related services.

Figure 14: Iraq Exports of Services, 2001-2008

Service	Description	2001	2003	2007
200	Total EBOPS Services	117,000,000	154,000,000	179,000,000
205	1 Transportation	4,000,000	3,000,000	5,000,000
236	2 Travel	14,000,000	66,000,000	103,000,000
245	3 Communications services	4,000,000	8,000,000	22,000,000
249	4 Construction services	24,000,000	14,000,000	15,000,000
262	7 Computer and information services	1,000,000	1,000,000	
268	9 Other business services	58,000,000	50,000,000	5,000,000
287	10 Personal, cultural, and recreational services	2,000,000	3,000,000	
291	11 Government services, n.i.e.	10,000,000	9,000,000	28,000,000
310	Compensation of employees	200,000,000	202,000,000	380,000,000

Service	Description	2001	2003	2007
391	Workers' remittances	209,274,662	267,985,208	464,505,933
431	Migrants' transfers	9,000,000	66,000,000	84,259,701
500	Direct investment	59,000,000	26,000,000	80,199,605

Source: UNCTAD.

3.2 KEY IMPEDIMENTS TO EXPANDING TRADE IN SERVICES

As is the case for merchandise trade, there exist numerous impediments to achieving greater services trade integration between the three partners. These impediments include both market information and policy related impediments. The policy impediments apply more generally to other trading partners, as well.

3.2.1 POLICY CONSTRAINTS

The existing trade agreements do not currently cover trade in services. While the GAFTA agreement includes a provision for the member countries to reach an agreement on services, no action has been taken in this direction. Therefore, current national policies governing market entry among the four modes apply in each of the entities. Market barriers can take a number of forms, including nationality requirements of business owners or professionals, restrictions on labor mobility, and differences in investment and other laws and regulations based on nationality. The following describes some of the key barriers in each of the three partners.

Jordan imposes a number of barriers to foreign entry in several of its services sectors. For example, in the insurance sector, Jordan maintains restrictions on operations between, on the one hand, residents with non-resident institutions and, on the other hand, non-residents with resident institutions (mode 1 and mode 2 barriers). Jordan also imposes restrictions on the form of commercial presence and the scope of operations with respect to the insurance sector. Despite much progress in the telecommunications sector, Jordan still imposes a number of restrictions, particularly on labor mobility, that limit the openness of the sector despite recent moves to liberalize. Other sectors of the economy are less restrictive, including banking and finance (though Jordan imposes particularly short limitations on the time allowed in the temporary movement of long stay employees, affecting mode 4), as well as many tourism segments, where few nationality or other restrictions currently exist.

In Iraq, relevant laws and regulations affecting service sector market entry are still evolving, though generally the move is towards a greater degree of liberalization. A new Telecommunications Law reportedly maintains monopoly restrictions on fixed line communications, prohibitions on certain services (such as callback services) and retains some restrictions on wireless services. In the banking sector, while a number of minority and majority foreign owned banks now operate in Iraq, a number of restrictions on commercial formation and scope of services exist. Nationality restrictions with respect to employment are also present in a number of sectors in order to promote job creation for Iraqi citizens.

In the case of the West Bank, the complex nature of the regulatory relationship between the PA and GOI has given rise to several issues related to market entry in the various service

sectors. In the telecommunications sector, for example, the sector is constrained by the lack of effective competition, unauthorized competition for Israeli operators, and licensing and infrastructure constraints imposed by GOI authorities. In other areas of the economy, as well, competition and regulatory issues restrict market entry. The presence of monopolies and the absence of effective competition policy or autonomous regulatory bodies (including telecommunications), enable existing large businesses to expand market power and, *de facto*, restrict foreign entry.

3.2.2 MARKET INFORMATION

As is the case with trade in goods, the three business communities generally lack adequate and up to date market information. Moreover, the restrictions on the movement of people severely limits the ability of the three business communities to effectively interact. While there have been efforts to forge partnerships between Jordan and West Bank, particularly in the ICT sectors, these interactions remain small in number and narrow in scope. In the case of Iraq, with the exception of the construction sector, where tender information is often widely circulated, little information is available on opportunities in other sectors of the Iraqi economy.

4. INVESTMENT

The following sections briefly summarize bilateral investment trends between the three partners, as well as impediments that currently restrict the expansion of mutually beneficial investment.

4.1 BILATERAL INVESTMENT TRENDS

4.1.1 BILATERAL INVESTMENT TRENDS IN JORDAN

Foreign investment in Jordan reached US\$6.5 billion in 2005 (including both foreign direct investment and portfolio investment), the latest date for which bilateral data is available (DOS Foreign Direct Investment Survey, 2007). The top sectors for foreign investment include Finance and Banking, Mining, and Telecommunications. The Arab region accounts for the largest share of foreign investment, with Saudi Arabia and Kuwait figuring as the two largest sources of investment, accounting for US\$1 billion and US\$840 million, respectively. Iraq also figures prominently, accounting for US\$345 million in investment. Non-resident Jordanians, i.e. the Diaspora, account for close to US\$500 million in investment. Palestinian investors account for only a very small share of total foreign investment in Jordan (US\$21 million).

Figure 15: Top Ten Investors in Jordan, 2005

Country	Investment	Share of Total FDI
Saudi Arabia	1,025,199,856	16.0%
Kuwait	838,851,186	13.1%
Non-resident Jordanians	492,635,263	7.7%
Iraq	344,908,132	5.4%
Egypt	323,005,790	5.0%
France	253,197,357	3.9%
United Kingdom	233,796,242	3.6%
UAE	231,535,703	3.6%
Libya	223,431,068	3.5%
USA	194,441,438	3.0%

Source: Jordan FDI Survey, Department of Statistics.

4.1.2 BILATERAL INVESTMENT TRENDS IN IRAQ

Total announced foreign investment flows to Iraq between 2003 and 2009 reached US\$69 billion,⁴ with most of the investment committed since 2007. Foreign investment in Iraq has, unsurprisingly, been drive largely toward the Oil and Gas sector, though Real Estate is the largest sector, accounting for some US\$30 billion in investment. Investment in other sectors amounted to less than US\$2 billion.

⁴ Based on report from Dunia Frontier Consultants, Private Foreign Investment in Iraq, 2009. These figures include large lump-sum oil and gas Service Agreements (SAs) and Engineering, Procurement, and Construction (EPC) contracts for major infrastructure work awarded by various U.S. government agencies to U.S. companies.

Since 2003, over 100 private investors from 26 countries have announced projects in Iraq. UAE investors account for approximately half of this, including US\$31 billion in investments across eight mega-projects. While US investors are in second place, with over US\$10.2 billion in investment commitments, the majority of this (US\$9.8 billion) was derived from contracts awarded by U.S. government agencies to U.S. companies in 2003 and 2004. UK investors are in third place, having invested some US\$6 billion across six mega-projects since 2003.

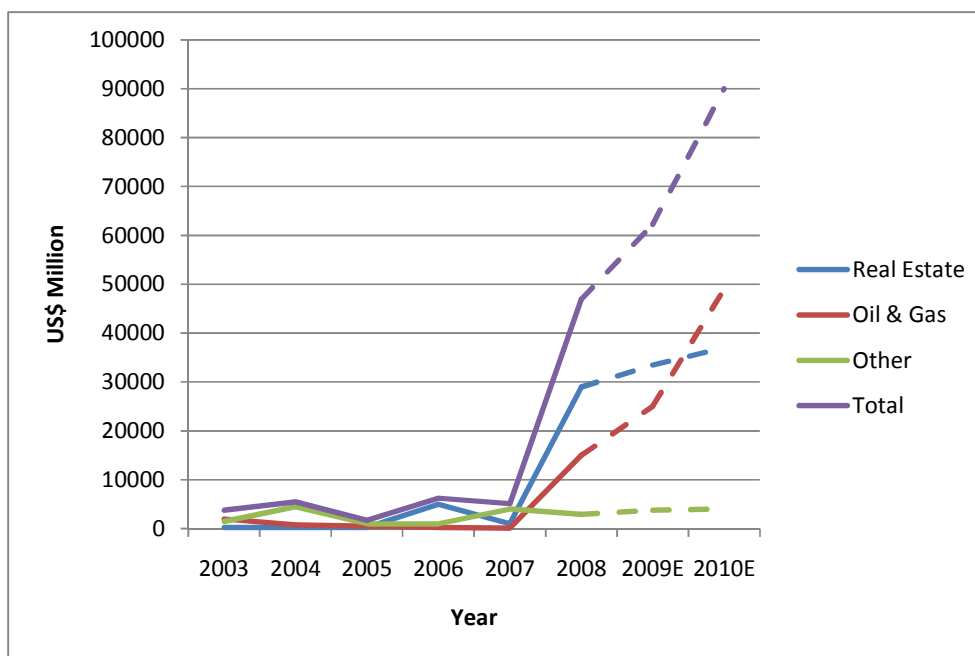
Figure 16: Major Investors in Iraq, as of 2009

Country	Amount (\$M)	No. of projects	% of total value	% of total number
UAE	31,404	8	50%	8%
USA	10,207	32	16%	33%
UK	5,940	6	9%	6%
Netherlands	4,000	1	6%	1%
China	3,000	2	5%	2%
South Korea	2,100	1	3%	1%
Turkey	1,901	16	3%	16%
Luxembourg	1,580	3	3%	3%
Australia	1,303	3	2%	3%
Qatar	1,250	1	2%	1%
France	1,166	4	2%	4%
Lebanon	1,055	4	2%	4%
Canada	820	9	1%	9%
Germany	795	3	1%	3%
Norway	350	1	1%	1%
Jordan	600	2	1%	2%
Japan	220	2	0%	2%
Syria	200	1	0%	1%
Ireland	200	1	0%	1%
Romania	150	1	0%	1%
Hungary	55	1	0%	1%
Kuwait	54	2	0%	2%
Sweden	21	1	0%	1%
India	20	1	0%	1%
Austria	n/a	1	n/a	1%
Russia	n/a	1	n/a	1%

Source: Dunia Frontier Consultants, Private Foreign Investment in Iraq, 2009.

Jordanian investors have committed US\$600 million in Iraq, comprising two large projects, US\$300 million each. One is for a real estate development in Erbil, while information on the other investment is not currently available. No Palestinian investments have been recorded to date.

Figure 17: Foreign Investment in Iraq by Sector



4.1.3 BILATERAL INVESTMENT TRENDS IN WEST BANK

Foreign investment into West Bank remains small. Total FDI stock amounted to US\$1.2 billion in 2008, but in recent years inward flows have been marginal, amounting to less than US\$30 million in 2008. Jordanian investors (including Diaspora Palestinians) have a strong interest in West Bank. The largest foreign company in West Bank is the Palestine Development and Investment Company (PADICO), which has invested over US\$500 million. Key PADICO investors include Diaspora Palestinians from Jordan, UK, and the Gulf. PADICO has made significant investments in telecommunications, housing, the Gaza Industrial Estate, and the establishment of the Palestinian Securities Exchange in Nablus. Another large foreign investment group active in West Bank, with authorized capital of over US\$100 million, is the Arab Palestinian Investment Company (APIC), also an initiative of a Diaspora Palestinian and Arab businessmen, headquartered in Jordan. APIC is involved in the manufacturing, distribution and services sectors. APIC industrial activities range from food processing to the production of aluminum. In the services sector, APIC's subsidiaries are partnered with many international companies such as Philip Morris Tobacco, Procter and Gamble, Abbott International, Beiersdorf (Nivea), Eli Lilly, and Hyundai Motors. APIC is also one of the main founders and partners in the Palestine Electricity Company.

Figure 18: Foreign Investment in West Bank and Gaza

	2000	2001	2002	2003	2004	2005	2006	2007	2008
Flow	62	19	9	18	49	47	19	28	29
Stock	932	951	960	978	1,027	1,074	1,092	1,121	1,150

Source: UNIDO World Investment Report, 2009.

4.2 IMPEDIMENTS TO BILATERAL INVESTMENT

As it is beyond the scope of this report to assess the barriers to investment in each of the three entities (and many other reports by USAID and the World Bank have already addressed the many administrative and policy constraints), the focus here is on the specific barriers to bilateral investment between the three parties.

- **Mobility of Labor and Business People.** Naturally, the lack of mobility people, whether workers or investors, between the three entities severely limits the potential for cross-border investment. Visa restrictions and security-related restrictions on cross-border movement inhibit the degree of interaction required to make and sustain investments. In the case of West Bank, severe restrictions on the movement of people within the territory, let alone across the border to Jordan, place limits on the ability of entrepreneurs to collaborate, though movement to and through Jordan is easier than movement through Israel. It is difficult and expensive for Palestinians to travel and most citizens from other Arab countries cannot travel to West Bank. In the case of Iraq, restrictions have also been in place, though recent efforts by the respective Governments of Jordan and Iraq seek to loosen the restrictions in order to foster the types of economic cooperation being assessed here.
- **Nationality requirements.** As mentioned in the section above on services trade, nationality restrictions on business ownership and/or labor also limit the scope for cross-border investments. In the case of Iraq, where skills are low or non-existent, nationality requirements limit the scope for certain types of investment that may require foreign technical or other know-how. In Jordan, nationality restrictions affect a number of service sectors, including engineering, medical services, among others.

5. SCOPE FOR INCREASED REGIONAL COOPERATION

Despite the limited economic integration to date and the remaining impediments to expanding trade and investment flows between the partners, enormous opportunities suggest that the potential is there but remains unrealized. The following sections provide an overview of the scope for enhancing bilateral and/or multilateral linkages between the three business communities, through trade and investment, which will enhance their respective competitiveness.

5.1 ECONOMIC COMPLEMENTARITIES

Despite their relative proximity and seemingly similar production bases, there is ample differentiation between the three markets that give rise to complementarities that can be leveraged for their mutual benefit. These complementarities fall into a number of categories, including, most prominently, labor and infrastructure:

- **Labor Skills.** Jordan has exported labor to the Gulf and Saudi Arabia since the 1970s, which has partly relieved unemployment and acted as a counterweight to high population growth. Though this trend slowed in the 1980s and reversed in the early 1990s, it increased again during the last five years, with yet another reversal in light of the most recent economic and financial crisis. The long history of Jordanian Diaspora labor in the Gulf region, including Iraq, strongly suggests the labor complementarities that exist between Jordan and Iraq. Jordanian engineering skills have been long sought after in the region to complement the less skilled labor and/or to staff large engineering and infrastructure projects. More recent flows of Jordanian labor to the region comprise white-collar professionals, including ICT professionals and business managers. Furthermore, the long-dominance of the public sector Iraq did not promote the development of entrepreneurial and other business management skills.

While West Bank and Jordan are, in many senses, a divided market, labor complementarities are also present between West Bank and Jordan. Both countries boast a growing pool of ICT professionals, but the West Bank also lacks managerial skills. A number of joint ventures between West Bank and Jordan have leveraged the complementary Palestinian technical skills and Jordanian business skills. On the other hand, given the long history of sub-contracting ties with Israel, the West Bank has developed manufacturing skills that are less abundant in Jordan. If given the opportunity, Palestinian businesses could greatly benefit from recent Jordanian experiences and successes in diversifying and expanding trade, especially services trade, through the application of best practice approaches.

- **Transport Infrastructure.** Both Iraq and West Bank are challenged in terms of their lack of adequate hard infrastructure linkages to facilitate international trade. West Bank is land-locked, while Iraq lacks direct transport linkages with the West. Historically, Iraq has depended upon Aqaba Port for its imports and exports. In the case of West Bank, while Israel has been the main point of exit and entry, ongoing security restrictions have drastically increased the costs of transport. A recent World

Bank study has suggested that, despite the difficulties associated with crossing into Jordan, the Jordan route appears to be more cost effective, particularly given that the majority of West Bank's exports are eastern-bound.

While not an exhaustive treatment of the underlying complementarities between the three economies, the above already suggests the scope for leveraging each economy's strengths to forge mutually beneficial trade and investment linkages.

5.2 SCOPE FOR INCREASING CROSS-BORDER TRADE IN GOODS

The scope for expanding merchandise trade with Iraq is substantial, while the scope vis-à-vis West Bank is more modest but nevertheless positive. IMF projects that trade will grow substantially in each of the three countries, suggesting the opportunity for market expansion, particularly the penetration of Jordanian exports into Iraqi and West Bank markets.

5.2.1 OPPORTUNITIES TO EXPAND JORDAN-IRAQ MERCHANDISE TRADE

The IMF has estimated that Jordan's export growth between 2010 and 2014 will be close to 9 percent per year. Given that Jordan's exports to Iraq in 2008 doubled from the level in 2002, a fairly conservative estimate of projected growth rate of exports to Iraq, based on historical trends and elasticity applied to IMF projections of Jordanian exports, will be about 15 percent per year. This translates into Jordan exporting US\$ 2.8 billion in 2014. It could even be higher if both countries succeed in implementing the FTA that is signed in principle in September 2009, including in it substantial reforms in trade, transport and logistics facilitation. Built into the projections is the possibility of a sharp reduction in food exports on account of the presence of multilateral forces in Iraq.

There is some apprehension in some quarters that the recent rapid penetration of Turkey and Syria may crowd out Jordanian exports, given the perception that they compete directly with Jordanian goods. However, a closer look at trade flows from Syria and Turkey to Iraq reveals that a large share of Jordan's exports to Iraq do not compete with either neighboring country and/or already have captured a substantial share of Iraq's market. In the case of Turkey, exports are relatively diversified. Comparing Turkey's major exports to Iraq to Jordan's demonstrates that there is direct competition in a handful of products, but Jordan competes strongly in some of these goods, including: Articles of Plastic; Equipment for Distribution of Electricity; Articles of Paper and Paperboard; and Soap, Cleansing and Polishing Preparations.

Figure 19: Leading Exporters to Iraq, 2007

Country	Total Exports	Share
World (Aggregate)	\$13,649,473,830	
United Arab Emirates	\$2,995,208,427	21.9%
Turkey	\$2,844,767,091	20.8%
USA	\$1,574,544,305	11.5%
Jordan	\$724,566,729	5.3%
China	\$687,383,750	5.0%
Syria	\$647,646,258	4.7%

Country	Total Exports	Share
Germany	\$438,886,000	3.2%
Saudi Arabia	\$391,944,234	2.9%
France	\$273,178,749	2.0%
United Kingdom	\$266,745,317	2.0%

Exports from Syria to Iraq are far less diversified, concentrated largely in Fresh or Frozen Vegetables, Household Electrical Equipment (white goods), and Non-Alcoholic Beverages. Although Jordan competes in some categories, Jordan has captured a larger market share to date. Jordan's most direct competition from Syria comes in Furniture, Soap, Cleansing and Polishing Preparations, and Non-Alcoholic Beverages.

Notwithstanding the competition, Jordan has already captured a substantial share of the Iraqi market in several product categories, including Fresh and Frozen Vegetables, Metal Containers, Non-Alcoholic Beverages, and Feedstuff for Animals, as well as substantial shares in other categories, such as Paints and Varnishes, Food Preparations, Paper and Paperboard Articles, and Plastic Articles.

Figure 20: Top 20 Exports to Iraq from Jordan, Turkey and Syria

Code	Product	2008	Share of World
Jordan Top 20 Exports			
054	Vegetab.,fresh,chilled,frozen/pres.	97,683	61%
692	Metal containers for storage and tr	83,357	70%
893	Articles of materials described in	54,532	25%
773	Equipment for distributing electric	51,851	21%
642	Paper and paperboard,cut to size or	42,958	30%
678	Tubes,pipes and fittings,of iron or	39,209	10%
111	Non alcoholic beverages,n.e.s.	36,206	64%
098	Edible products and preparations n.	34,151	37%
122	Tobacco manufactured	31,220	27%
554	Soap,cleansing and polishing prepar	29,051	23%
081	Feed.stuff for animals(not incl.unm	25,813	67%
541	Medicinal and pharmaceutical produc	25,417	9%
011	Meat,edible meat offals, fresh, chi	22,059	10%
533	Pigments,paints,varnishes & related	16,031	35%
661	Lime,cement,and fabricated construc	12,448	4%
056	Vegetab.,roots & tubers,prepared/pr	12,163	15%
583	Polymerization and copolymerization	11,168	15%
892	Printed matter	11,024	26%
058	Fruit,preserved,and fruit preparati	10,475	16%

Code	Product	2008	Share of World
821	Furniture and parts thereof	10,335	7%

Turkey Top 20 Exports

673	Iron and steel bars, rods, angles, shafts	331,992	
46	Meal and flour of wheat and flour of other cereals	230,469	
661	Lime, cement, and fabricated construction materials	222,355	
431	Animal & vegetable oils and fats, primary	221,143	
773	Equipment for distributing electric power	165,698	
691	Structures & parts of structures, iron, steel	124,302	
48	Cereal preparation & preparations of flour of wheat	112,065	
91	Margarine and shortening	107,824	
893	Articles of materials described in chapter 39	105,696	
821	Furniture and parts thereof	105,103	
25	Eggs and yolks, fresh, dried or otherwise	95,511	
775	Household type, electric & non-electric	87,499	
771	Electric power machinery and parts	79,336	
73	Chocolate & other food preparations, confectionery	74,583	
678	Tubes, pipes and fittings, of iron or steel	72,979	
554	Soap, cleansing and polishing preparations	70,563	
659	Floor coverings, etc.	70,243	
642	Paper and paperboard, cut to size or shape	66,119	
351	Electric current	65,124	
635	Wood manufactures, n.e.s.	62,631	

Syria Top 20 Exports

054	Vegetables, fresh, chilled, frozen/prepared	115,191	
775	Household type, electric & non-electric	110,265	
111	Non alcoholic beverages, n.e.s.	101,435	
554	Soap, cleansing and polishing preparations	57,292	
821	Furniture and parts thereof	32,628	
541	Medicinal and pharmaceutical products	19,958	
893	Articles of materials described in chapter 39	18,048	
057	Fruit & nuts (not including oil nuts), fresh	17,103	
773	Equipment for distributing electric power	17,056	
046	Meal and flour of wheat and flour of other cereals	12,016	
697	Household equipment of base metal, n.e.s.	10,889	
699	Manufactures of base metal, n.e.s.	10,599	

Code	Product	2008	Share of World
056	Vegetab.,roots & tubers,prepared/pr	8,133	
662	Clay construct.materials & refracto	7,212	
048	Cereal prepar. & preps. of flour of	5,959	
533	Pigments,paints,varnishes & related	5,941	
553	Perfumery,cosmetics and toilet prep	5,410	
642	Paper and paperboard,cut to size or	5,014	
851	Footwear	4,974	
062	Sugar confectionery and other sugar	4,935	

Moreover, the Iraqi market for imports is expected to triple over the next five years, providing Jordanian producers with expanded market opportunities if they can overcome existing barriers to entry. Recent tensions between Iraq and Syria may open a new window that Jordanian producers can exploit. The growing dynamism of Jordan's pharmaceutical and construction materials sectors are obvious opportunities that have yet to be fully tapped. There is also an opportunity to expand exports of processed foods and oils, which have continued to grow in recent years despite falling in the ranks in favor of goods demanded by US forces in Iraq.

5.2.2 OPPORTUNITIES TO EXPAND JORDAN-WEST BANK MERCHANDISE TRADE

While trade with West Bank has been far more modest, given the inherent challenges and restrictions on the movement of goods, there is also an opportunity to expand trade, particularly exports from Jordan. The projected general trade flow between Jordan and West Bank in the coming future may be a very positive one, at least maintaining an annual average growth rate of 10 percent a year, which is in line with its historical track record in the past decade. This trade can double if the speed of removal of trade flow restrictions by Israel is accelerated during this period with the strong support of the multilateral institutions and key global players. Aqaba has the potential of becoming a gateway for West Bank's trade with Asia. The ease of restrictions will also result in large flow of Jordanian exports to the West Bank once the latter increases its capacity to import.

5.3 SCOPE FOR INCREASING CROSS-BORDER TRADE IN SERVICES

While the scope for expanding merchandise trade is present, the real opportunity lies in expanding cross-border services trade, creating synergies that will enable Jordan to expand its regional export offerings while improving the cost competitiveness of Iraqi and Palestinian businesses.

The physical movement of goods and people due to security challenges in Iraq, and visa restrictions in the West Bank, will be a main hindrance in the ability of Jordan, or for that matter any country in the region, to export to those markets on a more sustained basis. However, tremendous opportunities exist for off-shoring a large number of services, supplemented by movement of personnel from Iraq to Jordan on a temporary basis.

Jordan is already a regional hub in a number of future strategic services. Iraq is viewed to offer a massive potential for the export of Jordanian services. The country has been closed

off for two decades and has witnessed a massive brain drain. It therefore lacks the know-how to support its large rebuilding scheme over the next few years. Engineering and professional skills are sorely lacking and the Jordan Diaspora's reputation in the Gulf region will help Jordanian companies to promote their services to the growing Iraqi market.

Beyond the obvious Iraq reconstruction opportunities linked to architecture and engineering, in which Jordanian firms are already active, the expansion of the Palestinian and Iraqi markets can open new opportunities in a number of business service sectors, including ICT, BPO, legal services, financial services, other professional services, as well as transport/transit services, which have already begun to emerge as fast-growing export sectors in recent years. The recent establishment of the new Development Zones can provide a springboard to promote Jordan's position as a regional outsourcing and services hub. It is also expected that Jordan's medical services and tourism sectors will continue to benefit from the growing influx of patients and tourists from both Iraq and the West Bank.

While opportunities may be more modest in the West Bank, given the relative size of the market, recent experience suggests that opportunities do exist to leverage the respective skill sets of the Jordanian and Palestinian ICT sectors, with the Jordanian counterparts in a position to provide the managerial and business skills in which their Palestinian counterparts are lacking.

The following is a list of services that Jordan can export to both Iraq and the West Bank, in varying capacities.

5.3.1 TRANSPORT AND TRANSIT SERVICES

Jordan has the opportunity to capitalize on its existing position as a point of entry/exit with Iraq and become an established transit hub and gateway for the Iraqi market, as well as to serve as a new transit link for West Bank goods destined to Asian markets. Re-exports to Iraq have grown close to US\$500 million over recent years. Given the current lack of physical infrastructure capacity in Iraq, Aqaba Port can be expected to continue as the primary port of entry and exit for trade with Iraq. Recent agreements to facilitate trade through Al Karama border post will further serve Jordan's positioning.

While Jordan has not yet positioned itself to serve a similar role for West Bank, it is clear that West Bank traders need to find a more practical and sustainable channel for its trade. The recent World Bank study has outlined some of the gains that can be achieved through the use of Aqaba Port. While shipping costs are still somewhat higher than Haifa Port, even for east-bound cargo, the shipping time would be greatly reduced. As "time" increasingly becomes as key function of comparative advantage, the ability of Palestinian producers to competitively export will depend heavily on the ability to get goods to market quickly and efficiently.

The renovation and expansion of the Queen Alia Airport will provide a complement to Aqaba. Together with the planned railway connecting Aqaba to Syria, Jordan has the opportunity to position itself as a multimodal transit hub for both Iraq and West Bank.

5.3.2 FINANCIAL SERVICES

The West Bank has a relatively developed financial system; while not as advanced as Jordan's, it does not lag that far behind. Between 1967 and 1996, Palestinian banks were serviced by Israeli banks, and as such were exposed to global best practices for over twenty

years. Not dismissing the entire potential for exporting financial services to the West Bank, it is believed that the latter will not look to Jordan in a large, long-term, and sustainable capacity. Prospects will likely cater to specialized transactions such as the (now defunct) Zain-PALTEL share swap deal. The range of products that can be exported to the West Bank include specialized financing such as investment banking (currently nonexistent); structured financing; project financing; and general banking advisory skills. Training of Palestinian personnel is always taking place in Jordan.

The banking sector in Iraq is much more underdeveloped. It consists of 30 banks, and foreign banks are cautious about approaching this volatile market. Only four foreign banks are operating in Iraq, one of which is Jordanian. These are HSBC, Qatar National Bank, the National Bank of Kuwait and the Capital Bank of Jordan.

The Iraqi market offers a substantive potential for Jordan over any financial service provider in the region, including Lebanon and Bahrain. This is so for a variety of reasons:

- Jordan's banking system is considered to be one of the most advanced in the region.
- Jordan and Iraq enjoyed decades of favorable and preferential trade arrangements. There is a reservoir of trust, relationship building and knowhow between the two countries. Even during the embargo on Iraq, Jordan was the latter's conduit for goods imported by Iraq under the oil-for-food program. These goods came through the port of Aqaba and transited by land all the way through Jordan into Iraq.
- All banking-related transactions of Iraqi imports that arrive through Aqaba are done in Jordan. Although Iraq's imports from Syria are on the rise, there are sanctions placed on Syrian banks which hinder their ability to provide any banking services to Iraq. Moreover, the banking sector in Syria is far less developed than that in Jordan.
- There are Iraqi banks operating from Jordan with branches in Iraq. These include Basra Bank and Al Wuraka' Bank. Most Iraqi banks are also operating 'unofficially' in Jordan through a number of domestic banks.
- There are a large number of affluent Iraqi depositors in Jordan who have had accounts open in Jordan for over 20 years. Many of them are now residing in Jordan.

Products/services with high potential to be exported to Iraq include:

- *Retail Banking*: credit cards, payment systems, and internet banking products that can be developed and managed from Amman.
- *Commercial Banking*: Trade finance support (already doing this), back office operations, and correspondent banking (Iraqi banks are small and are not trusted and known by international financial institutions).
- *All IT enabled services*, and building the infrastructure needed to support them.
- *Call Centers*: Iraqis are comfortable with the Jordanian accent because of the long-term trade relations. There is also a large number of Iraqis residing in Jordan that could be hired to work in those centers.
- *Training*

5.3.3 LEGAL SERVICES

There are a number of factors that position Jordan favorably within the region to export legal services to both the Iraqi and West Bank markets. English proficiency is considered to be one critical factor. There is a large pool of lawyers that are fluent in both Arabic and English. English being the global business language, gives Jordan a competitive edge over potential regional competitors that would primarily stem from Syria and Lebanon. The latter countries have a demonstrated weakness in the mastery of the English language and the use of it in their service delivery.

Moreover, the legal systems in both Iraq and the PNA are very similar to that in Jordan. In fact, there are many laws in the West Bank that are built on Jordanian laws, and a number of Jordanian laws that still apply. This gives a strong edge to the providers of legal services in Jordan and further sets them ahead of other regional competitors. Law firms in the West Bank are relatively small and lack international exposure. Proximity, cultural affinity, and language are also critical factors that position Jordan well into penetrating the West Bank market.

Additionally, Jordan has undergone a sweeping legal reform process to create a legislative environment that matches the requirements for global economic integration. This encompassed amendments to 150 critical laws including Labor, Income Tax, Company's, Public Debt, E-Transactions, Financial Leasing, Securities, Copyright, Patent, Telecommunications, Banking, Media, and others. In parallel, a judicial reform process was instigated, aimed at enhancing the efficiency of the court system and reducing legal transaction costs for citizens and businesses alike by upgrading the court system, strengthening its autonomy, training judges and lawyers, establishing an integrated information system network, and ensuring transparency.

As such, Jordan stands in a unique position to offer comprehensive legal support to reforms related to capital markets, telecom and ICT, tourism, water and environment, civil service, public procurement, investment, tax restructuring among others. These services can be particularly needed in Iraq as it undergoes its rebuilding process of its legal system and all related institutions.

Other areas of expertise that are relevant in today's global market include IP, unfair competition, antidumping, financial markets, e-commerce, utilities (regulatory), privatization (extremely relevant for Iraq), and the deregulation of public utilities.

5.3.4 ICT AND BPO SERVICES

The West Bank is not considered to be a large potential for the export of ICT services. They already have an ICT sector, and will not be looking to Jordan for further support. Local Palestinian companies are currently competing with Jordanian firms for business in the West Bank.

Iraq on the other hand offers a vast potential, but severe competition can come from India and Eastern Europe because Jordanians are more expensive. Nonetheless, Jordan has the language advantage and can compete comfortably in small scale projects. Forming joint ventures with India and Eastern Europe would capitalize on the complementarities that each service provider has to offer.

Regional competition could stem from Egypt, which has a thriving ICT sector, a very high number of ICT graduates each year, is cheaper, and is currently setting a foothold in the Iraqi market. A number of factors however continue to come in Jordan's favor, including geographic proximity, trade history, credibility and trust.

Areas of work Jordan can provide to Iraq include:

- Programming
- Training (large sector because of two decades of closure)
- Infrastructure development (Jordan is already working there with the various public sector entities)
- Call centers (will compete with India because of the language factor)

5.3.5 MEDICAL SERVICES

In addition to receiving patients for treatment in Jordanian hospitals, Jordan can offer services to Iraqi and West Bank markets in the following areas:

- *Quality assurance standards* in health care and health care facilities.
- *Hospital and health care centers accreditation and certification.* This includes training and education of staff, clinical governance, audit, hospital research activities, medical ethical standards, patient care and services, HR systems and quality management of the hospital itself.
- *Medical billing outsourcing services:* medical transcription services according to HIPAA compliant medical transcription services.
- *Medical coding, patient scheduling, authorizations and verifications*
- *Telemedicine:* provide consultation from a distance now that medical images, X-rays, MRIs, and other techniques can be digitized and transmitted via computer. Other distance-delivery options include training and ongoing professional development for health care professionals, especially backup for health care workers in more remote communities, development and maintenance of interactive on-line health education databases, and remote medical records management.
- *Hospital management and administration.*
- *Managed care services approach:* companies offering both management and insurance services simultaneously.

5.3.6 EDUCATIONAL SERVICES

Jordan has witnessed strong innovation in the sphere of education, and has a substantive potential in the delivery of educational services to both markets, Iraq and the West Bank. This is mainly attributed to the following:

- The Jordanian curriculum is recognized by the World Bank as being the best in the region. This assessment is performance-based.

- Jordan is a pioneer in the area of education reform in the region, which began a decade ago. It continues to have a committed, clear, and an aggressive strategy for education reform.
- Jordan's reform program was comprehensive. It encompassed curricula development, teacher training, and most importantly, the integration of ICT in education.
- Education reform was accelerated through a public-private partnership model that propelled innovation and capabilities. The private sector in Jordan was a key player and a strong partner that fully capitalized on private-public partnerships. The private sector developed the electronic content for six subjects⁵ based on the Jordanian curriculum in collaboration with the government, and the two global giants Cisco and Microsoft.
- Jordan is a small, 'smart', and focused country. As such, it could be viewed as a pilot that can be replicated in other countries in the region. This is a niche that Jordan has over others in the region that have progressed in the area of education reform such as Egypt.
- The NGO sector in Jordan has also been actively engaged, and has been a key partner in the delivery of educational services. NGOs have been able to leverage all resources available from the private sector and donor agencies, and have supported successful initiatives that aimed at training teachers, equipping students with the soft skill sets that are needed in today's labor market, among others.
- Jordan is a moderate country (not too liberal and not too conservative). As such, its educational model can be replicated in the region without considerations for cultural and social norms.

As such, Jordan is well positioned in the region to offer a number of educational services to both the West Bank and Iraq markets, but particularly in the following areas:

- Teacher training
- Building public-private partnerships
- E-content development
- Capacity building in governmental institutions
- The integration of ICT in education
- Project management
- Distance learning
- Vocational training

The export of educational services will be more pronounced for Iraq. The West Bank has a considerable pool of skilled workforce, because Palestinians similar to Jordanians place very high value on education.

⁵ Arabic, English, Mathematics.

5.3.7 TELECOM SERVICES

The Telecom sector in Jordan currently stands at US\$2.2 billion and contributes 12% to GDP. The current workforce within the telecom sector is around 22,000 and the government intends to expand the sector to 35,000 employees by 2011. Every year, around 5,000 new ICT students graduate from universities in Jordan

Although telecom by definition is considered to be the main enabler for the delivery of IT ES, there are a number of areas related to this sector that Jordan can provide consultancy services in. These include, but are not limited to: building and designing networks; marketing and business planning; mobile value added services, products and applications; and content development.

Iraq's telecom sector is liberalized, contrary to that in the West Bank. The latter market is monopolized by PalTel, the national telecommunications provider in the West Bank. The company enjoys an exclusive license agreement with the Palestinian National Authority to develop the telecom sector, and therefore entry into this market is basically restricted.

Iraq on the other hand is believed to offer substantive potential in this area. As mentioned earlier, telecom is a liberalized sector in Iraq, the need for this service is growing, and the sheer size of the market (population of 26 million) builds the case further for this potential.

5.3.8 A&E SERVICES

All reputable A&E companies had a very strong presence in the West Bank, and particularly in Ramallah. However, after the death of Arafat and the ensuing deterioration in the performance of the Palestinian economy, and worsening in safety and security measures, businesses were shut down. Conditions in the West Bank are still considered to be unfavorable, however upon the resumption of economic activity, the Jordanian A&E sector will be swift to reposition itself in this vital market.

Potential in Iraq is considered to be massive due to the size of the market and the rebuilding effort that will take place over the next few years. Many Jordanian A&E companies had the capacity and the contacts to work in Iraq after Bechtel won the contract to rebuild Iraq in 2003, but working conditions were extremely harsh due to deteriorating security measures and the growth in insurgency. When Bechtel pulled out of Iraq in 2006, prospects for exporting A&E services dwindled.

The sector is monitoring both markets very closely, and has the capacity to quickly position itself in them when conditions become more favorable.

Jordan has a strong comparative advantage in this domain for a number of reasons:

- Jordan has a large pool of highly qualified architects and engineers;
- The level of technical skill-sets is superior by regional standards due to the high educational standards in math and sciences.
- A&E is an IT enabled service and local firms are successfully exporting it to many countries around the world. This can be particularly critical in light of the travel challenges faced in both markets.
- Leading companies in this field have a large reservoir of knowledge on those two markets, which was built over

- Large real estate developers in the region prefer to create joint ventures with Jordanian A&E firms whenever conditions allow for them to set foot in the Iraqi and West Bank markets. Jordanian firms are considered to be highly credible, and are highly regarded for their technical work and capabilities.
- Historic relations with those markets, coupled with the geographic proximity to both is another important element that gives Jordan an advantage over others in the region.

5.3.9 ENERGY-WATER-ENVIRONMENT (EWE) RELATED SERVICES

What Jordan lacks in natural resources (water and oil) the country makes up for in its rather unique, innovative and sustainable approach to management and use of its natural resources. Over the years, several legislative and regulatory bodies, institutions and bylaws have been instituted, and have transformed the country's natural resource sector. Of those unique and sustainable approaches is the country's expertise in attracting, developing and maintaining a PPP and IPP approach to managing its key resources sector notably water, oil and electricity. Further, concepts and approaches of sustainable resource development is a growing and popular sector in Jordan, where several key projects have been implemented in areas of water reuse, green design, and solar energy, supported by a vast network of educational institutions geared to that end, as well as a highly educated cadre of Jordanian engineers, architectures and scientists with full support and backing of both the public and private sectors.

Jordan's expertise in sustainable approaches in the energy sector can pave way for tremendous diversification and exporting opportunities. The country's proximity to Iraq and the West Bank can prove to be productive with high returns in the following main exporting fields/areas:

Knowledge Transfer:

- Training: Energy and Water Management, Water and Energy Auditing and Certification, Sustainable Business/Workplace.
- Education and Education/Curricula design: Water Management and Engineering, Water/Energy Management and self-sufficiency, Energy and Certification, Sustainable Development and Business, Water and Energy Policy.
- Joint R&D: in areas of water conservation, renewable resources, green design, innovative and creative approaches to water and energy conservation and (re)use.

Exporting Energy and Water Related Services:

- Energy Saving Audits/certification on the industry, household and appliances level.
- Water Audits: in conservation and (re)use.
- Green Building design requirements, standards, audits and certification.
- Carbon Credits: the concept, the applications, know how.

Infrastructure Related:

- Business and management aspects of sharing national grids, plant operations and planning.
- Training in PPPs and IPPs as Jordan is a regional leader and model for PPPs and IPPs.

5.4 SCOPE FOR INCREASING CROSS-BORDER INVESTMENT

The above opportunities also imply new opportunities to expand cross-border investment between the three economies. As in the case of trade, it is expected that these linkages will be bilateral in nature. The presence of the two Diaspora communities in Jordan provides it with a unique opportunity to encourage cross-border investments and other business ties, including strategic alliances and partnerships that leverage each economy's respective comparative advantages.

5.4.1 IRAQI DIASPORA IN JORDAN

According to a detailed study done by the Norwegian Research Institute Fafo in 2007, estimates put the number of Iraqis living in Jordan at about 500,000, most of which are families residing in the capital Amman. Demographically, the residing Iraqi population in Jordan is well educated and about 22 percent of Iraqi adults are employed. Furthermore, around 70 percent of Iraqis in Jordan fall within the economically active age group (15-65), yet only 30 percent are participating in the workforce. This number is much lower for Iraqi women, estimated at about 15 percent. Of those with steady employment, 60% of them are hired labor. On the other hand, only 30 percent of Iraqis men participating in the work force can be said to be employers with about 25 percent of women and 13 percent of men are self-employed. Despite their temporary stay in Jordan, it is estimated that 25 percent of Iraqis in Jordan own their dwelling, with the remaining 75 percent renting their dwellings. Moreover, 60 percent of the households in the highest wealth groups own their dwelling, where only one percent of the poorer groups own their own dwellings.

As with any Diaspora population, the Iraqis in Jordan do supplement their income by money transfers. Transfers, for Iraqis in Jordan, are mainly from Iraq, followed by third world countries, with transfers from Iraq standing at 42 percent. Income levels amongst Iraqis are dependent on their economic backgrounds. The poorest of Iraqi households depend on income from employment, whereas the wealthier households have a higher dependency on income from self-employment and on transfers from Iraq.

It can be argued, that Iraqi investments in Jordan are substantial and mostly geared towards the real estate, industrial and trade sectors. Figures estimated that Iraqis have invested over JD200 million in the Jordanian stock market, and have registered capital of over JD100 million. It is believed that Iraqis are heavily invested in hotels and real estate with total investments close to US\$100 million. A significant factor responsible for maintaining high export volume to Iraq is the role played by the Diaspora in undertaking risks and delivery of products by paying for exports in cash on delivery. Iraqi Diaspora benefits both Jordan and Iraq.

Summing up, about 500,000 Iraqis live in Jordan. Most are educated and economically well off. Most bring in money from Iraq and invest in the Amman stock exchange, and in some of the productive sector and services sector in Jordan. A significant portion of the Diaspora has some financial and social ties with Iraq. Once the Iraqi economy is successfully restructured, the Diaspora can be a big factor in the country's development. The Diaspora can take up key

positions in the government, private sector, and in the centers of academic excellence. It will also provide the much needed entrepreneurial skills to the economy.

5.4.2 PALESTINIAN DIASPORA IN JORDAN

Following the 1948 Arab–Israeli war a vast majority of Palestinians who fled their homes moved to neighboring countries, including Jordan. Another wave of Palestinian refugees also fled to Jordan during the 1967 war, when Israel occupied the West Bank and Gaza along with other Arab territories.

Today, Palestinians in Jordan, most of who were granted citizenship in the early 1950s, are said to represent over half of the Jordanian population i.e. around 2.7 million. Moreover, according to the Palestinian Central Bureau of Statistics 30 percent of the Palestinian Diaspora are located in Jordan.

Of the Palestinian population that moved to Jordan, a vast majority were educated and economically well off as many of them brought their wealth. In Jordan, business was the natural way of generating income and later many Palestinians were able to found and establish much respected businesses, banking and insurance enterprises often with regional affiliations in the West Bank, Jordan and the Gulf region.

A small number of Palestinians sought governmental posts within the Jordanian government. Other Palestinians were merchants, craftsmen or skilled laborers.

While there are some informal linkages between Jordanians of Palestinian origins and the Palestinians residing in the West Bank, yet there is no real measure on this linkage. However, once the West Bank economy is vibrant and moving closer to a sovereign state the linkage will hopefully be strengthened through transfer of knowledge and entrepreneurial spirit.

5.4.3 OPPORTUNITIES TO ENGAGE THE DIASPORA COMMUNITIES TO PROMOTE TRADE AND INVESTMENT

The invaluable role of Diaspora in the development of their states of origin has been well documented. Diaspora contributions to economic and social development in their states of origin have been made in various ways, including remittances, FDI, transfer of knowledge, entrepreneurial networks and others. USAID has established the concept of “DNA” or a Diaspora Network Alliance as a flagship initiative to harness the potential of remittances and the broader Diaspora community. This initiative supports the identification and development of multiple Diaspora engagement models designed to leverage these resources.

Jordan is home to significant Iraqi and Palestinian Diaspora communities, both of which are eager to support development within their home countries. This activity, which should be based in Jordan, could be expected to have positive economic and social impacts not only on Iraq and West Bank, but on Jordan itself.

6. FINDINGS AND RECOMMENDATIONS

6.1 FINDINGS

The preceding analysis reveals tremendous scope for enhancing trade and investment relations between the three economies. In terms of merchandise trade, it can be expected that the majority of trade expansion would originate from Jordan, given the currently low levels of exports from either West Bank or Iraq. Jordan has already established itself in the Iraqi market in several product categories and the potential for expansion and diversification of these offerings is great, given the expected growth of Iraqi import demand over the coming years. While opportunities in West Bank are more modest, the geographic proximity and economic complementarities provide Jordanian manufacturers with a strategic advantage.

While opportunities do exist for expanding merchandise trade, the real opportunities for expanding economic integration between the three economies is in the realm of services. Jordan is well-positioned to outsource its established and growing reputation in professional services, including ICT and BPO, health and education, and financial services. Jordan is also a logical transit hub for the two other economies, provided that border impediments can be addressed to facilitate the movement of goods. Leveraging the Jordanian services economy would enable Iraqi and Palestinian businesses to improve their competitiveness through cost savings and improved service delivery.

Realizing the potential to expand trade and investment will, however, require concrete actions to enhance accessibility to market information, facilitate the movement of goods, and lessen barriers to investment. Lastly, the Diaspora communities residing in Jordan can provide an important linkage to forge strong cross-border relationships. Within the larger scope of projects and programs, there are also specific actions that the three USAID missions can consider to provide resources and incentivize the environment for greater economic cooperation.

6.2 RECOMMENDED PROJECTS AND PROGRAMS FOR EXPANDING TRADE AND INVESTMENT

The following sections outline some recommended joint projects and programs that USAID in the three locations could support to remove or mitigate some of the key impediments affecting cross-border integration and promote strong trade and investment ties between the three partner economies. As highlighted throughout this report, the focus here is on practical and achievable actions that are bilateral or multilateral, in nature.

6.2.1 PROMOTING BUSINESS EXCHANGES AND ACCESS TO MARKET INFORMATION

Despite the geographic proximity, little is known in Jordan about the practical business opportunities in both Iraq and West Bank. Market information is virtually non-existent and Jordan-based traders and producers, with the exception of Iraqi Diaspora businessmen, have not forged business-to-business market linkages. Most exchanges between Jordan and Iraq have been at an official Government-to-Government level, with little engagement by the respective private sectors. Fostering private sector business exchanges would better

promote trade and investment between the three business communities. Specific projects that could be considered for joint USAID Mission support include several projects that aim to overcome the information barrier:

- Establishment of bilateral or multilateral **Trade Information System**, which aims to develop, enhance and maintain trade statistics and market access information on tariffs and other measures that affect the cost of trade between the three entities.
- Establishment of a bilateral or multilateral **Investment Information System**, which seeks to develop a comprehensive and cross-border consistent information system and data base for prospective investors, covering existing and proposed investment projects, profiles of major sectors, location information (special economic zones and industrial estates), major traded products, incentives offered for investment, foreign investment license procedures, infrastructure and public utilities, and key investment-related agencies, banking and insurance.
- Establishment of a **business-to-business e-commerce** mechanism for the businesses in the region to put their supply chains on line, thereby enhancing efficiency and increasing competitiveness.
- Most importantly, more frequent **forums**, based in Jordan, for businesspeople in the three markets to engage, including sector-specific trade shows (building on the annual Rebuild Iraq Expo), and trade and investment missions.

6.2.2 BROADEN AND DEEPEN TRADE AND INVESTMENT AGREEMENTS

The existing trade agreements, while providing some benefits, have failed to promote deeper economic cooperation between member countries. Rules of origin have hampered the benefits of free trade and the absence of provision to remove non-tariff barriers, such as standards and trade facilitation or agreements on services trade, have limited the potential scope for economic cooperation. The USAID missions can provide technical support and capacity building to the respective governments to enable the implementation of **free trade agreements**. The intention expressed in the Free Trade Agreement of September 2009 by Iraq and Jordan can lead to greater trade facilitation between the two countries through mutual collaboration of the two customs (green channel treatment for each other's exports and creation of Joint Customs or One-Stop Border Posts), mutual recognition agreements in standards (SPS/TBT), and facilitating better B2B contacts through removal of all restrictions to movement of people. Future trade agreements should also include provisions to address trade in services and, more broadly, investment, including, for example, the elimination of investment barriers; liberalization of investment rules and policies, especially related to nationality requirements for ownership and/or employment; and application of national treatment.

6.2.3 TRADE FACILITATION MEASURES

Tackling the many border-related impediments to trade between the three markets will be critical to facilitating trade in goods. In the case of the Jordan-West Bank border, the necessary actions are clearly laid out in the World Bank study, including **improvements to the procedures at the King Hussein Bridge** and/or the establishment of a secure **Logistics Center** at the West Bank side of the bridge. While both scenarios would require action by the Government of Israel, the latter appears to be potentially the more practicable

as it would allow stuffing containers within an Israeli-secured area, facilitating passage to Aqaba for transshipment. This would greatly reduce the costs of using the Jordan trade route, which already offers the benefit of shorter time-in-transit to key markets to the East.

Much more is achievable vis-à-vis the Jordan-Iraq border. Jordan should continue its unilateral efforts to modernize customs, which is already well underway with the pilot single window facility and implementation of ASYCUDA World. Further benefits can be achieved through the full implementation of **risk management systems** within the various border agencies, beyond Customs (JFDA, Ministry of Health, JISM).

Given the importance of the Jordan trade route to Iraq, measures should be taken by Iraq, potentially supported by USAID, to facilitate trade at the Al Karama border crossing, including the implementation of risk management systems, transparent procedures, and more effective collaboration with Jordan Customs. Two alternative approaches may be considered to complement broader efforts to improve border management in Iraq. One option is to create a **cross-border free zone** that would provide a secure facility, similar to that discussed above in the context of the West Bank, to allow for more efficient stuffing of containers and to streamline border procedures, particularly for goods in transit. The objective would be to have a zone where clearance of goods take place inside the zone with a state of the art banking, warehousing, and logistical facilities. Another option is to establish a Joint **one-stop border post** that would reduce border processing delays. In order to further enhance cross-border trade, Iraq Customs could benefit from Jordan Custom's experience in implementing a **mutually recognized known-shippers program**, the Golden List, which has been recognized by the US Government as compatible with the C-TPAT trade security program in the US and has had a positive impact on member companies by facilitating their trade at the border. Joint USAID support for some or all of these initiatives would go a long way in promoting greater cross-border trade and the reduction of transaction costs for both traders and producers on both sides of the border.

6.2.4 INCENTIVES TO PROMOTE A REGIONAL SERVICES HUB

It is clear the Jordan has much to offer its neighbors through its roles as a regional services hub. While sector-specific actions can be taken to promote awareness and facilitate business relationships, broader actions to promote Jordan as a Regional Services Hub can promote Jordan as a true gateway to the region, both within the three markets and beyond. Earlier proposals to create a new incentives framework, such as a **regional headquarters scheme**, should be evaluated. Tie-ins to the newly established Development Zones and or proposed new Investment Law in Jordan could be explored as a means to support such an initiative.

6.2.5 DIASPORA ENGAGEMENT AND INVESTMENT PROMOTION

The Diaspora communities in Jordan provide a unique opportunity to forge deeper and broader ties between the respective business communities. There are several key prerequisites to successful Diaspora programming, applicable to both Iraq and the West Bank. While Diaspora contributions will still happen in the absence of a sustained program of activity, their impact will likely remain negligible until home countries make a concerted effort to identify, develop and support meaningful Diaspora engagement.

- *Mobilization of Supply.* Home countries need to engage in opportunity identification and design activities within their home countries, which are critical to developing a

supply of Diaspora-targeted investment and development opportunities. While many opportunities will develop extensively on entrepreneurial initiative alone, many others will require more proactive development efforts.

- *Mobilization of Demand.* Home countries need to identify and mobilize demand for Diaspora-targeted projects among their Diasporas in Jordan through a variety of awareness, assessment, and engagement activities. While possessing many similarities, the Diaspora community should be considered diverse and fragmented, with a variety of resources (financial, networks, human capacity) and varied ties and targets to their home countries.
- *Connecting and Partnering.* Home countries need to use diverse and innovative connecting approaches to reduce the practical barriers to Diaspora-driven projects and increase the level of Diaspora engagement. These strategies will address the differences in location, background, interests and objectives that make connecting and partnering with the Diaspora more complicated in practice than it appears based on desire alone.

In short, new and creative mechanisms need to be found to tap Diaspora entrepreneurship for Iraq. Joint Ventures and partnerships provide the Diaspora a firmer footing and surer way to deal with local risks. In addition to the broader measures mentioned above to facilitate business linkages, the three USAID missions could directly support the mobilization of Diaspora linkages through new schemes to promote investment:

- One way would be for the funding of **investment guarantees**, perhaps through the Multilateral Investment Guarantee Agency (MIGA), and/or the establishment of new capital funds to augment private sector funds.
- Another option is for the three USAID missions to utilize their respective **GDA** programs to facilitate Public-Private Partnerships in Iraq and West Bank.

6.3 NEXT STEPS

This final section delves into institutionalizing the content of the Concept Paper to further coordination between the USAID offices in Jordan, Iraq and the West Bank. Given that there are no real trade ties between the West Bank and Iraq the process could be having two bilateral meetings with Jordan the common country in both. In addition, the key recommendations that come out of these discussions should be passed on to the respective governments for consideration and implementation. Moreover, these meetings should indicate the possibilities of exploring joint programs, and also help adopting the best practices. Ideally, these meetings should take place thrice a year with a well defined agenda and follow up actions for discussions.

First Meeting December 7, 2009

Agenda Discussion of the Concept Paper and follow up

Actions Themes of the next three meetings---Trade and Transport Facilitation, Trade in Services, Role of the Diaspora (in the case of the West Bank there could be two meetings just on Trade and Transport Facilitation, the main issue in the West Bank)

Second Meeting March 2010

Agenda Trade and Transport Facilitation

Theme paper needs to be prepared prior to the meeting with a set of more detailed recommended actions and programs for each of the three countries

Actions Acceptance of the recommendations

Pass these on to the respective governments.

Design USAID tasks if more work is required to arrive at a set of concrete recommendations that are implementable.

Third Meeting July 2010

Agenda Trade in Services

Theme paper needs to be prepared prior to the meeting with a set of more detailed recommended actions and programs for each of the three countries

Actions Acceptance of the recommendations

Pass these on to the respective governments.

Design USAID tasks if more work is required to arrive at a set of concrete recommendations that are implementable.

Fourth Meeting December 2010

Agenda Role of Diaspora in Iraq and the West Bank

Theme paper needs to be prepared prior to the meeting with a set of more detailed recommended actions and programs for each of the three countries

Actions Acceptance of the recommendations

Pass these on to the respective governments. Design USAID tasks if more work is required to arrive at a set of concrete recommendations that are implementable

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