



CASE STUDIES | MAY 2017

# Work Opportunities for Syrians

An analysis of Special Economic Zones as vehicles for economic growth and job creation in Jordan

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## CONTENTS

Executive Summary	
Key Findings	2
Short Recommendations	3
I: Two Problems, One Solution: Jordan's Economic Development, Syrian Refugees and Special Economic Zones	5
II: Understanding Special Economic Zones in Theory	14
III: Special Economic Zones in Jordan: Their Role and Shortcomings	20
IV: What Role Syrians?	27
V: Conclusion and Recommendations	34
Appendices	38
References	42
About the Authors	49

## EXECUTIVE SUMMARY

- » In February 2016, leaders from Jordan and the international community gathered in London to discuss strategies for alleviating the Syrian refugee crisis. The Jordan Compact was an outcome of this “Supporting Syria and the Region” conference. This document presented a new approach in which Jordan and members of the international community sought to turn “the Syrian refugee crisis into a development opportunity” that could attract “new investments” and open up the EU market through simplifying the rules of origin. This, in turn, could create “jobs for Jordanians and Syrian refugees whilst supporting the post-conflict Syrian economy”.<sup>1</sup>
- » Alongside some smaller-scale efforts, including simplifying the process of obtaining work permits and allowing Syrians to start new businesses, the centrepiece of the plan is the attempt to create a significant number of work opportunities for Syrians in factories operating in Jordan’s Special Economic Zones (SEZs). Supported by financial and technical support programs aimed at improving Jordan’s business and investment climates, and by eased access to the European market, the intention is to create “hundreds of thousands jobs for Jordanians and Syrians” and to catalyse the often-stated aim of the Jordanian government to shift the country towards a manufacturing economy.
- » The idea that Jordan’s SEZs and the Syrian workforce could be utilised to give Jordan the ‘push’ it needs in order to transition to a manufacturing economy underpins this ‘zonal development model’.
- » However, the proposed trajectory is uncertain. Jordan’s Special Economic Zone regime is unwieldy and unattractive to investors. At the same time, Syrians have not signed up for the jobs offered in SEZs.
- » This research provides a critical analysis of the zonal development model and the policy scheme initiated with the Jordan Compact. In the first chapter, the authors explain how the fact that the Compact is designed to combat two problems—economic stagnation and a humanitarian crisis—means it risks solving neither. In the following chapters, the research focuses on two critical elements of the framework: firstly, the central role of Special Economic Zones in Jordan; and secondly the proposed match between Syrians in Jordan and the manufacturing sector.

## KEY FINDINGS

The key findings of the report are as follows:

- 1 Jordan is faced with two crises. On the one hand, a long-deficient economic model has failed to create enough jobs for Jordanians. On the other, the influx of Syrian refugees has both strained this pre-existing crisis and added a new humanitarian dimension.
- 2 As in the past, the political economy of Jordan is restricting the government's room for manoeuvre. Policy recommendations from the humanitarian sector which could be seen to prioritise the Syrian refugees are not feasible in this situation.
- 3 Given these restrictions on government policy, the proposed plan is an attempt to solve both problems at once. The Compact focused on pairing Syrians with Special Economic Zones in Jordan in order to boost productivity.
- 4 However, Jordan's Special Economic Zone regime does not adhere to international best practices. There is significant administrative confusion between government departments even concerning how many Special Economic Zones there are. Exporters based in the Zones do not have a good understanding of the EU market, largely because the EU does not import many goods from Jordan. These issues could act as significant disincentives for international investors.
- 5 At the same time, the results of pilot programmes over the summer of 2016 revealed that Syrians are not necessarily willing to work in the manufacturing sector in Jordan, which has traditionally relied on immigrant labour from Asia. While many Syrians would prefer formal employment to their current informal coping strategies, this employment must present a clear "value added" for Syrians to abandon their now six-year-old coping strategies.

Having thus identified the weaknesses of this new policy framework, this report sets out a series of recommendations to help Jordan and its international partners work towards the best possible outcome. The recommendations are grouped under three objectives: to enhance the Special Economic Zone regime in Jordan; to attract Syrians and Jordanians into the jobs available in SEZs; and to help manage the humanitarian crisis. The authors have selected the most important of these recommendations below:

### SHORT RECOMMENDATIONS

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#### To Enhance Special Economic Zones:

- » Embrace Special Economic Zones as bellwethers for nation-wide economic reform. Special Economic Zones are difficult to get right, and evidence from other countries shows they work best when they are part of a nation-wide reform plan.
- » Streamline administration of Special Economic Zones. SEZ administration in Jordan is a patchwork of overlapping jurisdictions between different government bodies. It is difficult to get clear answers on most legal issues surrounding SEZs, which negatively impacts investment.

- » Improve local governance of Zones. Successful Zones usually have local 'buy-in' and are connected to local economies surrounding them. More needs to be done to connect local people to Special Economic Zones. As well as offering employment, efforts should be made to include local people in the decision-making process. Inclusion is better than one-off consultation.
- » Improve existing Zones before building new ones. Zones in Jordan are currently underperforming and money would be better spent improving current ones rather than building new ones.
- » Establish direct connections with European importers through import promotion. Jordan has not exported much to Europe in the past, and yet the logic of the relaxed Rules of Origin relies on Europe being a big enough market to encourage investment into Jordan. Jordan's European partners need to actively reach out to Jordanian exporters to help them import to Europe.

#### **To Attract Jordanians and Syrians into the Manufacturing Sector**

- » Target efforts to attract investments towards sectors which already exist in Jordan and in which Jordan could develop comparative advantage. Jordanians and Syrians often do not work in SEZs because workers often earn less than minimum wage and have poor work conditions. Sustainable growth and job creation will only be achieved if SEZs can compete under national wage levels and labour legislation.
- » Focus on value-added rather than establish new exports. Jordan has experience with exports like garments. Focusing on improving the quality of these goods is more likely to be successful than trying to establish new industries from scratch.
- » Engage in dialogue with Syrians. Syrian refugee networks are powerful networks both to spread information and to listen to for feedback. The government could empower certain individuals to become active stakeholders in the Zonal development programme.

#### **To Help Syrian Refugees**

- » Improve the legal regime governing Syrian refugees. Fieldwork has consistently shown that Syrians are stressed by the threat of forced encampment and even refoulement. Removing these threats would be a good step towards creating a more progressive legal environment for refugees in Jordan. Improving the legal regime would also include further reforms to the work permit system. Waiving the costs of a work permit could be a good step in this regard. Disconnecting the work permit from the employer (and instead link it to the employee) would be a good next step.
- » Ease access to formal livelihoods, even outside of Special Economic Zones. Improving Zones may attract Syrians, but many more will continue to feel that manufacturing does not offer them the opportunities they want. In that case, there must still be opportunities to earn livelihoods. Improving access to finance for Syrians would be an important step.

# 1 TWO PROBLEMS, ONE SOLUTION: JORDAN'S ECONOMIC DEVELOPMENT, SYRIAN REFUGEES AND SPECIAL ECONOMIC ZONES

The Hashemite Kingdom of Jordan is a resource poor nation which has traditionally relied on foreign aid, public debt, remittances and foreign direct investment to generate economic activity. Jordan maintains a significant trade deficit since it has to import virtually all its fuel, food and even water. While the Jordanian economy seemed to benefit from key reforms enacted in the 1990s,<sup>2</sup> Jordanian economic growth in recent years has relied on unsustainable sources and has not created enough jobs to meet the demand of a new generation coming of age.<sup>3</sup>

Like many countries in the region, Jordan has historically followed an economic model which sought to guarantee public sector jobs for Jordanian nationals. This so-called “social contract” seemed initially successful in the booming years of the 1970s, when the Kingdom was awash with petrodollars from its allies in the Gulf. However, as the public sector continued to grow, the private sector struggled to compete with a public sector which enjoyed government largesse. Under such circumstances, “the only way for private businesses to pursue their interests” was “to obtain specific incentives in the form of special protection, access to finance or other subsidies”.<sup>4</sup> In this way, the bloated public sector distorted the growth of the private sector.<sup>6</sup>

At the same time, low taxes and limited domestic productivity has given the government little manoeuvrability in terms of policy. The economic model is fragile and is increasingly under strain in 2016 due largely to the increased cost of importing fuel and poor government policy.<sup>5</sup> The Kingdom is at risk of insolvency.

These structural cleavages pre-date the arrival of the Syrians in 2011,<sup>7</sup> but the presence of the Syrians has increased rent price and impacted the informal economy. Put simply, the Jordanian economy has failed to grow quickly enough to provide a sufficient number of decent jobs for its own population, let alone the large refugee populations.<sup>8</sup> This is a particular problem as international funding for aid programs is unsustainable.

In order to survive, Syrians need to be able to earn livelihoods themselves. There are thus two connected pressures on Jordan in 2017. On the one hand, the country's outdated economic model, which prioritised public sector employment, can no longer deliver robust, sustainable growth or generate enough jobs. On the other, a pressing humanitarian crisis demands attention.

An initiative from two Oxford academics seemed to have a solution which simultaneously solved both the unemployment and humanitarian crises.<sup>9</sup> By allowing Syrian refugees to work in geographically determined Special Economic Zones, Jordan could boost foreign direct investment and revitalise a long-discussed shift towards a manufacturing economy. Such a manufacturing economy could offer decent jobs to Jordanians in the longer term as well, which has been a long-term key policy goal for the Jordanian government. The plan, developed in conjunction with the Jordan-based think-tank the WANA-Institute, gained political traction and has provided the blueprint for policies initiated with the Jordan Compact.

While seeming to work well in theory, this paper will outline how, by trying to solve two issues—Jordanian unemployment and the needs of the refugee community—the plan risks being ineffective and could even prolong an unsustainable economic status quo.

## THE FIRST PROBLEM: A STAGNANT AND SEGMENTED ECONOMY

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In order to understand the evolution of the Jordanian economy it is useful to conceptualise it as “segmented”.<sup>10</sup> This segmentation occurs at a global, regional and national level. At the global level, the Middle East (with the possible exception of the countries of Gulf Cooperation Council) can be seen as marginalised from an increasingly globalised world.<sup>11</sup> As historian Fred Halliday has pointed out, European interaction did not transform the economies of the Middle East as it did in other countries. With a few exceptions, there was “no major transformation of the agricultural character of these societies, let alone any promotion of industrialisation” in the colonial period.<sup>12</sup> This segmentation from global supply chains was exacerbated by the lack of natural resources—with the notable exception of oil—and has left the Middle East behind.

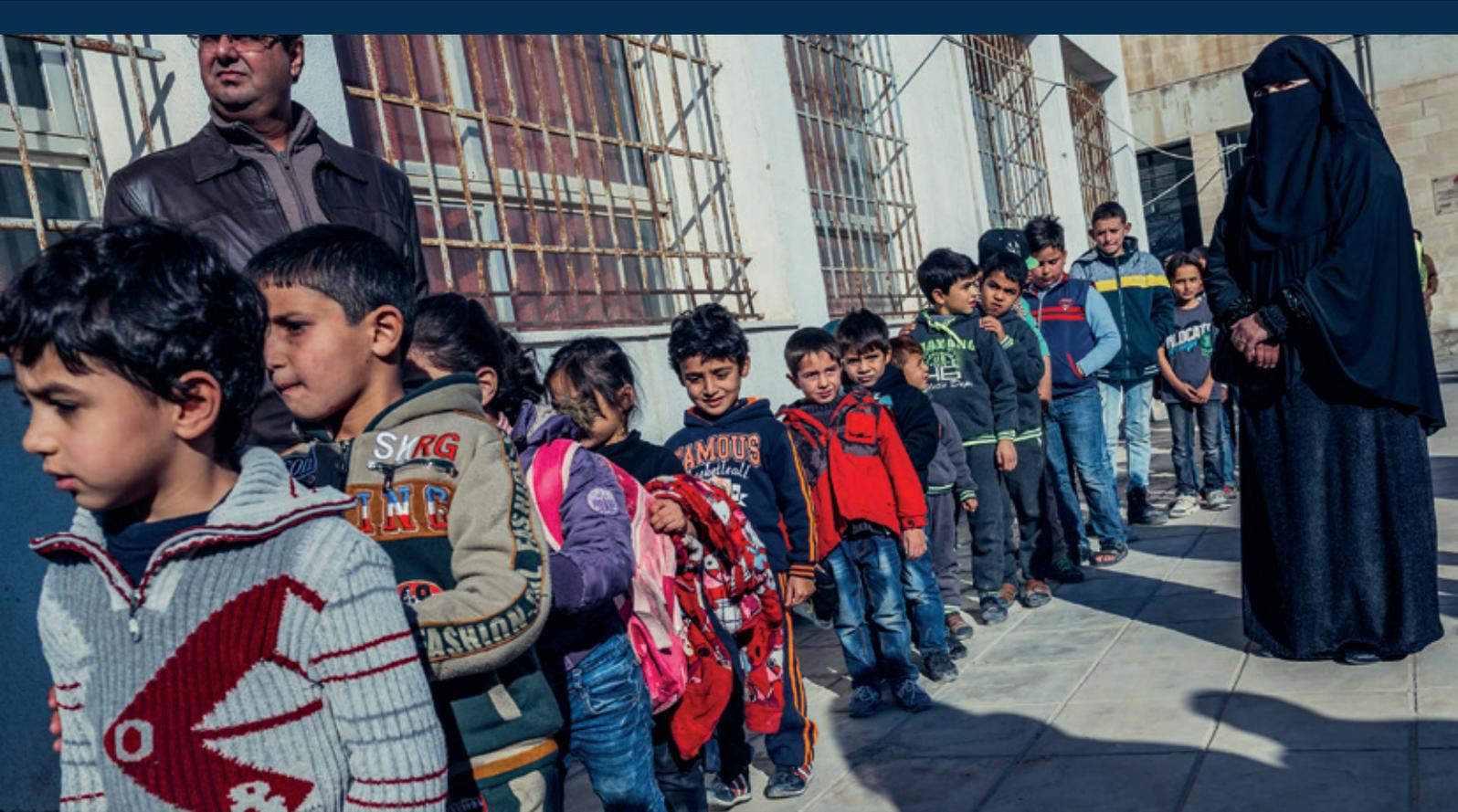
In the immediate post-independence era, most MENA states engaged with import substitution industrialisation,<sup>13</sup> which often resulted in “heavier, more bloated bureaucracies” than those of other countries. Extravagant development projects and large militaries were supported largely by oil rents or foreign aid. When, in 1982, the “prevailing international consensus changed to favour market economies and export-orientated development”, MENA states were slow to readjust their economic strategies and structures.<sup>14</sup> Since the 1980s, the Middle East has “failed on many counts to meet the criteria for privatisation, freeing of domestic markets from subsidies, good governance and transparency” that are now held to be “conditions for sustained support and aid, as well as being preconditions for growth”.<sup>15</sup>

This exacerbated a broader, long-term marginalisation of the region resulting from the fact that the Middle East did “not produce significant amounts of goods for export, nor did it attract investment to produce goods there”.<sup>16</sup> In Jordan, for example, the main exports are chemical products, textiles and vegetables.<sup>17</sup> At the same time, Jordan is forced to maintain a significant trade deficit of approximately \$15.3 billion USD as it imports fuel and food.<sup>18</sup> Jordan is stuck in the so-called ‘middle income trap’; it cannot compete on high quality goods or on cheap labour. Jordan does not produce goods which can compete in European markets.<sup>19</sup> It is thus marginalised from global supply chains.

### Regional

At the regional level, too, Jordan is segmented from other economies in the Middle East. As Halliday points out, the enduring common characteristic of Middle Eastern economies, whether they are resource-rich or resource-poor, is the centrality of the state to their economies. Economics is affected and compounded by the politics of individual rulers and their networks of patronage and privilege. These personal rivalries have shaped the economic development of the Middle East. The result has been that “intra-regional trade...has been much less important than trade with more developed countries”.<sup>20</sup>

Throughout the 1970s and 1980s political incentives dominated economic ones; Arab rulers “invested and loaned for political purposes, supporting regimes they favoured or wanted to influence”.<sup>21</sup> This system of alliances has been labelled as the Arab Cold War,<sup>22</sup> and it is important to note that this regional aspect impacted national economic development as well. The recurring inter-state wars and constant threat of violence in the region justified—and continues to justify—the “security role of the state...[and] the claim of the military on resources”.<sup>23</sup> This short-sighted investment in domestic regime security, region-wide militarisation and insistence on protectionist measures has helped to ensure that the Middle East does not trade with itself particularly efficiently. This segmentation negatively affects its



attractiveness for foreign direct investment. As Adeel Malik and Bassam Awadallah point out, for a private sector to thrive, “the size of the market matters”. This is a problem in the Middle East, which remains “one the most fragmented regions of the world in terms of production, trade and economic linkages”.<sup>24</sup>

Recent attempts to foster economic integration have been frustrated by political rivalries across the region, entrenched interests supporting the status quo, and the absence of domestic pressure for economic integration.<sup>25</sup> While many tariff barriers have been slashed, “neo-liberal reforms have failed to dismantle the more cumbersome non-tariff barriers”.<sup>26</sup> With few economies of scale to utilise and the constant threat of political instability or war, investors have looked elsewhere. Trade logistics are a particular weakness for Jordanian exporters. There is limited coordination among Arab countries on border procedures and internal transportation is expensive thanks to an overreliance on a fragmented trucking industry (and associated under-investment in rail).<sup>27</sup> This translates into a higher cost of production and reduced competitiveness for firms.

Above: A primary school for Jordanians and Syrian refugees in Ar Ramtha city, Jordan. December, 2015.

Source: Fotokon / Shutterstock.com

## National

Middle Eastern economies are segmented at the national level as well. Labour markets across the Middle East, including Jordan, are segmented between “the public and private sectors, between formal and informal sectors and between nationals and non-nationals”.<sup>28</sup> The public sector has historically provided jobs for Jordanians, particularly so-called “East Bankers” whose political support the monarchy relied on.<sup>29</sup> Similarly, the military has been instrumental in providing the state with a means of employing its people.<sup>30</sup> However, this economic system has been financed through foreign aid money from the Gulf and the West. As oil revenues have fallen and the predominant economic model has shifted to favour export-led economies, Jordan has failed to keep pace.

Recent economic growth in the Kingdom has come from unsustainable sources or from sources which will not improve domestic productivity in the long-run. During the last three decades, the Jordanian economy has been dominated by government employment and the services sector (finance and insurance).<sup>31</sup> Neither is particularly conducive to delivering productivity gains in an export-led economic system.

Rather, growth in Jordan has been fuelled by international aid. Other significant periods of growth in Jordan have their roots in regional politics; in the 1990s Jordanians returned from working in the Gulf as the Americans established themselves in Saudi Arabia before Operation Desert Storm, and they invested their savings into the residential property market, which saw a boom in the construction sector. More recently, the Qualified Industrial Zone programme has brought some economic growth, but these Zones have failed to integrate with local economies surrounding them and are thus enclave export sectors which have not brought wider job generation or economic growth.<sup>32</sup>

Low-level but sustained protests through 2016 suggest that the system of patronage which underpins Jordan’s economy is no longer sufficient.<sup>33</sup> Internal migration in search of work towards Amman has exacerbated the situation, and the increased demand on water as Jordan’s young population continues to grow has made previous agricultural lifestyles untenable.<sup>34</sup> An emphasis on trying to build manufacturing sectors has seen some potential tourist sites undeveloped in rural areas. Previous initiatives to generate jobs have faltered as the jobs that are created have gone to non-Jordanians.<sup>35</sup> Unemployment in Jordan stands at approximately 15 percent, but it is the young who suffer the most; among young people, the unemployment rate hovers around a staggering 40%.<sup>36</sup> Much of the problem here is that Jordanians do not see the low-wage jobs offered in these factories as suitable for them. Young Jordanians, often with degrees which are not valued by employers, are therefore left with few options beside migrating for work (either internal migration to Amman or to the Gulf countries).

The Jordanian economy is thus in crisis; it has delivered growth without jobs. This is not a new problem—job generation has been a political imperative for many years in Jordan—but change has been slow. Those who stand to benefit from sweeping economic reforms—the young, the unemployed, those not part of patronage networks which have historically reserved parts of the job market—are not organised, and indeed cannot mobilise to meaningfully challenge the status quo due to limited labour rights<sup>37</sup> and restricted press freedom.<sup>38</sup> At the same time, decades of patronage and vertical industrial policy have created powerful interest groups with resources and contacts which have lobbied for the “continued use of vertical policies well beyond their justification”.<sup>39</sup> The private sector, which could be a powerful ally in the fight for reform, has “adapted to the prevailing industrial policy that has protected state-owned enterprises” and as such now has a vested interest in the status quo.<sup>40</sup>

There are thus two main conclusions regarding the Jordanian economy: one, it is in desperate need of reform to generate jobs; and two, this reform carries political risks which have, so far, stymied meaningful reform efforts and has given Jordan half-finished development initiatives scattered across the country.

## THE SECOND PROBLEM: THE REFUGEE CRISIS

It was into this delicate economic situation which the Syrians arrived in 2011. While they were initially welcomed both by local Jordanians and by the government, their prolonged stay has put pressure on scant resources and many Syrians have now turned to informal employment in order to survive.<sup>41</sup> There are over 650,000 Syrian refugees registered in Jordan (although the total number of Syrians is likely to exceed 1,000,000).<sup>42</sup> The Syrian refugee crisis has thus added another dimension to the economic crisis in Jordan; rents have increased, wages have decreased as Syrians undercut Jordanians (many of whom themselves work in the informal labour market), and there is a perception that Syrians are taking jobs which Jordanians could have.<sup>43</sup> On top of this, the Syrians themselves are vulnerable and their condition represents a humanitarian crisis in its own right.

*The majority of Syrians have settled in Jordan's poorest northern municipalities but opportunities for work which correspond to the refugees' skills and aspirations are scarce.*

Jordan has a long history of accommodating refugees. It has hosted Palestinian refugees since the late 1940s, Lebanese fleeing their civil war, Iraqis fleeing the wars in Iraq and, finally, Syrians. Despite—or perhaps because of—this historical experience with refugees, Jordan's legal regime for refugees is vague. Jordan is not a signatory to the UN's 1951 Convention Relating to the Status of Refugees and its additional 1967 protocol. Rather, it has signed Memorandums of Understanding which outline some basic rights for refugees in the Kingdom. These are largely progressive but "notably absent" from them are a variety of legal rights including "rights to housing, employment, public education, freedom of movement, and public relief and assistance".<sup>44</sup> Of these, the right to employment has been subject to most contentious debate. Without access to work, refugees are forced to rely on international aid. As this aid has continued to shrink—the Jordan Response Plan has received just over 50% of its required funding<sup>45</sup>—Syrians have turned to informal coping strategies to get by. Without a clear legal regime, however, many Syrians are under severe emotional stress as well as economic hardship.<sup>46</sup>

International humanitarian organisations, including the UNHCR, have struggled to find suitable ways to respond to the multifaceted dimensions of the crisis. Unlike other refugee populations in poorer parts of the world, many of the Syrian refugees in Jordan are relatively well-educated.<sup>47</sup> The overwhelming majority of Syrians have settled in urban centres, and aid organisations have only recently shifted their approach to better meet the needs of urban refugees. The majority have settled in Jordan's poorest northern municipalities (with the governorates of Amman, Irbid and Mafraq hosting more than 76% of all Syrian refugees in Jordan)<sup>48</sup> but opportunities for work which correspond to the refugees' skills and aspirations are scarce. Research is beginning to show that Syrians will use their own coping strategies—some of which traditional humanitarian organisations may classify as negative—rather than work jobs which they feel do not match their skills or aspirations.<sup>49</sup>

Much has been made of kinship ties among Syrians as a coping mechanism. Researcher Matthew Stevens, from York University in Toronto, has shown that, at first, Jordanians were willing to help both next-of-kin Syrians and indeed, Syrians they were not related to. As the war in Syria has continued, though, the cost of hosting refugees has increased while international funding to complement pre-existing support networks has decreased.<sup>50</sup> Jordanians and others living in Jordan, who are themselves in a fragile economic situation, cannot continue to offer financial support. As a result, the overwhelming majority of Syrian households in Jordan are now self-sufficient; they make ends meet through a variety of informal coping mechanisms which range from insecure shift work to selling food coupons for cash<sup>51</sup> (rent is the single biggest drain on refugee finances).<sup>52</sup>

Stevens also identified that Syrians were increasingly isolated as they “felt ashamed of a loss in status and were reluctant to allow others to see the reduced circumstances in which they were living”.<sup>53</sup> This social isolation is worsened by the uneven and unclear legal regime for refugees in Jordan; according to Stevens, many families “reported a fear that Jordanians would turn them in to the police for illegal work or other perceived infractions”.<sup>54</sup> Refugees are also seemingly reluctant to socialise with other Syrians due to a persistent fear that individuals “could be ‘spies’ for the Assad government”.<sup>55</sup>

Consulting and working with the Syrians is of paramount importance because their coping mechanisms are impacting the Jordanian economy. While the evidence seems to suggest that Syrians are not, in general, replacing Jordanians in the labour market (Syrians tend to work in agriculture and construction which have traditionally been filled by non-Jordanians), the economic activity rate of Syrians (48.5%) is higher than that of Jordanians (36.5%).<sup>56</sup> Moreover, national statistics are unlikely to paint the full picture, since many Syrians are working seasonal, irregular work. In these localities, it is possible that Syrians are directly displacing Jordanians.

More generally, the large number of Syrians is simultaneously putting downward pressure on wages in the informal sector while increasing prices for housing and food.<sup>57</sup> Given the importance of the informal sector in Jordan—it was estimated to represent about 20-25% of total economic activity in the country in 2010,<sup>58</sup> this downward pressure is worrying and is being keenly felt by Jordanians. A report by the International Labour Organization found that 85% of Jordanian workers believed that Syrians should not be allowed to enter Jordan freely, and 65% believed that Syrians should be restricted to live in refugee camps.<sup>59</sup> Moreover, 2016 has seen sporadic unrest throughout the country.<sup>60</sup> Unrest has frequently centred on the lack of available—and suitable—jobs in the Kingdom, and there is a perception that Syrians will make the competition even harder.

This negative public perception highlights the scale of the challenge facing Jordan; the Government wants to simultaneously placate its own population while delivering on the needs of the Syrians. Negative perceptions of Syrians among Jordanians have forced the Government to postpone responding to the refugee crisis in “productive ways which that could ultimately lessen the negative impact of the Syrian refugee crisis, like formalising Syrian employment”.<sup>61</sup> Professor Dawn Chatty, former Director of the Refugee Studies Centre at the University of Oxford, has warned that without a shift in policy, “Syria’s forced migrants will continue to leave the region” in search of protection, decent work and proper education.<sup>62</sup> There is thus a clear need for European policy makers to take the concerns of Syrians seriously; the European desire for containment in the region relies on the region being an attractive place to stay. This report is a first step towards making Syrians’ voices heard in these policy discussions.

## TWO BIRDS, ONE STONE: THE JORDAN COMPACT EXPLAINED

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Jordan thus faces two crises; national stagnation and a refugee crisis. In this context, Alexander Betts, an academic specialising in refugee economics, and Paul Collier from the World Bank, authored an article in 2015 which suggested a way out of this double quagmire of severe unemployment and refugee poverty.<sup>63</sup>

They argued that Syrians should be given employment opportunities. The argument went that Syrians needed to be able to earn livelihoods themselves in the wake of declining aid revenues, and Jordan could leverage Syrian skills to boost national development. This argument, which was the result of a visit to Jordan by Betts and Collier in 2015, thus envisages a “win-win” scenario in which refugees can be an opportunity for Jordan, not a burden. According to their plan, Syrians would work in Special Economic Zones in Jordan, and the European Union would relax their trade rules to allow exporters located in these Special Economic Zones to more easily trade with Europe. In this way, the European Union hoped to incentivise foreign direct investment in the Special Economic Zones which would, in turn, create jobs for Syrians and, in the longer term, for Jordanians.

This policy proposal was adopted in the Supporting Syria conference in London in February 2016 and made into EU policy in the summer of 2016. Its central tenets were recorded as follows:<sup>64</sup>

### Rules of Origin:

- » The European Union will relax the ‘Rules of Origin’ to allow certain goods produced in Jordan to enter the EU more easily. These goods must be produced in certain Special Economic Zones or Industrial Zones.

### Employment for Syrians:

- » Jordan will provide 50,000 job opportunities for Syrians by early 2017, and will aim to ultimately generate 200,000 opportunities for Syrians.
- » In order for factories to benefit from the relaxed Rules of Origin, Syrians must make up 15% of their workforce by mid-2017, with this number rising to 25% by 2019.
- » Syrians must be employed “in formal and decent jobs and on a Full-Time Equivalent basis” and they must “have received a work permit valid for minimum period of twelve months” under Jordan’s legal system.<sup>65</sup>

### National Development:

- » The overall objective for this initiative is to “stimulate trade and investment in those development zones and industrial areas and thereby contribute to improved economic and employment opportunities for Syrian refugees *and* for the Jordanian population [emphasis added].”<sup>66</sup>

### Temporary

- » The relaxed Rules of Origin is active for a limited period “sufficient to provide an incentive for additional investment and employment generation” and is therefore currently scheduled to expire on 31 December 2026.<sup>67</sup>

Alongside trade concessions, the international community is trying to facilitate reform by reducing Jordan’s public debt and helping finance reforms. The IMF has agreed to admit Jordan to its Extended Fund Facility which grants Jordan longer debt repayment schedules.<sup>68</sup> At the same time, the World Bank has guaranteed a \$300 million Program for Results operation to help improve “Jordan’s investment

climate, attract investors, reform the country's labour market and grant access to the Syrian labour force".<sup>69</sup> On top of this emergency funding, donors at the London Conference in February 2016 pledged over US\$12 billion in grants for the region, of which Jordan has already received \$1 billion (much of the grant total is not yet committed to any particular country).<sup>70</sup> The World Bank will also "finance labour intensive public works which will provide short term job creation".<sup>71</sup>

However, the plan to use Relaxed Rules of Origin to generate jobs has some weaknesses. It is based on four assumptions: firstly, that the Rules of Origin are the main barrier to Jordanian trade with Europe; secondly, that Europe will buy what these Zones export in great quantities; thirdly, that this increased demand will generate 150,000 jobs in the Zones (and a further 50,000 outside them);<sup>72</sup> and fourthly, that Syrians will want these jobs which have traditionally been shunned by Jordanians.

As we have seen, Jordan's trade infrastructure is already under strain. Its trade port, Aqaba, is congested and air cargo is too expensive for most Jordanian exporters. Aqaba is directly connected to few other ports, which increases freight costs.<sup>73</sup> Jordan's railway is still unfinished, despite years of funding. Two of Jordan's traditional markets, Iraq and Syria, have closed in the wake of regional turmoil.<sup>74</sup> According to Salim Karadsheh, CEO of Fine Hygienic Holding, as a consequence of the United Kingdom's decision to leave the European Union, both the British pound and Euro have devalued against the Jordanian dinar, which is pegged to the US dollar, and this acts as a new barrier to trade.<sup>75</sup> As the Jordan Strategy Forum has already pointed out, in order to make a difference, the relaxation of the Rules of Origin must be coupled with other political and economic reforms.<sup>76</sup>

While the EU is Jordan's largest trading partner,<sup>77</sup> the European Commission's statistics reveal that Europe imports very little from Jordan.<sup>78</sup> Indeed, Jordan's trade deficit with the EU was approximately \$4 billion in 2015.<sup>79</sup> While the EU is Jordan's largest partner for imports, the entire European block lags behind the USA, Saudi Arabia, Iraq, India, the UAE, Kuwait and China as a market for Jordanian exports. In simple terms, the EU does not currently buy what Jordan sells in great quantities (and indeed, the UK was the biggest European importer from Jordan, which is subject to change in the wake of the UK's decision to leave the EU).<sup>80</sup> Manufacturing more complicated goods requires significant knowledge and skills transfer, which the current plan of relaxing Rules of Origin risks missing out.<sup>81</sup> The small scale of EU imports from Jordan suggests that Jordanian manufacturers will not be in a position to immediately export to Europe; their goods may not be of sufficient quality to pass other European barriers which have not been relaxed as part of the Compact.<sup>82</sup>

In terms of job creation, Jordan's main export industries have not traditionally attracted Jordanians. Jordan's main exports to Europe are garments, vegetables, or chemicals from Jordan's mining sector. The first two of these industries are largely staffed by non-Jordanian labour, and there is little evidence to suggest that Syrians will work in industries shunned by Jordanians. The mining sector has few opportunities for significant job creation. Indeed, if the aim were solely job creation, it would be difficult to justify relaxing Rules of Origin only to certain Zones, since this risks excluding "numerous industrial firms that currently operate outside these zones and are ready to export to the EU market immediately".<sup>83</sup>

Finally, it is not clear that working in Special Economic Zones is what the Syrians want to do. Employers have complained that Syrians are not applying to work in the Zones. Manufacturers at Al Tajamouat Industrial City, 20 kilometres east of Amman, say they have already "given up on the deal" because "it is impossible to find Syrian employees".<sup>84</sup> The largest factory on the estate, Jerash Garments and Fashions manufacturing Company "failed to get one single Syrian worker" after trying for two months

to hire them. This low sign-up rate was despite the fact that the company offered Syrian employees free bus transport to the plant, social security and healthcare.<sup>85</sup> Anecdotes from the region revealed that some Syrians were concerned taking a job would disqualify them from aid handouts, and this belief has persisted even after concerted communication campaigns (largely due to distrust among the refugee community of foreign organisations like the UNHCR). Part of the problem here is that Syrians were not involved in the formulation of this plan. As a result, policy-makers have developed a plan which risks ignoring the already-established coping strategies of Syrians.

*It is not clear that working in Special Economic Zones is what the Syrians want to do. Employers have complained that Syrians are not applying to work in the Zones.*

In simple terms, it is not clear that there is a market-led “demand” for Jordan-made goods in Europe or a “supply” of Syrian workers, which need to make up at least 15% of a factory’s workforce for it to even qualify for the relaxed Rules of Origin. On both angles then—the developmental and the humanitarian—the plan to relax the Rules of Origin may not be immediately successful.

Nevertheless, these obstacles can be overcome through a combination of sustained European interaction with Jordanian exporters and by complementing it with other measures designed to support pre-existing coping strategies. This document will outline key recommendations to ensure the best possible outcome.

## 2. UNDERSTANDING SPECIAL ECONOMIC ZONES IN THEORY

The plan to relax the Rules of Origin has a dual-goal; national development in order to create jobs, and supporting refugee resilience. These goals are to be achieved through Special Economic Zones. In order to analyse the suitability of the existing Special Economic Zone regime in Jordan for this plan, it is necessary to outline “best practices” for Special Economic Zones which have emerged over the past decade.

### WHAT ARE SPECIAL ECONOMIC ZONES?

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Special Economic Zones are enclaves in which “certain governmental taxes and regulations that apply to the rest of the economy are waived completely or for a certain period of time”.<sup>86</sup> There are many different types of zones, from basic “export processing zones” to high-tech clusters and “charter cities” (which are urban zones that set their own regulations in areas that affect business).<sup>87</sup> In almost all cases, these zones include “absolute or relative shelter from corporate and income taxes, import duties and quotas and foreign ownership restrictions”.<sup>88</sup> The more comprehensive (and successful) Zones have also prioritised “bureaucratic centrality” and investment in infrastructure in the zone to make doing business easier as well as cheaper.<sup>89</sup>

### WHY USE SPECIAL ECONOMIC ZONES?

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Advocates of Special Economic Zones argue that they can deal with “infrastructural deficiencies, procedural complexities, bureaucratic hassles and barriers raised by monetary, trade, fiscal, taxation, tariff and labour policies”.<sup>90</sup> In other words, these zones are designed to overcome “structural bottlenecks” in order to generate “additional economic activity”, largely through attracting significant FDI.<sup>91</sup> Special Economic Zones are designed to “expedite the process of industrialization” and are prioritised over nation-wide development both to save time and in cases where nationwide reform could be politically difficult.<sup>92</sup>

### PROBLEMS WITH SPECIAL ECONOMIC ZONES

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Special Economic Zones seem to offer the benefits of “liberal financial and legal frameworks” required to “encourage industrialisation” without any of the political risk of nation-wide liberalisation.<sup>93</sup> However, Special Economic Zones are difficult to get right. Special Economic Zones are notorious for not publishing accurate data, which makes it difficult to estimate whether the significant costs involved in setting up a Zone (infrastructure investment, forgone tax revenues and internal distortions) are made worthwhile in the long-term.

Much of the criticism of Special Economic Zones concerns Zones which seek to attract investment by offering companies low taxes (fiscal incentives) rather than through more holistic economic reform. These low-tax zones can create economic distortions within the national economy because they create geographic spaces in which the rules of the national economy do not apply. These zones are often labelled “enclaves” and typically have no economic links with their local surroundings. Without these

linkages, Special Economic Zones have often failed to act as catalysts for regional growth or job creation. In India, for example, SEZs “have not helped spread industrial or service sector activities to the remote areas or rural hinterlands”.<sup>94</sup>

Similarly, enclave Zones with low taxation and limited regulatory regimes limit the benefits which the state can accrue from increased economic activity. This in turn limits the potential for investment in infrastructure, research and development and even human development; all of which are required for a transition to sustainable growth. It should be clear that without investment both in the institutions and infrastructure which support economic growth results will be unsatisfactory, particularly when the initial fiscal incentives are removed. Without these backward linkages to the local economy Special Economic Zones risk encapsulating a “rush to the bottom” in which global companies will relocate when favourable subsidies or tax holidays are removed.<sup>95</sup>

*Special Economic Zones are enclaves in which “certain governmental taxes and regulations that apply to the rest of the economy are waived completely or for a certain period of time”.*

Special Economic Zones need local buy-in to forge these backward linkages. However, the record for inclusive SEZs is poor. Local people rarely have the “status of shareholders” for projects in the Zones and often have little influence over the evolution of the project.<sup>96</sup> This dislocates Zones from their local economic context and local labour.

This dislocation is most visible with regards to the employment that SEZs offer. Local people are unlikely to have the “right kind of skills and qualifications required” for the jobs in Special Economic Zones.<sup>97</sup> Special Economic Zones also have a troubled history with labour rights, which similarly discourages local participation.<sup>98</sup> In this climate, businesses have found that immigrant labour is generally willing to work below the national minimum wage in conditions which nationals would not. In this way, the argument that local demand for decent conditions would generate supply is overruled; disenfranchised and disconnected from SEZs (which are themselves connected vertically to global trade but rarely horizontally to the locale) local workers are undercut by migrant labour.

This undermines SEZ success in the long-term. There is “substantial literature pinpointing the vital role that human capital plays in pathways from underdevelopment to productive growth”, and yet Special Economic Zones often rely on transient migrant labour and invests very little in human growth and skill development.<sup>99</sup> Without focusing on “educational investment, research and development, upgrading labour skills and building coordination among firms”, some Special Economic Zones ignore the “local conditions” which are required for successful “technological absorption and domestic spill-over”.<sup>100</sup>

SEZ-led economic growth can therefore be deceptive; proponents of Zones can point to economic growth as evidence of a successful of the project without having to admit that this growth is not self-sustaining but rather reliant on a range of short-term incentives and immigrant labour. Special Economic

Zones can thus become another economic tool which can exist only as long as economic incentives are given by the government. In other words, rather than acting as a catalyst for change, Special Economic Zones can act as a tool for the maintenance of the (economic and political) status quo.

## “GOING BEYOND THE GATE”: BEST PRACTICES FOR SPECIAL ECONOMIC ZONES

Best practices with regards to Special Economic Zones are elusive.<sup>101</sup> Thomas Farole, an economist working with the World Bank, has compiled perhaps the most comprehensive study of Special Economic Zones and, while his main case studies were based in Africa, many of his recommendations are transferable. As he writes, “firms decide where to invest” based on a variety of factors, including “finance (access and cost), infrastructure (cost, availability and reliability), labour (cost and quality), the regulatory environment, taxation, corruption and the wider policy environment”.<sup>102</sup> Clearly, Special Economic Zones are part of a wider set of policy options which should complement each other.<sup>103</sup> Thus, we can outline the following best practices for Special Economic Zones, which centre both on being sensitive to pre-existing local politics, economics and culture and on recognizing that a Special Economic Zone is a bellwether vehicle rather than a reform in and of itself.

### Nation-wide Investment Climate and Integration to Local Economy

**Investment climate inside SEZs is more important than tax holidays.**<sup>104</sup>

- » **Prioritise investment climate over tax breaks.** Evidence from Special Economic Zones in Africa shows that “investment climate inside the zones”, specifically infrastructure and trade facilitation, are key determinants for success. Indeed, “delivering high-quality infrastructure (especially reliable power) and facilitating efficient import and export transactions may have the biggest effect on outcomes”.<sup>105</sup> By contrast, the “traditional sources of competitiveness for zones”, which include “low wages, trade preferences, and fiscal incentives” are not correlated with SEZ success.<sup>106</sup>
- » **Link fiscal incentives to the “actual process of capital formation”.** Such incentives, such as investment tax credits and duties exemption on capital goods, help to incentivise competitive behaviour rather than distortionary protectionism.<sup>107</sup>

### Integrating Special Economic Zones into Local Markets and Local Economies

- » **Develop links between Special Economic Zones and local small businesses.** Special Economic Zones, with their export-oriented model, are unlikely to be appropriate policy options to encourage the growth of local small and medium enterprises (SMEs). Instead, “the emphasis should be on developing effective links between local SMEs and the globally-competitive firms anchored in the zones”.<sup>108</sup> Indeed, Zones with proximate access to large consumer markets, suppliers and labour tend to be more successful.<sup>109</sup>
- » **Improve local consultation.** One step towards improving backward linkages would be to involve local people in the consultation processes so that they are invested in the Zone and have enough information on it to capitalise on opportunities it might produce.
- » **Implement policies that go “beyond the gate”.** Successfully linking the Zone to the domestic economy will, on the one hand, require eliminating legal restrictions on forward and backward linkages and, on the other, require the implementation of a broader set of policies beyond the SEZ

program, including skills development, promoting industry clusters where possible and supporting the integration of regional value chains.

- » **Support domestic investment in Zones, rather than rely on foreign investment alone.** Similarly, efforts should be made to support domestic investment in Zones in the medium term as a way to “future proof” the Zones; local investment can help drive innovation as Zones move beyond simple tax incentives towards other competitive advantages.

#### **Improve National Investment Climate as part of SEZ Programme.**

- » **Embrace nation-wide investment into trade infrastructure.** Successful SEZ programmes require “action at the national level”. Indeed, “poor road connectivity and serious port-related delays undermine the competitiveness of many zones”.<sup>110</sup> Labour force training and productive knowledge spill-overs are also important factors to attract FDI.

#### **Clear Legal Frameworks**

- » **Ensure legal framework is clear.** A “clear and transparent legal and regulatory framework” is central to successful SEZs. Such a framework can help address “often difficult land issues”, ensure compliance with labour standards and clearly establish the ‘rules of the game’ for all stakeholders”.<sup>111</sup>
- » **Give regulatory authorities authority to act on these laws.** Of course, this framework needs to be enforced by Zone regulatory authorities which themselves have ample capacity, a decent budget and are accountable. Improving inter-agency coordination could also help here.
- » **Streamline process of establishing a company in Jordan.** Stream-lining the actual process of application for a company to establish in a SEZ is advisable, and a single government office should be given ownership of the SEZ regime in a country.<sup>112</sup>
- » **Ensure universal benefits for all Zones.** If tax incentives are used, they should be included within a country’s tax code as having too many tax regimes create unnecessary bureaucracy and risks undermining the effectiveness of national tax administrations.

#### **Good Governance**

##### **Engaging local political actors**

- » **Practise inclusive governance.** Local industries and workers should be involved in the decision making process. Consistent, long-term inclusion is better than one-off consultation.
- » **Give devolved bodies autonomy.** Investing decentralized bodies with real political power can help incubate project ownership. “Sufficient autonomy of the zone authority particularly over staffing, budgets, spending and policy making should be ensured and be clearly stated in the law”.<sup>113</sup>
- » **Developing monitoring bodies using local people.** Developing local monitoring and evaluation bodies will help authorities know if an SEZ is delivering or not, while local actors have an incentive to report real growth.
- » **Appoint political champions for Special Economic Zones.** Since SEZs are political projects, having a “political champion for the Zones program and ensuring broad commitment through, for example, an

inter-ministerial committee is a critical success factor”.<sup>114</sup> This committee can also work closely with local representatives to ensure that local needs are consistently met with the evolution of the Zone.

- » **Encourage dialogue (with decision-making power) between the government, private sector and local people.** Dialogue and inclusion can directly bring about better results for SEZs. In this way, a meaningful three-way dialogue between government ministers, local people and the private sector can help overcome likely disputes including labour rights (in which local people could be supported by the government), infrastructure building (in which the government could work in to meet the needs of the private sector) and in financing (in which the private sector can help the government manage risk). In successful zones, policy makers often work closely with the private sector to evolve zone policy in the light of changing needs.

#### **Sustained Coordination Between International Actors, Private Sector and Government**

- » **Maintain interest in Zones in long-term.** Often, Zone programmes fail because they are viewed as a “static instrument of trade and investment policy” and, once established, are “left to operate on their own”. In this scenario, little effort is made to “support domestic investment into zones, to promote linkages”, to train the workforce (and continually re-train them) and to upgrade tools and strategies. Global experience with SEZs seems to show that most zones take between five and ten years to “begin bearing fruit”, and in that time, “high-level, active, and consistent government commitment to zone programs over a long period of time” is a critical factor to eventual success.<sup>115</sup> Government engagement over the long term could also help Zones re-design their incentives as they develop. While low wages could as an investment incentive in the short to medium term, the prolonged reliance on low wages risks creating distortions in national economies and facilitating a ‘race to the bottom’ among zones.
- » **Ensure legislature understands Zone regime.** It should be clear that such long-term commitment requires a government—and preferably a legislature—to have in-depth knowledge of the Zone programme and more importantly, for particular individuals in government to take ownership of each Zone’s progress.
- » **Seek out direct international partners who can train exporters to reach their markets.** Exporters in SEZs can be supported by import promotion desks in developed countries. Import promotion workers help to match exporters with importers in their countries of origin and help train exporters to reach the required standards.
- » **Be patient.** SEZ programmes also require patience from international donors. For many years, the cost-benefit ratio may seem unfavourable, and it is politically sensitive for donor governments to be seen to give money to projects which are failing to produce results quickly enough. Here, there seems a role for the private sector to take some of the financial risk away from governments.

Special Economic Zones are difficult to get right, and the long term success of them is “likely to depend on going beyond the gates of the zones and addressing wider aspects of the national business environment...[since] an SEZ’s value appears to be intrinsically linked to the landscape in which it is situated”.<sup>116</sup> The main lesson to take from the above analysis of the economic and political criticisms of Special Economic Zones is that they must be firmly rooted in their local political, cultural and economic context in order to succeed. At the local level, this means that local people need to be given a voice in the development and continued maintenance of the Zones.

For Special Economic Zones to work they must be understood as the first part in a push towards wider, more holistic economic reform. As the infrastructure for trade improves, European countries could work in collaboration with Jordanian companies to ensure manufacturers meet varied quality standards throughout the EU; as it stands manufacturers have no input in this decision making process, and so many are operating without an adequate understanding of the European market.<sup>117</sup> Foreign investors could also be encouraged to invest more heavily in supply chains for final products. For example, while it does not partner with Jordan, Germany runs an import promotion desk which identifies local exporters and trains them to reach EU standards. Once those standards have been reached, the Import Promotion Desk then connects exporters directly with buyers in Germany.<sup>118</sup> Import promotion has thus far been absent from the new plan to relax the Rules of Origin.<sup>119</sup>

The Jordanian experience with Special Economic Zones has not followed these best practices. In order for the integration of Syrian refugees to work—that is, to develop Syrian resilience and kick-start Jordanian development—Jordan must make progress towards inclusive, well-governed Zones as a first step towards success. At the same time, Jordan’s European trading partners need to include Jordanian exporters as part of their import promotion strategies in order to help exporters access the European market. In short, the Jordan Compact is not a quick-fix.

*For Special Economic Zones to work they must be understood as the first part in a push towards wider, more holistic economic reform.*

### 3. SPECIAL ECONOMIC ZONES IN JORDAN: THEIR ROLE AND SHORTCOMINGS

Jordan started to experiment with Special Economic Zones in 1973. Since then, SEZs have become an integral part of its investment and trade policies. They have also been established in an attempt to regulate industrial development and to stimulate local economies in rural areas. Jordan has an extensive zonal model, with over ten “development zones”,<sup>120</sup> forty-three “free zones” and the “Aqaba Special Economic Zone”. In the EU agreement, eighteen zones will benefit from relaxed Rules of Origin, eight of which fall within Jordan’s development zone framework and ten of which are industrial areas without any special status.

A number of deficiencies in Jordan’s zonal model currently hamper their ability to stimulate economic growth and create jobs. These include administrative confusion, a poor national investment climate, and a dependence on foreign labourers. Moreover, Special Economic Zones in Jordan distract from the need to address structural problems in the business and investment climate.

Due to their reliance on foreign labour, Special Economic Zones seem to have perpetuated the attitude among Jordanians that manufacturing is unsuitable for Jordanians. This attitude is counter-productive; Jordanians and Syrians must want to work in the jobs which are created for growth to be sustainable.

#### A HISTORY OF ZONAL EXPANSION IN JORDAN

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Jordan first started to use Special Economic Zones in the 1970s, when the first free zones were established in order to attract investment, “to develop export industries” and to boost international trade.<sup>121</sup> A free zone was established in Aqaba Port in 1973. In 1976, the Free Zones Corporation was founded to establish and develop free zones, and to attract local and foreign investments. Under its supervision a second free zone was established in Zarqa in 1983. While Aqaba was strategically located in a maritime area, Zarqa was situated on a major crossroads for international highway traffic between Syria, Iraq and western Saudi Arabia. Both zones were oriented toward commercial trade.<sup>122</sup>

The functions of Special Economic Zones were expanded with the foundation of the Jordan Industrial Estates Company (JIEC) in 1980 which was mandated to manage, market and develop industrial estates in Jordan. In its early years, the JIEC oversaw the establishment of the Sahab Industrial Estate in 1984 and the Irbid Industrial Estate in 1991. An assessment of Jordan’s economic zones carried out in 1992 found that these zones were relatively successful in stimulating industrial development. By that time, in the Sahab Industrial Estate, approximately 200 projects were fully operational, of which 65 firms exported a significant part of their production.<sup>123</sup>

In 1995 Jordan adopted a new investment law. The Investment Promotion Law No. 16 divided the country into three development zones according to their socio-economic performance. Using tax incentives to stimulate investments into less developed areas, Special Economic Zones were used to reduce regional disparities in the country.<sup>124</sup>



## A Separate Trajectory: Qualifying Industrial Zones

As part of a US-led effort to foster regional economic cooperation after the Jordan-Israeli peace agreement, the Qualifying Industrial Zone (QIZ) programme was established in 1994. This enabled “qualifying goods” from areas in Jordan, the West Bank, Gaza Strip, and Egypt to enter the US quota and duty free. The accord stipulated that the manufactured product should be a new product with materials from Jordan, Israel and a third country (which could be Israel, Jordan, the US and the West Bank or Gaza).<sup>125</sup> The first QIZ in Jordan, the Irbid Qualifying Industrial Zone, was created in November 1997, and more than five more zones were created in the following years.<sup>126</sup>

The socio-economic benefits of the QIZs for Jordan remain contested. On the one hand, the QIZ agreement has enabled Jordan to expand its manufacturing sector, attract new investments and significantly increase its exports to the US, especially in textiles. QIZs, however, have been criticized for their limited impact on local employment, a lack of knowledge transfer, value added, and backward linkages to the local economy.<sup>127</sup> CSR Watch Jordan assessed that goods manufactured in the

*Above: Jetty construction at the port in Aqaba, Jordan. October 2015.*

Source: seeshooteatrepeat / Shutterstock.com

QIZs “are manufactured by foreign workers, [who are] employed by foreign companies, using foreign materials, and then exported to foreign markets without paying taxes or spending money in Jordanian markets.”<sup>128</sup>

In recognition of these critiques, in 2012 the Jordanian government launched a new programme that initiated the establishment of “satellite factories” outside of the Zones. Seeking to connect factories with local communities and to increase female labour participation, manufacturers were encouraged to build satellite factories in rural areas outside of the QIZs, particularly in areas where female unemployment was high. The idea was to “bring factories to the workers rather than the other way around”. There are now five factories providing employment to some 2000 Jordanian nationals, of whom 80% are women.<sup>129</sup>

Regardless, the significance of the QIZ agreement for Jordan was reduced by the Jordan—US Free Trade Agreement of 2001, which also granted duty free access to the US for Jordanian goods, independent of Israeli content. As a result of this, the QIZ agreement has gradually phased out. The last company exporting through the QIZ framework did so in 2011.<sup>130</sup>

## Royal Initiatives for Zonal Development

In 2001, the Aqaba Special Economic Zone (ASEZ) was established. Since its establishment, the ASEZ has functioned as a unique zone in Jordan, mandated by the “Aqaba Special Economic Zone Law”. This law established the Aqaba Special Economic Zone Authority (ASEZA) “as a juridical personality with financial and administrative autonomy”.<sup>131</sup> As “the legal and factual successor of the Aqaba Region Authority and the Municipality of Aqaba”, the ASEZA has far-stretching functions and responsibilities, including the planning, design, and execution of projects for the development of the zone, and stimulating “industry, trade, tourism and services in the zone”. The ASEZA has been praised as a successful private—public sector cooperation.

However, like the Qualified Industrial Zones, the Aqaba Special Economic Zone has a contested reputation. Critics point to exclusive decision-making—a privately-appointed body oversaw the creation of the ASEZA rather than the elected institutions of the state—and to favouritism in the hiring practices of the ASEZA which prioritized sons of former government officials and ministers.<sup>132</sup>

Despite these criticisms, the ASEZA inspired the development of more zones in 2006. The Development Zone Initiative launched three development zones in Mafraq, Irbid and Ma’an. Similar to the 1996 development zones, they were established to encourage private sector development across the country. With economic activities and foreign and domestic investments largely concentrated in Amman, the zones were designed to attract investors to impoverished areas, alleviate poverty and create employment opportunities. They also sought to control industrial development, as decades of unprecedented population growth has left many industrial plants dispersed within residential areas, with concomitant health and environmental concerns. The first zone was created in Mafraq,<sup>133</sup> followed by a zone in Irbid (announced in May 2007) and a zone in Ma’an (announced in September 2007). In 2009, the Dead Sea and the Ajloun Zones were established.

## The 2014 Investment Law

The Special Economic Zone regime in Jordan has thus developed haphazardly. Promotion materials developed by the JIC show that Jordan currently has 20 development zones and 42 free zones scattered across the country. A number of these development zones, however, have yet to be actually established.<sup>134</sup>

The 2014 Investment Law was designed to regulate this collection of Zones under a clear legal code, and with the exception of the ASEZ, it now provides the legal framework for Jordan's Special Economic Zones including development and free zones.<sup>135</sup> The law merged the administrative bodies responsible for investment, export promotion and zonal development in order to establish the Jordan Investment Commission (JIC) as the sole responsible body for SEZs in Jordan. The JIC has been mandated to attract, encourage, and promote domestic and foreign investment, to ensure a sustainable attractive investment climate, and to "regulate and develop special provisions governing the development and free zones in the Kingdom (...)."<sup>136</sup>

The Law established that development zones enjoy 0% income tax on exports, 0% Import Duties Social Services Tax and Dividend Tax, and 5% Income tax, and 7% Sales Tax.<sup>137</sup> In addition to these fiscal incentives for geographical areas, the Law also selects ten sectors to which special tax regulations apply. However, there is no clear rationale for the selection of these ten sectors; the Law targets sectors for which fiscal stimuli are largely superfluous while simultaneously failing to incentivise sectors for which fiscal stimuli might hold an added value.<sup>138</sup>

## THE SHORTCOMINGS OF THE SPECIAL ECONOMIC ZONE REGIME

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Special Economic Zones have expanded quickly and haphazardly in Jordan. As a result, there is now a complex edifice in which one can find Industrial Cities, Qualifying Industrial Zones, Industrial Estates, Special Economic Zones, Free Zones and Development Zones. These terms are often used interchangeably and the status of Jordan's various zones is poorly understood by many practitioners, including officials from relevant government bodies. At the same time, the 2014 Investment Law, which sought to bring clarity to the situation, has added to a legal patchwork of overlapping legislation.

There is still no clear organisational framework for Jordan's multiple Zones. The present convoluted structure is partly a legacy of decades of uncontrolled, ad-hoc proliferation of zones, but it is also a function of its current organisational structure. Whereas the JIC functions as the sole regulatory body, the management of the zones is in hands of several governmental and semi-governmental institutions. This division of tasks and responsibilities is not inherently problematic, but a lack of coordination and communication between the various responsible bodies currently leads to disaggregated information, unclear investment procedures, and overlapping tasks.

Within the organisational framework, an important role is given to so-called "Master Developers", which are "charged with facilitating and organising investment activities".<sup>139</sup> The Law provides the developer with the responsibility to manage, finance, and develop the zone, which includes overseeing the establishment of facilities, services and infrastructure. In addition to the JIC and the various master developers, the Ministry of Industry, Trade and Services (MITS) and the Chambers of Industry and Chambers of Commerce are involved in activities in the development zones.

These different bodies, which are supposed to collectively work towards the same objectives, presently function in isolation from each other. They are unaware of each other's work and have different understandings of Jordan's zonal framework. A lack of coordination and communication between them leads to competing agendas, contrasting priorities, bureaucratic hurdles, and misinformation and ambiguity about the status of zones. It also leads to unnecessary complications when it comes to licensing and registering businesses, developing infrastructure and transport, and streamlining trade and export regulations. The confused institutional framework hampers Jordan's ability to fully capitalize on the potential of the zones.

The convoluted institutional structure also impacts on Jordan's ability to benefit from certain export regulations and trade agreements. Recognised in Jordan's 2014—2019 National Export Strategy, this weakness seems not exclusive to Jordan's special economic zones. Reflecting on weaknesses in Jordan's business environment, the strategy notes that: "(...) there is limited coordination between Government agencies. Export related issues are not adequately addressed in national development and budget plans." The strategy further contends that: "Jordanian enterprises (principally SMEs) have neither the incentives nor the know-how to benefit from Jordan's bilateral trade agreements. (...) the agreements remain vastly unexploited".<sup>140</sup>

These deficiencies are particularly relevant in light of the recent EU deal. Despite much fanfare, neither government departments nor exporters understand the deal properly. The deal stipulates eighteen development zones and industrial areas that can benefit from the new Relaxed Rules of Origin (RoO) regulations.<sup>141</sup> Eight of these zones are development zones that fall under the regulations of the JIC but Jordan's governmental bodies and international organisations do not fully understand the precise status and regulatory framework of the ten other zones that are part of the deal. A recent study found that these zones are privately or semi-privately owned, with two being run by private companies and eight falling under the mandate of the MITS and their respective municipalities.<sup>142</sup> The MITS, however, does not have a unit or department in charge of these zones, and does not seem to be aware of their existence. Instead, officials at the MITS have pointed to the Ministry of Municipal Affairs as the responsible unit for those zones.<sup>143</sup>

### *Decades of fiscal reform have failed to address Jordan's structural weaknesses, and in 2016 Jordan came close to insolvency.*

All in all, a lack of communication and coordination between the various government bodies that are involved in the deal with the EU has prevented the provision of clear information about the deal to private sector companies that are meant to benefit from the deal. Of the fifteen companies interviewed for this research, ten were unfamiliar with the content of the EU-agreement. Strikingly, at the time that this research was conducted,<sup>144</sup> officials at the JIC, the body that is responsible for helping companies to benefit from the deal, did not have a proper understanding of the eighteen zones part of the deal.<sup>145</sup>

Special Economic Zones seem to have made Jordan's investment regime more complicated. Jordan's continued reliance on these schemes reveals the centrality of fiscal policies to Jordan's investment policies, which itself undermines Special Economic Zones. Policies to improve infrastructure, energy provision as well as policies to address structural labour market deficiencies lack behind. In addition to this, unpredictable legislation, a lack of transparency and a lack of access to information, all undermine the potential benefits of favourable fiscal incentives linked to geographical areas or sectors.

Indeed, Jordan's investment climate in general is unfavourable. Decades of fiscal reform have failed to address Jordan's structural weaknesses, and in 2016 Jordan came close to insolvency. The Jordanian labour market is unattractive to foreign investors due to a mismatch between Jordanian skills and aspirations.<sup>146</sup> Studies on Jordan's investment climate indicate the prevalence of favouritism, bureaucracy and negative attitudes of officials in Jordan's investment bodies. In conjunction with long procedures and unclear communication on the status of investment approval, most strikingly from authoritative

institutions as the Council of Ministers and the Ministry of Interior, these fallacies have caused investors to turn away. Jordan's investment regime has been characterized as "complex", due to inaccessible, temporary, and overlapping laws.<sup>147</sup> The unpredictability and volatility of legislation, as well as inconsistent implementation of laws, constitute major concerns for investors.<sup>148</sup>

## IMPACT OF SPECIAL ECONOMIC ZONE LEGACY ON PLANNED SHIFT TO A MANUFACTURING ECONOMY

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The main conclusion to take from this analysis of Special Economic Zones in Jordan is that Special Economic Zones, with their complicated legal administration, have undermined the already-fragile investment climate in Jordan. Their prevalence reveals a preference for fiscal patch-work reform rather than nationwide reform. However, nation-wide reform is crucial both for the success of Special Economic Zones, and indeed, to improve economic growth more generally.

This has significant implications for the planned shift towards a manufacturing economy. This shift is an important aim of the Jordan Compact because a thriving manufacturing sector could help reduce unemployment in Jordan. As we have seen, Special Economic Zones in Jordan have struggled to boost sustainable, Jordanian-led growth over the past few years. While not applying to the same extent to all zones, a high share of foreign labourers is prevalent in Jordan's SEZs.<sup>149</sup> The difference in share of foreign labour seems mainly to stem from the type of industries and jobs incubated in the zones.

*Nation-wide reform is crucial both for the success of Special Economic Zones, and indeed, to improve economic growth more generally.*

In order to attract Jordanians to work in the manufacturing sector, nationwide reform which can help Jordan develop more value-added products is required. The Jordanian government has to think strategically about the type of manufacturing it wishes to advance, and develop targeted and coherent policies that support these (sub)sectors. The highest potential, in this respect, seems to lie in the "mid-level" segment of manufacturing. Indeed, this is consistent with Jordan's economic strategies; Jordan's 2011–2020 national employment strategy reflects on the type of manufacturing sub-sectors, their market level and their potential. On the garment industry, the strategy states that: "The apparel and textile industry, which has benefited from a preferential trade agreement with the US and relied mainly on low wage foreign labour, would need to move upmarket, perhaps with focus on design, and rely on a Jordanian workforce to make a contribution to sustainable growth and employment."<sup>150</sup>

For long-term sustainability, the integration of Syrian refugees into Jordan's work force should not continue the trend of stigmatising manufacturing as a sector for non-Jordanians. This is, however, a risk of the employment creation scheme. Commenting on the Jordan Compact, a critical observer assessed that the proposal "will directly contribute to the worsening of Jordan's problems with manufacturing work being associated with low-wages and "foreign"-stigmatized work."<sup>151</sup> Further strengthening the association of the manufacturing sector as sector for migrants would undermine a long-term effort of transitioning toward a manufacturing economy. From a sustainable development perspective, then, the

type of industries into which Jordan will attract investment and the type of work opportunities created by these investments are pivotal. They should be in line with Jordan's national economic strategies, and be in sectors in which Jordan holds a comparative advantage, can compete over value-added, and that are able to provide career opportunities for both Syrians and Jordanians.

The need to break out of the middle income trap is well known in Jordan. Indeed, the founding principle of the Jordan Compact was that the Syrians could be the path towards this goal. The Jordan Compact assumed that Special Economic Zones were failing primarily due to a lack of available labour in Jordan. It argued that Syrians represented a skilled and willing-to-work (even for low wages) labour source which could also attract significant foreign investment. The Syrians having attracted foreign investment, the Zones could then be upgraded to create more value-added goods, which would in turn attract Jordanians to the sector. In this way, the Compact hoped that Syrians could act as the catalyst for Jordan to break out of the middle income trap. However, as we shall see in the final chapter, the Syrians, much like Jordanians, do not see the manufacturing as a suitable choice for employment. In our conclusion, we shall develop what these findings mean both for the future of the Jordan Compact and for the complementary reforms which should be ushered in to support it.

## 4. WHAT ROLE SYRIANS?

The zonal development model envisaged the integration of refugees into industries operating in Special Economic Zones as a way of aligning refugees' needs for economic self-reliance with host-states' needs for economic development and job creation.

A critical assumption in the suggested model thus relates to the Syrian workforce. The Syrian refugee population constitutes a crucial link in the framework, both as a pool of potential labourers and as a source to attract investments into Jordan. While Western governments and international finance institutions could play their part by easing trade regulations and providing loans and financial assistance, the labour participation of Syrians in itself was to be leveraged to attract investors. For this purpose, large international companies with active corporate social responsibility have been identified as high-potential investors, alongside Syrian businesses and "reconstruction industries" (footloose industries for which Jordan could function as a springboard into a post-conflict Syria).<sup>152</sup> The model, then, offered a way to avert competition over work between Syrians and Jordanians, as the presence of Syrians "would be jobs-generating".<sup>153</sup>

Reflecting these ideas, the Jordan Compact states that: "with the right investment and access to EU markets, the designated development zones could provide hundreds of thousands of jobs for Jordanians and Syrian refugees over the coming years".<sup>154</sup> In the months following the Jordan Compact, these basic objectives materialised into a package of programmes, initiatives and policy measures aiming to facilitate access to formal employment for Syrians and to stimulate investments into Jordan. The agreement between the EU and Jordan on the relaxation of the Rules of Origin ties works opportunities for Syrians to preferential access to the EU market, requiring a proportion of Syrian refugees in the work force of companies that wish to benefit from the deal. This proportion increases from 15% during the first and second years to 25% at the beginning of the third year.

A year into the Jordan Compact, practitioners have found that the proposed match between Syrian refugees and the manufacturing sector is by no means assured. Starting a job in manufacturing is not necessarily an obvious choice for many Syrians residing in Jordan. Instead, the integration of Syrians in Jordan's manufacturing sector will require a long-term effort, which can only succeed if sustained by a consistent and coherent policy scheme that responds to practical impediments, 'promotes' and 'markets' the manufacturing sector among Syrians as well as Jordanians, and enhances the work environment in manufacturing.

### MANUFACTURING: AN OBVIOUS CHOICE?

The Jordan Compact expected Syrians to provide Jordan with the labour force needed to advance its manufacturing sector. This expectation assumed that many of the reasons that cause Jordanians to eschew the manufacturing sector would not apply for Syrians. A key institution in the formation of the plan, the WANA Institute, maintained that the Syrian refugee population "constitutes an immediately available, affordable, and appropriate skilled set of workers",<sup>155</sup> whereas "the transformation in norms and values needed for Jordanians to be receptive to such employment [in the manufacturing sector] and the development of a pool of workers with vocational expertise, will take time and be complicated".<sup>156</sup>

In the summer of 2016, the Jordanian government, the UNHCR and ILO Better Work joined forces to pilot a programme that sought to provide 2,000 work permits to Syrians in the manufacturing sector. The garment sector was identified as holding the highest potential for absorbing large numbers of workers. The sector is well-organised (employers are organised in the J-GATE association and the performance of the sector is monitored by the ILO Better Work Programme), has growth potential, and stands to benefit from EU deal. Several steps were undertaken to facilitate the employment of Syrians.

Within the programme, Syrians were given the choice between the employment conditions applicable to Jordanian workers (benefits on salary and transportation) and those applicable to migrant workers (benefits in the form of accommodation and food).<sup>157</sup> A "unified contract" was drafted to ensure a secure work opportunity for Syrians. Legal and practical hurdles associated with the process of obtaining a work permit were removed. An information campaign, consisting of fairs in which Syrians could meet company owners, text messages over mobile phones, and communication through social media, was rolled out to raise awareness among Syrians about the new work opportunity.

Despite these efforts, the project failed to achieve the expected results. Practitioners in the field have come to realise that many of the reasons that make Jordanians hesitant to work in manufacturing also apply to the Syrian refugee population. The policy framework initiated with the Jordan Compact seems to have insufficiently taken into consideration the socio-economic and cultural background, the demographic composition and the current living situation of Syrians in Jordan. A reflection on attitudes of Syrians and an assessment of their skills, professional background and aspirations has been largely absent in the literature that spurred the policy framework.

The socio-economic background and employment history of the Syrians reveals that the manufacturing sector is largely alien to many of them. The vast majority of Syrians registered in Jordan come from southern rural areas in Syria, with the largest group coming from Dara'a (47.1 percent), followed by Homs (16.4 percent) and rural Damascus (12.9 percent).<sup>158</sup> A household survey conducted in 2014 found that 63 percent of the men living outside of camps in Amman, Irbid and Mafraq participated in the labour market in Syria before the crisis started, while unemployment stood at 17 per cent.<sup>159</sup> Among those Syrians, 16 per cent used to be employed in manufacturing. The other sectors of employment were construction (23 per cent), wholesale and retail sale (23 per cent), transportation and storage (10 per cent), and agriculture, forestry and fishing (9 per cent). The survey found that Syrian refugees living outside camps mainly worked as craft and related trade workers (39 per cent) and as service and sales workers (22 per cent). Twelve percent used to work as plant and machine operators and assemblers and seven percent as skilled agricultural, forestry and fishing workers.<sup>160</sup> As a result, working in manufacturing can come at odds with ideas that Syrians hold about themselves and the kind of employment that fits within their cultural and social background.

The manufacturing sector thus seems a largely alien sector to a substantial part of the Syrians residing in Jordan, particularly to those coming from the southern parts of Syria. In the focus group discussions held for this research, many Syrians showed reservations towards working in the manufacturing sector. The sector was largely associated with low-pay and bad working conditions, and was seen as providing a poor working environment. It is worth noting that some Syrians distinguished between manufacturing in Jordan and manufacturing in Syria, associating the latter with more advanced industries and better working conditions.<sup>161</sup> Prevalent ideas about respectable and suitable employment seem to impact on the choice of Syrians to work in manufacturing. In short, many of the reasons why Jordanians eschew employment in manufacturing also ring true for Syrians.



The international community has put particular emphasis on encouraging Syrian women to work. However, attracting Syrian women into factories operating in development zones and industrial areas seems a particularly tall order. Among the focus group participants, virtually everyone rejected the idea of women working in factories. Part of the reluctance stems from cultural beliefs about suitable work for women. Male participants noted that they would not have their daughters or wives work in a factory, while both male and female participants expressed that it would be unacceptable for women to work alongside men in factories. Reflective of the general attitude prevalent among participants, one female participant remarked: “it isn’t in our line of thinking, working in a mixed place”. From the focus groups, it is clear that separate workspaces divided along gender lines would be a prerequisite to integrating Syrian women into factories in Special Economic Zones. Factories and industrial areas were characterised as “unsafe”, “insecure” and as “a bad place”. Male participants would rather have their younger sons take up a job than having their daughter or wife work in a factory.<sup>162</sup>

Concerns about the remoteness of industrial areas and concerns about mixed environments in factories further emerged as key issues in the focus groups. All

*Above: Syrian women at Zaatari refugee camp. Mafraq 2015.*

Source: Melih Cevdet Teksen / Shutterstock.com

women that participated in the research expressed a preference for employment close to their homes. This would allow them to stay close to their children, and was seen as better accepted within their culture. As Syrian households outside camps have a mean size of 6.5 and a median size of 6,<sup>163</sup> the question of how to combine work with taking care of children naturally arises as a crucial issue in any discussion on employment for Syrian women. In discussions about female employment in industrial areas and development zones, organising childcare is often raised as an important condition for female employment. The results from our focus groups, however, suggest that this would only partly help to overcome the problem. For many women, leaving their home, family and children for approximately ten hours a day is highly unappealing. Also, significant efforts seem to be needed to encourage women to trust childcare provision in an unknown, seemingly far away industrial area.

Syrians have been living in Jordan for several years, and they have found their way of surviving. They work informally and combine various sources of income. Although many Syrian households are vulnerable, a combination of coping mechanism enables them to survive. Any alternative to current strategies, therefore, must hold a clear 'value-added' to strategies with which Syrians have grown familiar.<sup>164</sup> As we have seen, manufacturing is not necessarily an obvious option for many Syrians in Jordan.

All is not lost, though. Our focus group results suggest that Syrians would value the security of formal employment and the social security that would accompany it. Participants in the focus group meetings expressed that they wished to "be treated as Jordanians", or to fall under the same legal regime. This, however, is difficult in the current context in which the Syrian presence in Jordan is perceived as temporary. To attract Syrians to the manufacturing sector, it seems that the jobs offered need to offer both security and social benefits alongside regular wages.

## HOW TO MAKE MANUFACTURING AN ATTRACTIVE AND ECONOMICALLY VIABLE OPTION

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The disappointing initial results of Syrian integration into employment in Special Economic Zones have led to a certain degree of "finger pointing" between the different actors in the field.<sup>165</sup> Company owners who wish to benefit from the relaxation of the Rules of Origin have expressed complaints about the difficulty of finding Syrians.<sup>166</sup> Indeed, the requirement that companies need to have a minimum of 15% Syrians in their work force has been depicted as an important obstacle for businesses who wish to benefit from the new trade rules.<sup>167</sup> The field work conducted for this research partly confirmed the proposition that company owners are struggling to find Syrians. While most companies interviewed had no experience yet with the Syrian labour force, several companies that had employed, or tried to employ Syrians, remarked that Syrians prefer to work in the informal labour market, and that the work conditions associated with the manufacturing sector are unacceptable for them.<sup>168</sup>

The humanitarian aid system is a recurrent theme in discussions about the apparent hesitance among Syrians to work in manufacturing. Many Syrians mistakenly think that they will lose their right to humanitarian assistance and resettlement if they engage in formal employment. Clearly, this discourages them to pursue formal employment opportunities. This point has been raised in several interviews conducted with factory managers. Speaking about their experiences with Syrian labourers, they noted that the fear of losing aid constitutes an important factor causing the reluctance among Syrians to accept formal, year-long contracts. One of the factory managers referred to humanitarian aid provided by the UNHCR as a "crucial" issue that needs to be overcome in order to integrate Syrians into the

manufacturing sector. Similarly, fear of losing aid when engaging in (formal) employment was raised by Syrians in the focus group discussions. Some participants believed that they would lose aid if they were to engage in formal employment. Some even believed that having one member in the family engaging in formal employment could jeopardise their aid provision.

It is worth noting that the current system of aid provision does not contain a reduction of benefits based on work or work permits. Cash and food assistance for refugees is based on the Vulnerability Assessment Framework (VAF), an expenditure-based model. The model is designed to predict economic vulnerability of a household, and income data are relies on self-reported data.<sup>169</sup> There thus seems to be a discrepancy between how Syrians believe the humanitarian system works and how it actually works. Focus group participants noted that decisions on aid often seem arbitrary and unfair. In every discussion people highlighted cases in which aid was denied without justification, amongst others, or cases in which assessments, or their processing time, took an exceedingly long time.

Syrians have found ways of surviving in Jordan. As such, in order for Syrians to start working in manufacturing, the sector needs at least to be perceived as an attractive and economically viable option. The garment sector seems a difficult sub-sector in this regard, both from the perspective of the Syrian worker as well as the perspective of the employer. As previously noted, this sector heavily relies on migrant workers. These migrants are largely young, female Asian workers who come to Jordan on a two or three year contract. Finding themselves in Jordan without a family and for a fixed period of time, many of them come to Jordan in order to work as much as possible (often six days a week, with sometimes ten hours a day), which is attractive from an employer's point of view. They also bring the skills and working attitude needed to make the sector competitive, which requires meeting certain production thresholds.

Jordanian labour regulations allow foreign labourers in the garment industry up to 75% of the total labour force. Factory managers interviewed for this research maintained that this is about the percentage of foreign (Asian) labour needed for them to be competitive. They made it clear that substituting them with Syrians is not a feasible option. From an employers' perspective, when one takes into consideration the living situation, skills, desired working hours and productivity, Syrians are closer to Jordanians as an employee than other immigrant labour. A number of company owners in the garment industry thus noted that adding 15% of Syrian labour, going up to 25% in a later stage, to the 25% of Jordanians, would negatively affect the competitiveness of their business.

As both discussions with company owners and discussions with Syrians suggest, with respect to the incentives needed to start working in manufacturing, Syrians seem to find themselves somewhere "in between" the categories of national and foreign labour.<sup>170</sup> That is, while some elements in their socio-economic situation brings them closer to other migrant workers, many of the factors that make Jordanians reluctant to work in manufacturing also apply to Syrians. Their living situation, largely in big families in urban areas, makes working under the same conditions as Asian migrant workers undesirable. As we have seen in chapter two, in the past, satellite units have been established as a way to overcome the problem of prolonged travel time and social dislocation between home and workplace.

Satellite units may not be enough though. Working more than forty hours a week, in addition to spending two hours a day on transportation, is not a viable option for many Syrians. Moreover, the ideas, perceptions and beliefs that Syrians currently hold of the manufacturing sector, make them reluctant to consider the sector as a desirable option.

Decent wage levels are another important factor that Syrians take into account when discussing moving into manufacturing. In focus groups meetings, many Syrians noted that they would consider working in manufacturing if it would provide them with a sustainable livelihood. With respect to the precise minimum amount needed for this, different answers were given. For some of the participants, 190JOD a month (268 USD, national minimum wage in Jordan) would suffice if accompanied by social benefits and covering of transportation costs. A wish for social security, particularly for healthcare provisions, was frequently expressed in discussions, and difficulties in obtaining healthcare arose as a major concern for many respondents. In general, when participants were asked about the minimum amount required for them to accept a job in manufacturing, their answer was the result of a realistic calculation of expenses and the financial gains offered by the job.

Results of the focus group meetings further suggest that many Syrians would prefer formal employment over informal employment. A recurrent theme in all focus groups discussion was the psychological stress that Syrians experience as a result of working illegally and in the informal sector. Many Syrians referred to the fear of being sent back to the camps, or even worse, being deported back to Syria, in case inspection services found them working illegally. Stories of inspections and running away for inspectors, and a sense of insecurity and fear associated with working informally, came back in several focus group meetings.

Another recurrent theme relates to feelings of discrimination caused by the legal framework regulating Jordan's labour market, as well as the social, legal and political environment more in general. Formal employment safeguards their rights, provides them with benefits and takes away the risk of deportation. Many participants expressed that, for these reasons, they would prefer formal employment even it would entail a setback in their financial situation. The idea of formal employment with concomitant benefits would take them a step closer as being treated as Jordanians under the law.

## IMPROVING THE LEGAL REGIME

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As described in the section above, feelings of exclusion and discrimination were mentioned in all focus group meetings and the labour market is no exception. Access to formal employment is granted with a work permit, which can be obtained through certain procedures. However, the regulatory framework for work permits is, as it stands, a double-edged sword. Not only is it known for being costly and for an inconsistent implementation of formal procedures, it also only partly works to protect the labour rights of employees. Work permits are being granted to employers, not to employees. That is, work permits are tied to a particular position and a particular employer. While long, certain requirements in the procedures for work permits have made it difficult for Syrians to obtain one, these have tackled partly by relaxed requirements.<sup>171</sup> Notably, subsequent extensions of an initial three-month grace period in which the costs for obtaining a work permit were waived have, thus far, taken away financial obstacles. However, the practice in which work permits are linked to the employer emerged as an important concern in discussions about formal employment. Many Syrians saw it as disadvantaging their position since it makes it hard for them to change employers. This limits Syrians' mobility and bargaining position. In all focus group meetings, the work permit system was perceived as unjust, and as disadvantaging to the position of the worker.

Unhooking the work permit from the employer might incentivise Syrians to obtain a work permit, as, in that case, a work permit would be perceived as really strengthening their rights and not as limiting their freedom and work mobility. It would give them, and workers in general, more leverage to negotiate with the employer. A change in these regulations has been advocated for by several practitioners in the field.

In the current debate that has sparked as a result of the disappointing results of the pilot programme and the EU agreement, one step further has also been proposed. That is: the proposition to make the MOI (Ministry of Interior) Card constitute a work permit.<sup>172</sup> This step would automatically grant labour rights to Syrian refugees, and would also in one sweep make Jordan meet the target of providing 200,000 legal work opportunities for Syrians. The advantage of this would be that, when this requirement is met, the new Rules of Origin are no longer bound to the eighteen zones now stipulated in the deal, and the requirement that 15% of the workforce of companies is Syrian, would become void. As this currently constitutes an important obstacle for businesses to apply to the new RoO framework, it would enable more companies to benefit from the deal, and thereby boost the manufacturing sector.

## CONCLUSION

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The above analysis suggests that the match between Jordan's manufacturing sector and its Syrian labour force is only conceivable as the result of a long-term, sustained effort that works to both sensitise Syrian refugees to the idea of working in manufacturing, as well as to respond to practical obstacles that impede Syrians from opting for a job in the manufacturing sector. Importantly, rather than providing Jordan with an "immediately available labour force" and that can help the country to "compete over cheap labour", Syrians constitute an extra source of human capital that need to be incited to work in manufacturing together with their Jordanian peers.

This research suggests that, while a number of factors make Syrians more receptive to manufacturing than Jordanians, many of the reasons that make Jordanians hesitant to work in the manufacturing sector also apply to the Syrian refugee population in Jordan. On the one hand, many Syrians in Jordan are vulnerable, and Syrians have fewer options in the labour market than Jordanians. Discussions held in focus group meetings indicated that, in addition to a wish for self-reliance and economic security, a sense of safety and social inclusion constitute important incentives to desire employment in the formal sector. At the same time, the manufacturing sector is a largely alien sector to many Syrians residing in Jordan, who largely come from the rural parts of Southern Syria. The sector is associated with low pay and unfavourable working conditions, and is sometimes seen as a bad environment.

Part of the reservations of Syrians can be overcome by large-scale communication efforts that seek to readjust current ideas and associations that Syrians, as well as Jordanians, have of the manufacturing sector. Part of it, however, is socio-cultural and seems hard to overcome. These findings clearly hold consequences for both the pace and the scale of the proposed job creation framework.

In April last year, Collier and Betts published a second, follow-up article on "Jordan's Refugee Experiment", in which they positively reflected on the political traction that their ideas had gained and optimistically noted that Jordan would start experimenting with the zonal model. In the article, a number of possible obstacles was identified that might impact on the success of the initiative. No reference, however, was made to a possible reluctance of Syrians.<sup>173</sup> As they concluded the article by stating that other countries with large refugee populations might learn from the Jordan experience, we might note here that an important lesson from Jordan's experience pertains to the importance of taking the socio-economic and cultural background as well as the current living situation of refugee populations into consideration when formulating and designing these large scale policy schemes, and avoid homogenizing refugee groups. A more inclusive and bottom-up approach in the making of these policies seems important in this regard.

Let us now turn to the recommendations, in which we outline a set of best practices for the future.

## 5. CONCLUSION AND RECOMMENDATIONS

The Jordan Compact came at a critical time. Five years into the Syrian conflict, refugees in Jordan had largely depleted their resources and were increasingly dependent on humanitarian aid. Having turned into a protracted refugee crisis, the Syrian presence in Jordan had become associated with strained healthcare, education and housing systems and with competition in the labour market. The negative effects of the Syrian crisis disproportionately impacted on already vulnerable host-communities in Jordan. Meanwhile, Jordan was facing economic hardship, with mounting levels of unemployment and public debt.

However, this research has shown that there are weaknesses in the Compact's proposed trajectory, which sees Syrian employment acting as a catalyst for wider foreign investment in Jordan.

An analysis of Jordan's SEZs suggests that a number of weaknesses in its zonal model, notably a weak institutional framework, and structural deficiencies in Jordan's investment climate, affect the utility of Jordan's SEZs and hamper their ability to attract new businesses and push a wider transformation to a manufacturing economy. Problems in the institutional framework governing SEZs, which mainly stem from a convoluted organisational structure, a lack of oversight over the zones and a lack of communication and coordination between governing bodies, are emblematic of the wider flaws in Jordan's investment climate, which also undermine Jordan's legal and political environment. These deficiencies must be addressed in order for Special Economic Zones in Jordan to work. Furthermore, the long-term success of SEZs depends, to a large extent, on the type of industries incubated within them, and the extent to which they connect to extant economic structures and are able to compete under national wage levels and regulations. Industrial development spurred by the Jordan Compact should therefore be in line with national development strategies and expand productive and sustainable manufacturing (sub)sectors.

The results of this research further indicate that the zonal development model had insufficiently taken into consideration the attitudes of Syrians toward working in manufacturing. The socio-economic and cultural background, demographic composition and the current living situation of Syrians residing in Jordan make many of them hesitant to start working in the manufacturing sector.

Although benefits associated with formal employment, particularly social security, as well as a sense of safety provided by formal employment, constitute important reasons for them to desire obtaining formal employment, for many Syrians in Jordan, the manufacturing sector is a largely alien sector. Discussions in focus group meetings suggested that they hold many reservations against working in a factory. While some of these reservations can be overcome by targeted communications efforts, some of them stem from the social and cultural background of Syrians in Jordan and seems hard to overcome.

Rather than providing an immediate cure to Jordan's economic problems and a quick solution for its refugee situation, the work opportunity scheme initiated with the Jordan Compact has to be perceived as a long-term effort. Just as Syrians are not the cause of Jordan's economic problems, they will not be the solution.

This research has shown that, in order to enable a massive job creation framework and successfully integrate Syrian refugees into Jordan's economy, the Jordanian government and its international partners need to tackle some structural weaknesses in Jordan's socio-economic model. Efforts aiming to provide economic opportunities to Syrians should be implemented in conjunction with efforts aiming

to overcome deficiencies in Jordan's economy related to its labour market, its macro-economic policies and the institutional framework overseeing its Special Economic Zones. Sustained and targeted policies are needed to advance the manufacturing sector and enhance its capacity to export and compete over the quality of its products, so that the sector is able to generate work opportunities suitable for both Syrians and Jordanians.

## RECOMMENDATIONS

### To Enhance Special Economic Zones in Jordan

#### The Government of Jordan Should:

- » **Enhance information administration and provision systems between government institutions.** Currently, information about Jordan's Special Economic Zones is disaggregated and scattered between the Jordan Investment Commission (JIC), the Jordan Industrial Estate Commission (JIEC) various Master Developers of SEZs, the Ministry of Industry, Trade and Services (MITS), and Jordan's Chambers of Industries.
- » **Strengthen the JIC's capacity to oversee and monitor the performance of SEZs.** Currently, key information on levels of FDI and on sectoral development within SEZs, amongst others, is missing. As the sole regulatory body of Jordan's SEZs, and as the body responsible for fostering a strong investment climate, the JIC should maintain oversight of the development and progress of Jordan's various SEZs. For this purpose, better coordination and communication between the JIC and other relevant institutions (mainly the Master Developers) is required.
- » **Streamline responsibilities and tasks between aforementioned government institutions and departments, and improve cooperation between them.** A convoluted organisational structure of SEZs now leads to overlapping tasks and contradictory information and prevents effective policy-making. A lack of oversight and accountability allows inconsistent application of legislation.
- » **Focus first on expanding private sector activity in extant zones before building new ones.** Work is currently being undertaken to build four new "industrial cities", while part of the pre-existing zones has not reached half of their occupation rate.
- » **Improve trade and export support services for Jordanian businesses.** Particularly, enhance capacities of service providers to inform businesses of export opportunities and regulations and Jordan's various Free Trade Agreements. In the context of the Jordan Compact, increase efforts to support businesses to benefit from the EU-deal on the Rules of Origin.
- » **Announce nation-wide reform.** Investors are more likely to be interested in Jordan's Special Economic Zones if they can be convinced that the Zones are to act as bellwethers for nation-wide reform.
- » **Invest in infrastructure projects, with a particular focus on finishing long-delayed railway projects.**
- » **Clear congestion around Aqaba port to improve maritime trade.** Delays at Aqaba currently add unnecessary costs to exporters. These costs need to be minimized in order to attract exporters to Jordan.
- » **Support small and medium sized businesses in the local economy surrounding Special Economic Zones.** The majority of Jordanians (and Syrians) employed in Jordan work in SMEs, and these should be incorporated into current reform plans.
- » **Improve governance of Special Economic Zones.** Granting real autonomy to Zone authorities could help improve the ease of doing business in them. Similarly, enfranchising local people with decision-making authority can help give them stakes in the Zones. At the same time, improving governance in the Zones could help companies justify their decision to invest in Jordan.

## To Enhance Special Economic Zones in Jordan

### The International Community Should:

- » **Establish Import Promotion Desks to directly work with Jordanian exporters.** Europe has traditionally been a small market for Jordanian-made goods. To overcome this, European countries could pro-actively identify and train exporters. Such work can be sold to importers in the EU as a way to secure supply chains in the future.
- » **Stand by commitments made in EU Neighbourhood Policy.** This policy requires EU partners to make progress towards democratic representation and other democratic norms, including freedom of expression. While aid should continue to be offered to Jordan, the long-term sustainability of Special Economic Zones requires political reform as well as economic. Enfranchising local people is a positive first step.
- » **Fulfil pledges made to Jordan in London in 2016.** Jordan will need substantial international assistance in the coming years; European partners should continue to uphold their pledges to help finance large-scale reform programmes.

## To Attract Jordanians and Syrians into Manufacturing

### The Government of Jordan Should:

- » **Target efforts to attract investments towards sectors which already exist in Jordan and in which Jordan could develop comparative advantage.** These sectors should be productive and sustainable in Jordan, and able to compete under national wage levels and labour legislation. This would help remove negative aspects of working in the Zones which currently include poor wages and labour conditions.
- » **Implement consistent, sustained and large-scale sensitisation campaigns to promote and market the manufacturing sector among both Syrians and Jordanians.** Syrian and Jordanian perceptions about the manufacturing sector prevent them from seeing the sector as a viable option. These perceptions are not necessarily correct; the manufacturing sector in Jordan is already more diverse than many Syrians and Jordanians know. Concerted and long-term efforts have to be made to familiarize more people with the sector.
- » **Engage in dialogue with Syrians.** Syrian refugee networks are powerful networks to spread information and to get feedback from in order to improve programmes. The government could empower certain individuals to become active stakeholders in the Zonal development programme.
- » **Support projects and initiatives that seek to match Syrians and Jordanians with manufacturing companies.** This can be through information campaigns, internships, and 'open days' in factories.
- » **Improve access to formal employment.** The government should increase coordination and communication between national and local government institutions in order to improve access to formal employment. Currently, a lack of understanding of the work permit process among local authorities complicates procedures.
- » **Examine if and how further expanding Satellite Units might help to attract Syrian women into manufacturing.** Field work showed that many women are weary of the idea to work in remote areas, far away from their children. Aversion towards working in a mixed environment further constitutes a key obstacle to women working in the manufacturing sector. Satellite unites have showed in the past to be able to attract Jordanian women, and they might also be able to attract Syrian women.

## To Attract Jordanians and Syrians into Manufacturing

### The International Community Should:

- » **Foster cooperation between the private sector and aid organisations.** Involve private sector actors when designing training and livelihood programmes for Syrian refugees.
- » **In conjunction with focusing on improving formal child care provisions, support Syrian women to set up informal ways to organise and set up child care.** Social networks can be utilised for the purpose of arranging childcare provision. Projects exploring possibilities and stimulating these types of child care provision can be supported.
- » **Improve information provision about the consequences of formal employment on aid provision and asylum status.** The aid system is opaque, and fear of negative consequences of formal employment on aid provision makes manufacturing an unattractive choice for Syrians. Wage levels of the manufacturing sector are often too low for people to sustain their livelihoods.

## To Ease the Humanitarian Crisis

### The Government of Jordan Should:

- » **Improve the legal regime governing Syrian refugees.** Fieldwork has consistently shown that Syrians are stressed by the threat of forced encampment and even refoulement. Removing these threats would be a good step towards creating a more progressive legal environment for refugees in Jordan. Improving the legal regime could also include further reforms to the work permit system. Waiving the costs of a work permit is a good step in this regard. Disconnecting the work permit from the employer, and instead link it to the employee, would be a good next step.
- » **Ease access to formal livelihoods, even outside of Special Economic Zones.** Improving Zones may attract Syrians, but many more will continue to feel that manufacturing does not offer them the opportunities they want. In that case, there must still be opportunities to earn livelihoods. Improving access to finance for Syrians would be an important step.

### The International Community Should:

- » **Co-ordinate formal aid programs with so-called shadow aid networks.** This will require taking informal networks more seriously, but co-operation could ensure everyone receives enough assistance. Similarly, working alongside trusted shadow networks could help official organisations disseminate important messages (such as the fact that having a work permit would not disqualify an individual from aid payments).
- » **Continue to consult Syrians in the development of future policies.** Syrian refugees must be involved in the formulation of future policy, and continually consulted as policies are rolled out. By working with Syrians the international community can ensure their substantial financial assistance can be put towards sustainable change.
- » **Improve monitoring systems and actively fight fraud and corruption practices.** Stories of aid money not being spent well and of programs not fully being implemented are rampant. Many international donors currently lack the capacity to monitor programs and to evaluate their outcomes. More should be invested in capacity building of local organizations and in robust monitoring and evaluation systems.

## APPENDIX 1 : METHODOLOGY

This research combined desk-based literature research and fieldwork, including: 1) interviews with experts and practitioners in the field; 2) interviews with officials of Jordanian government bodies; 3) interviews with factory owners in Special Economic Zones and 4) focus group meetings with Syrians.

To understand and critically assess Special Economic Zones in Jordan, the team combined theoretical and practical analyses. The first and second chapters are based on desk-based research and select interviews with academics and policy-makers based in the UK. The third chapter, which takes these lessons and applies them to Jordan, combined desk-based research with interviews with relevant government institutions. In the fourth chapter, the analysis of the proposed match between Syrian refugees and the manufacturing sector is the result of different tracks of field work. This field work was mainly carried out in the

last quarter of 2016, enabling the research team to take stock of the results of the first programmes and policies initiated within the framework of the Jordan Compact. To examine attitudes of Syrians toward the manufacturing sector, nine focus group meetings with Syrians in Amman, Irbid and Mafraq were conducted. In each governorate, one focus group meeting with employed Syrians, one with unemployed Syrians and one with Syrian women has been organised. In addition to these meetings, fifteen interviews with owners and managers of factories operating in Special Economic Zones (Muwaqqar Industrial City- Amman, King Hussein Bin Talal Development Zone- Mafraq, Irbid Alhassan Industrial City and Dulail Industrial City- Zarqa)<sup>174</sup> have been conducted. Finally, interviews with practitioners in the field have helped to get different views on the proposed integration of Syrians into Jordan's manufacturing sector

### OVERVIEW

#### Expert Interviews

NAME	ORGANISATION	CITY
Haneen S. Rasheed	USAID	Amman, 19 October, 2016
Francesca Ruisi	Center for Strategic Studies	Amman, 23 October, 2016
Susan Razzaz	Labour Market Expert	Amman, 24 October, 2016
Hadi Al Maayta	Lawyer of Wafa chemicsis Co, Investment advisor	Amman, 31 October, 2016
Tareq AbuQaoud	ILO Better Work	Amman, 22 November, 2016
Dawn Chatty	Former Director of Oxford Refugee Studies Center	Oxford, 4 November 2016
Husam al Dakak	German Import Promotion Desk	Skype, 21 May 2016
Mais Haddadin	Independent Entrepreneurship and SME Development Expert	London, 3 November 2016

## Contact with Government Bodies

GOVERNMENT BODY	DATE
Department of Statistics	Amman, 17 October
Jordan Investment Commission	Amman, 26 October
Jordan Investment Commission	26 October—31 December (e-mail and telephone contact for specific information requests)
Jordan Industrial Estate Cooperation	Amman, 1 November
Jordan Industrial Estate Cooperation	1—31 November (e-mail and telephone contact for specific information requests)
Ministry of Trade, Industry and Services	Amman, 1 November
Ministry of Trade, Industry and Services	1—31 November (e-mail and telephone contact for specific information requests)
Ministry of Municipal Affairs	Amman, 6 November
Jordan Chamber of Industry	Amman, 6 November

## Company Interviews

AREA	COMPANY NAME	MANUFACTURING SECTOR
Muwaqqar Industrial City- Amman, 30 October 2016	Modern performance	Engineering
	Vinyl for Plastic Industries	Plastic and rubber
	Sedra Cosmetics Company	Chemicals and cosmetics
	Al Aqad for the Manufacture	Carpets
King Hussein Bin Talal Development Area-Mafraq, 02 November 2016	Mizan Group	Liquid Detergents
	ICHBT	Electronics, gas and AC units
	Jordan Bahrain Paper Industries	Cartons and packaging
AlHassan Industrial Estate, 03 November 2016.	Alharmin Cables	Cables
	Al Musa Company for Reade Made Garments	Garment
	Al Ridaa Al Urdoneyya for clothes manufacturing	Garment
	Al Ibra Al Feddeyya for clothes manufacturing	Garment
Dulail Industrial City- Zarqa, 21 November 2016.	Needle Craft for clothing industry	Garment
	EAM Maliban Textiles	Garment
	High-tech Textile	Garment
Wadi El-Eisheh Industrial Area- Zarqa, 21 November 2016.	Al Saif Chemicals Co. Ltd	Chemicals, liquid detergents

## Focus Group Meetings

GOVERNORATE	CATEGORY	NUMBER OF PARTICIPANTS	DATE
Amman	Unemployed Syrians	7	18 October 2016
	Employed Syrians	3	18 October 2016
	Women	14	18 October 2016
Mafraq	Unemployed Syrians	3	22 October 2016
	Employed Syrians	7	22 October 2016
	Women	4	22 October 2016
Irbid	Unemployed Syrians	5	20 October 2016
	Employed Syrians	9	17 November 2016
	Women	11	20 October 2016

## APPENDIX 2: SPECIAL ECONOMIC ZONES IN JORDAN

### OVERVIEW DEVELOPMENT ZONES<sup>175</sup>

NAME	GOVERNORATE
Abdullah II Ibn Al-Hussein Industrial Estate (AIE)	Amman
Al Muwaqar Industrial Estate/ Al Muwaqar	Amman
King Hussein Business Park Development Zone	Amman
Ajloun Development Zone	Ajloun
Al-Hassan Industrial Estate (HIE) / Irbid	Irbid
Irbid Development Area (IDA)	Irbid
King Hussein Bin Talal Development Area	Mafraq
Mafraq Industrial Area	Mafraq (in KHBTDA)
Al-Hussein Bin Abdullah II Industrial Estate (HUIE) / Al-Karak	Al-Karak
Dead Sea Development Zone	Al-Karak
Ma'an Industrial Estate (MIE) / Ma'an	Ma'an
Aqaba International Industrial Estate (AIIE) / Aqaba	Aqaba (in SEZA)

### OVERVIEW ZONES OF EU-AGREEMENT<sup>176</sup>

Al jeeza Industrial Area	Amman	El-Sukhneh Industrial Area	Zarqa
Al qastal Industrial Area	Amman	Wadi El-Eisheh Industrial Area	Zarqa
Al Tajamuat Industrial City	Amman	Alhussein Bin Abdullah II Industrial City	Al Karak
Muwaqqar Industrial City	Amman	King Hussein Bin Talal Development Zone	Mafraq
King Abdullah II Bin Alhussein City—Sahab	Amman	Mafraq Industrial City	Mafraq (in KHBTDA)
Marka Industrial Area	Amman	Irbid Alhassan Industrial City	Irbid (former QIZ now dev.)
Dulail Industrial City	Zarqa	Irbid Development Zone	Irbid
El-Hashmieh Industrial Area	Zarqa	Ma'an Development Zone	Ma'an
El-Ressaiefeh Industrial Areas	Zarqa	Al Quwayrah Industrial Area	Aqaba

■ Development zones

■ Former QIZs

## FOREIGN AND DOMESTIC LABOUR FORCE<sup>177</sup>

### Development Zones part of the EU-deal

NAME	NUMBER JORDANIANS	NUMBER MIGRANTS	TOTAL WORKERS	PERCENTAGE JORDANIANS
Muwaqqar Industrial City, Amman	1,634	987	2,621	62.3%
Abdullah II Bin AlHussein, Amman	13,178	2,696	15,874	83.0%
Alhussein Bin Abdullah II, Karak	4,010	2,984	6,994	57.3%
KHBTA, Mafraq	830	0	830	100%
Mafraq Industrial City, Mafraq	0	0	0	-
Alhassan Industrial City, Irbid	5,161	17,817	22,978	22.5%
Irbid Development Area	512	0	512	100%
Ma'an Development Area, Ma'an	430	74	504	85.3%
<b>TOTAL</b>	<b>25,755</b>	<b>24,558</b>	<b>50,313</b>	<b>51.2%</b>

### Former QIZs part of the EU-deal (excluding Al Hassan)<sup>178</sup>

NAME	NUMBER JORDANIANS	NUMBER MIGRANTS	TOTAL WORKERS	PERCENTAGE JORDANIANS
Al Qastal Industrial Area, Amman	-*	-	-	-
Al Tajamuat Industrial City, Amman	2,476	6,576	9052	27.4%
Dulail Industrial City, Zarqa	2,768	10,000	12,768	21.7%
<b>TOTAL</b>	<b>5,244</b>	<b>16,576</b>	<b>21,820</b>	<b>24.0%</b>

\* No information obtained

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118. Representative of German Import Promotion Desk, in conversation with Alistair Shawcross, May 2016.
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  162. Focus group meetings.
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170. Formulation stipulated in an interview.
171. Though still constituting a complicated procedure, several steps have been taken to ease access to formal employment. An initial grace period in which the costs for issuing a work permit were waived has been extended several times, most recently until April 2017. The requirement of a passport has been substituted by the requirement of a MOI service card.
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173. Alexander Betts and Paul Collier, "Jordan's Refugee Experiment. A New Model for Helping the Displaced", *Foreign Affairs* (April 2016).
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