

PART I: JORDAN'S ECONOMIC PERFORMANCE



INTRODUCTION

The purpose of this report is to provide a comprehensive picture of the state of competitiveness of Jordan's economy. This report reviews the macroeconomic and microeconomic environment in Jordan and then analyzes the competitiveness of 5 sectors: pharmaceuticals, information technology, tourism, higher education, and medical tourism. By analyzing the national economy and a selection of specific sectors, this report highlights the constraints that are limiting Jordan's private sector and may be holding back Jordan's economic growth prospects.

Numerous government agencies, private organizations, and donor initiatives have analyzed facets of Jordan's economy. In Jordan, much is known and understood about the macro-economy and the underlying dynamics that determine its health. The indicators for tracking macroeconomic performance are clear and readily available. Similarly, indicators for the overall microeconomic environment are codified and tracked by international reports such as the World Economic Forum *Global Competitiveness Report* and the World Bank *Doing Business Report*. These reports provide an overall assessment of the general issues faced across the private sector. Yet to date, there has not been an attempt in Jordan to evaluate the microeconomic environment within specific sectors and then link these insights to the common constraints faced by many businesses in Jordan.

A key analytical input into this study is a set of 5 sector-specific surveys completed by business leaders on the current state of competitiveness in their sector. The resounding response across all sectors is that there is urgency for action in order to preserve and elevate Jordan's competitiveness. This report aims to catalyze action by providing the economic leadership in Jordan with the data and analysis required to achieve a consensus for reform.

WHY IS COMPETITIVENESS IMPORTANT FOR JORDAN?

Enhancing competitiveness is one of the most critical economic challenges and one of the most important goals for increasing Jordan's prosperity for several reasons:

Reducing poverty and increasing prosperity requires achieving high rates of productivity growth, especially in export-driven industries.

Increasing export levels will drive Jordan's growth and prosperity. However, currently there are aspects of Jordan's export base that are unsustainable. The competitiveness of Jordanian exports has been based on a strong education system, relatively cheap labor and trade agreements that favor Jordan as a trade partner. However, cheap labor and trade agreements are not a source of long-term competitive advantage. With limited natural resources, Jordan must create its prosperity from its knowledge and innovation, entrepreneurial spirit and openness to the world.

Today, there is unprecedented opportunity for investing in industries that will achieve sustained growth.

High financial liquidity in the Middle East makes investors thirsty for opportunities that are supported by good information and sound business strategies. As a politically stable country with a well-educated workforce, Jordan is positioned to be a favored destination for investment.

Across the region, focus on diversified investment and knowledge-based economic growth is increasing. The knowledge- and technology-based sectors that are increasingly highlighted as the sectors of the future in the region are the sectors of today in Jordan: medical services, pharmaceuticals, information technology services, education services and cultural tourism among others. Jordan's legacy as a leading "knowledge-driven" economy in the Arab world means that this shift in the economic landscape presents a unique opportunity for Jordan to build on its strengths.

Global recognition of Jordan as a cornerstone for stability in the region is growing. Businesses and governments worldwide are increasingly aware of and interested in the Middle East as a crossroads for Europe, Africa and Asia. The world is turning to Jordan for leadership in the Middle East as its neighbors struggle with varying degrees of domestic socio-political unrest.

However, economic, social and political trends present immediate risks to competitiveness and continued growth. If unaddressed, these risks threaten to stall or reverse prosperity gains.

Regional conflict and social and demographic trends are resulting in a significant influx of migrants coming to Jordan to find jobs; a trend that is increasing social tensions. Ensuring adequate employment will be essential to avoiding social problems in the future.

The region's financial liquidity is placing a premium on skilled labor. This presents two immediate risks for Jordan: First, Jordanian talent is being drawn to other parts of the region as neighboring countries improve their business climate and investment in knowledge-based industries. Second, as the compensation for skilled labor increases economic inequality may rise as well, presenting a challenge for Jordan to ensure economic prosperity is widespread across the entire population.

Jordan's competitive advantage as one of the leading knowledge-based economies in the Middle East is at risk. The rapid pace of globalization, technological change and recent investments by neighboring countries in knowledge-driven industries threaten to relegate Jordanian producers to comparatively low positions on their respective value chains unless action is taken to reform the business environment, further upgrade the workforce and quickly adopt emerging technologies.

Figure 1.2 - Jordan's Prosperity Triangle



The future competitiveness of Jordan will only come from improving the productivity of its people and ensuring that Jordan is an easy place to do business and create prosperity. An educated workforce needs an environment that fosters economic opportunity, allowing many entrepreneurs in many competitive sectors to thrive regionally and compete internationally. Knowledge-driven prosperity must be fostered in an environment of stability, opportunity and social well-being.

WHAT IS COMPETITIVENESS?

Competitiveness can be defined as sustainable increases in productivity resulting in improved incomes for the average citizen. A competitive economy in Jordan would mean Jordanian products and services meet the test of the marketplace without protection or subsidies, in ways that boost the average incomes of Jordanians.

Competing in the international arena requires building the capacity to understand international consumer and market trends and then translating this knowledge and insight into higher value products and services. Competitiveness is determined by the productivity (value per unit of input) with which an economy uses its human, capital and natural resources. Productivity depends on the value, uniqueness and quality of a product, as well as the efficiency with which it is produced.

Although good strategic decisions enhance competitiveness, competitiveness is not about picking industries that will grow in the future. It is about improving the business environment that allows many entrepreneurs and companies in a variety of industries to make good strategic decisions and implement them efficiently. Competitiveness is about how firms compete in their industries.

The productivity of local industries is critical to competitiveness even if attracting key foreign investors can contribute to export competitiveness. This requires local industry build the capacity to learn about customers, understand markets, innovate, improve quality and invest in human resources. It also requires firms to cooperate with other members of the supply chain and work constructively with private sector leadership and government to solve problems and address constraints in the business environment.

Competitiveness cannot be built on natural resource abundance or cheap labor, especially when relative productivity is taken into account in relation to neighboring countries, many of which also have relatively cheap labor on a productivity-adjusted basis. Nor should competitiveness be confused with foreign investment in unproductive assets. While foreign investment can be an important generator of foreign exchange and government revenues (through privatization) - it will not create large numbers of sustainable, productive jobs. Unless the revenues generated from these activities are invested in human capacity and in facilitating (but not subsidizing) the emergence of competitive industry clusters, the benefits may not extend to all citizens.

Professor Michael Porter of Harvard Business School has developed a useful framework for understanding the determinants of competitiveness, as illustrated in Figure 1.3. Professor Porter's model serves as this report's framework for analyzing Jordan's growth prospects and organizing the various determinants of competitiveness and economic growth potential.

Figure 1.3 - Determinants of Competitiveness



- Nations or regions compete in offering the most productive environment for business
- The public and private sectors play different but interrelated roles in creating a productive economy
- A sound macroeconomic, political, legal, and social context creates the potential for competitiveness, but is not sufficient

The model illustrates how a country's potential for competitiveness and long-run economic growth is created by a sound macroeconomic, political, legal and social context and a continuous drive to improve the microeconomic environment, foster the sophistication of local companies, and increase local competition.

The model also illustrates how Jordan's future economic growth track will be determined by its ability to support:

1. Sector-specific growth, driven by local companies that are successful in raising the sophistication of their operations and strategies and increasing their competitiveness
2. Improvements in the business environment and removal of cross-cutting, binding constraints to growth

This report focuses specifically on sector-specific growth and the underlying microeconomic determinants of competitiveness for each sector. To understand the current state of Jordan's competitiveness in pharmaceuticals, tourism, information technology, medical tourism and higher education, this study uses the Competitiveness Diamond, often referred to as the Porter Diamond¹. The economic basis of the Competitiveness Diamond has been validated by numerous analytical and case studies and is now used by industries and governments worldwide to assess industry cluster competitiveness and to develop strategies for improving competitiveness. It is structured around 4 pillars:

1. Factor (Input) Conditions: skilled labor, infrastructure, etc.
2. Demand Conditions: size and type of accessible demand
3. Context for Firm Strategy and Rivalry: conditions for conducting business
4. Related / Supporting Industries: presence of suppliers and supporting industries

¹ Porter, Michael E. The Competitive Advantage of Nations, The Free Press, New York, NY, 1990.

Within each sector and across the economy, these 4 facets interact to form a foundation for building a competitive economy. For emerging economies like Jordan, strengthening a competitive industry starts with understanding the demand for products and services in key markets and then organizing and investing in the factor inputs (supply/production) to best meet the needs of the market. Only by accessing and understanding the specific needs of the market can the Jordanian businesses utilize their resources in the most efficient way and create the most value for the customer and the economy in which they operate. As a more in-depth understanding of the market is developed and the supply is upgraded accordingly, the industry cluster then must concentrate on upgrading its suppliers and supporting industries and working with the government to improve its business environment.

Figure 1.4 - porter competitiveness diamond

