

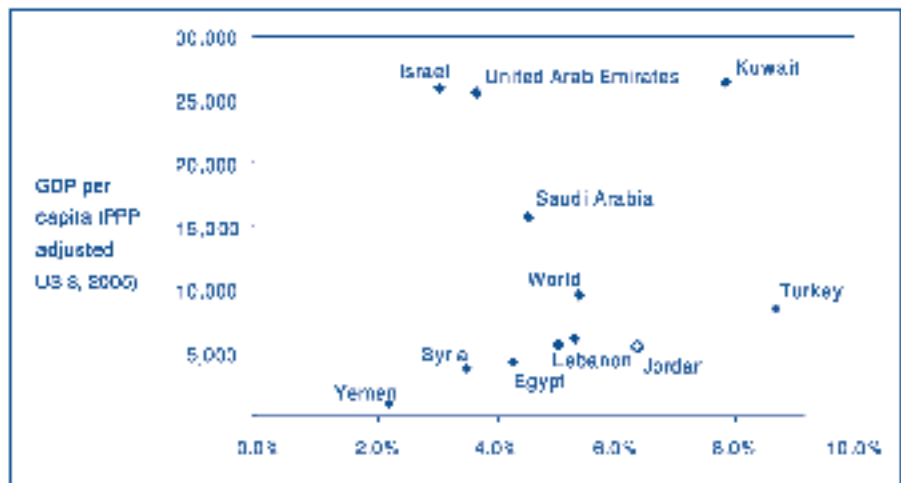




## ASSESSING THE FOUNDATION OF JORDAN'S PROSPERITY

With high-sustained GDP growth rates and a per capita income of approximately USD \$2,400<sup>2</sup> Jordan is on the road of transition to the next stage of development: from being a 'factor driven economy' to becoming an 'efficiency driven economy'.<sup>3</sup> The country has achieved declining rates of poverty and improving living conditions: education and health standards are rising.

Figure 2.1 - Regional Prosperity



Source: World Bank 2007, JAA Calculations.

**In the macroeconomic environment, Jordan has adopted policy measures to address structural defects in the public sector, while creating an enabling environment for greater private sector participation.**

The government has been working on curbing its fiscal and external deficit, while responsibly handling its monetary policy. Both domestic and international demands have been booming, fuelled by high remittances from the Gulf and surging exports. However, the country's macroeconomic environment continues to give cause for concern. While much remains to be done on the domestic structural transformation, recent global and regional events, primarily the 2003 Iraq war, threaten to steer the country off its path towards macroeconomic stability.

**In the micro-economic environment, Jordan's business environment reform is being eclipsed by its neighbors.**

Jordan's historical competitive advantages in health, education, and the quality of its workforce are deteriorating rapidly as regional competitors invest heavily in these areas. Despite continued talk of transforming Jordan into a knowledge-driven economy, debilitating weaknesses exist in its knowledge and research infrastructure and innovative capacity.

**These constraints can only be resolved by building on Jordan's solid institutional structure.** Economic reform has been slow to take shape in Jordan, but can be accelerated quickly. While increasing Jordan's innovative capacity can only take place over the medium to long-term, resolving barriers to business start-up and productive investment can take place in a matter of months given the commitment of the economic leadership.

<sup>2</sup> At current exchange rate, EIU Jordan Country Report, 2007

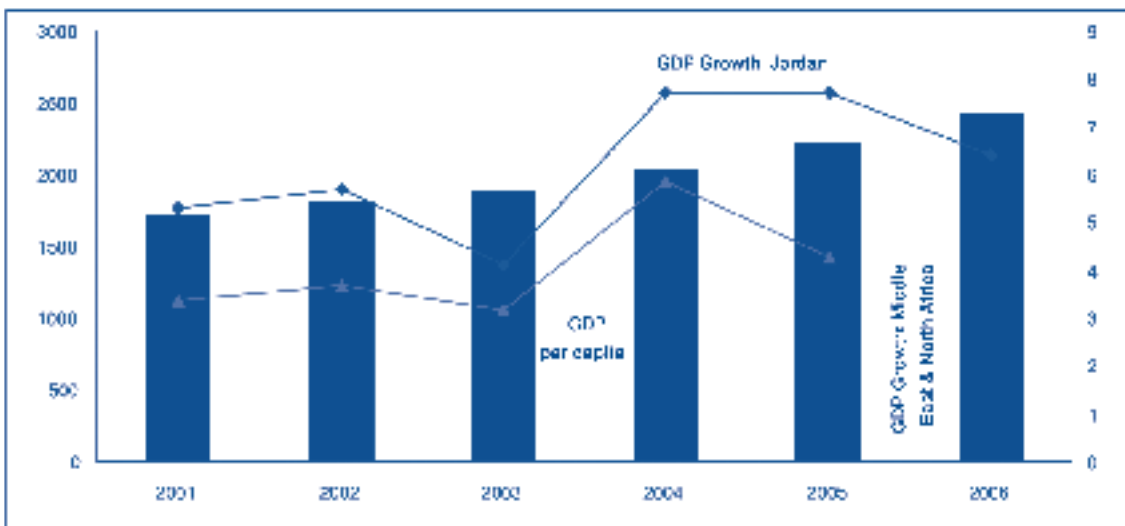
<sup>3</sup> According to the Global Competitiveness Report, countries around the world have been categorized into 3 groups depending on their stage of development: the lowest stage of development is termed 'factor driven' and growth is driven by competing on natural commodities and low costs; the second stage is the 'efficiency driven' stage where increasing enhanced productivity and movement upstream on the value chain becomes the engine of growth; the most advanced stage is the 'innovation driven' stage where economies compete on knowledge capital, ideas and sophistication in operations and products.

The following section analyses the current state of the macroeconomic and microeconomic foundations for competitiveness in Jordan.

## MACROECONOMIC PERFORMANCE

In the context of its historical performance, and in comparison to the regional average, the Jordanian economy has been performing well since 2001. GDP has been growing at a sustained rate of 5-7% in the last 5 years and touched 7.7% in 2005, while the GDP per capita has grown from USD \$1,700 in 2001 to over USD \$2,400 in 2006. This growth is primarily being fueled by robust domestic demand, particularly private consumption demand that is soaring as a result of record remittances from the Gulf. Also fueling the growth is persistently strong investment, particularly in the services infrastructure (tourism) and in the real estate and construction sectors. Yet despite the growth, the increased demand has noticeably driven up construction costs that are being reflected in the rising prices in the sector<sup>4</sup>.

Figure 2.2 - GDP per capita (USD), Rate of Growth of GDP: Jordan, MENA



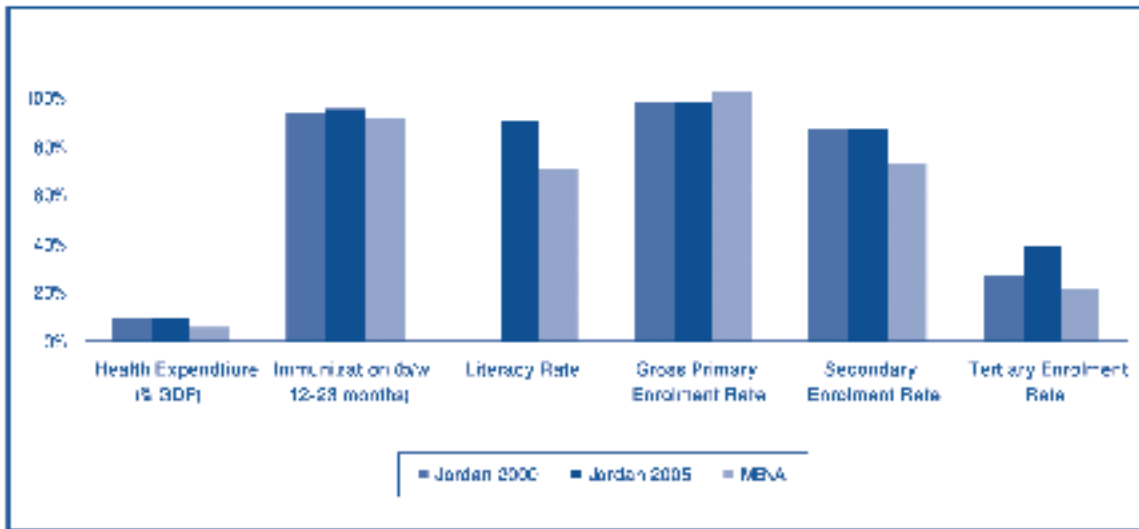
Source: WCI & Country Report, Economic Intelligence Unit (EIU)

This growth has translated to a decline in poverty rates in the country, and an overall improvement in the social well-being of the population, as signaled by the improving social indicators. The poverty rate declined from over 20% in the late 1990s to 14.7% in 2006. Education enrolment rates have increased and the country has achieved almost 100% literacy for both men and women. Health indicators are slightly improved from prior years in Jordan and the regional average. The infant mortality rate in Jordan is 22 compared to the regional average of 43, and life expectancy at birth is 72 years compared to 70 in the region. These achievements are reflected in the country's improved ranking in the UNDP Human Development Index from 94 in 2000 to 86 in 2006.<sup>5</sup>

<sup>4</sup> www.oxfordbusinessgroup.com

<sup>5</sup> From the UNDP website on Human Development Reports

Figure 2.3 - Prosperity Indicators, 2000, 2005



Source: WCI 2007

Jordan's challenge lies in tackling its historically high twin deficits, both fiscal and trade. One of the main reasons for the deficit is the vulnerability to negative external shocks - due to high dependence on oil imports, large foreign aid inflows and significant security expenditures stemming from the political instability of the region.

The fiscal deficit has hovered between 8% and 14% of GDP in the last 6 years and the current account deficit peaked at 25% of GDP in 2005. The driving factors behind the continued fiscal deficits have been high state security and defense expenditures and fuel subsidies that are compounded by a low domestic revenue base. Grants make up a large share of revenues, exposing the fiscal balance to the possibility of negative external shocks. Jordan's economy has reflected an almost constant negative trade balance due to significant dependence on imported oil and hence on the variability of international oil prices. While the current leadership has adopted several policy measures to rectify the underlying structural defects, global and regional events in 2003 knocked the country off its path of improving fiscal conditions. However, recent data and future projections suggest that things may be improving.

Since the Jordanian dinar is pegged to the US dollar, the country's Central Bank has little flexibility in using its monetary policy tools. However, despite this restriction, it has been performing well, curbing inflationary pressures (inflation was up to 6.2% in 2006 driven by fuel) that are evident given the rich liquidity in the region and in the country, and the potential of US inflation. Furthermore, the impact of absorbing around 500 thousand Iraqis in the domestic economy is also straining prices\*. Positive investor sentiments, both domestic and international, have resulted in surging growth in credit to the private sector and large inflows of FDI. Domestic credit to the private sector grew at a record 40% in 2006 and preliminary data indicates that FDI flows doubled from USD \$1.5 billion in 2005 to over USD \$3.0 billion in 2006.

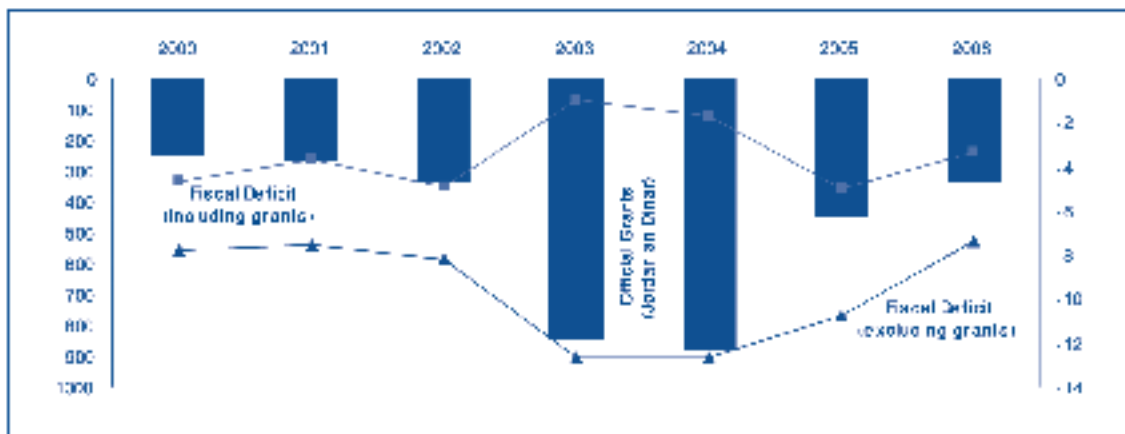
\* The recent study conducted by Norway's Fafo Institute for Applied International Studies Concludes that there are around 500,000 Iraqis in Jordan accounting for almost 9 percent of the total population.



## FISCAL OUTLOOK

Though government expenditures comprise only a small component in Jordan's GDP, it is one of the main causes of concern for the country's macroeconomic outlook. The continuing trend of large fiscal deficits that has put tremendous pressure on the government's debt situation. In 2006, the fiscal deficit stood at 7.5% of GDP before grants (4.4% of GDP after grants). As illustrated below, aid inflows peaked in 2003, largely due to the Iraq war, and assisted in reducing the fiscal deficit. However, this foreign aid has since decreased. Although the fiscal deficit has been declining despite this contraction, Jordan needs a long-term solution for reducing its dependence on the flows of volatile foreign aid.

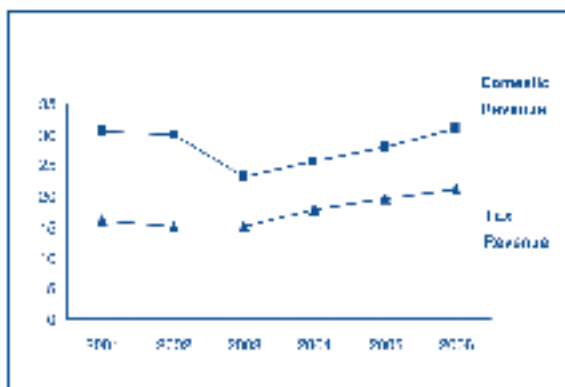
Figure 2.5 - Fiscal Deficit (with and without aid), External Aid Flows (JD mn)



Source: Country Report-2007, IJU, IMF Country Report, 2007

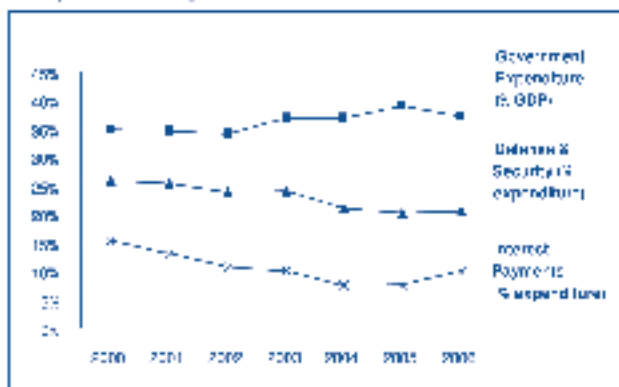
The decline in the fiscal deficit results from an increasing domestic revenue base and a strong control over government expenditure, illustrating the impact of the government's recent tax and public sector reforms. Domestic revenue, which grew at over 18% in 2006, is driven by high sales tax and income tax receipts. Despite improvements in curbing government expenditures, they continue to make up over 30% of GDP. Interest payments on debt constitute a significant portion of government expenditures, although the share has been decreasing. Defense and security expenditures continue to demand a large part of the budget - an obvious outcome of the regional instability. The recent increase in fuel prices has serious implications for Jordan's current account given the high sensitivity of the deficit to changes in oil prices - an increase of USD \$1/barrel causes Jordan's expenditures to grow by JD 25 million.

Figure 2.6 - Rising Domestic Revenue & Tax Base (% GDP)



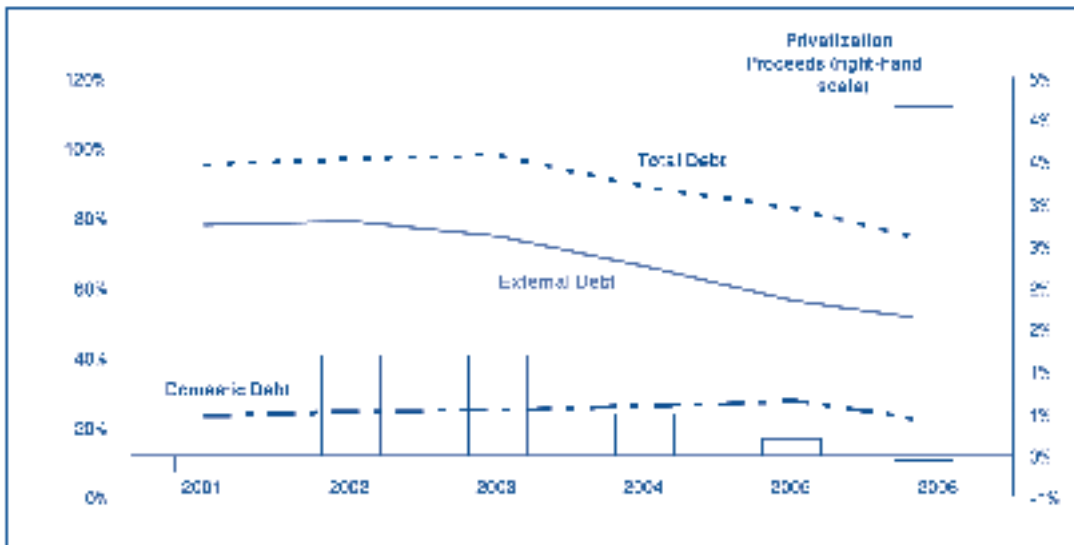
Source: Country Report-2007, IJU, IMF Country Report, 2007

Figure 2.7 - Trends in Govt Expenditure (% GDP), Major Components of Expenditure



Source: WCI 2007

Figure 2.8 - Declining Trends in Domestic and External Debt, Privatization Proceeds (% GDP)



Source: Country Report- 2007, E.U., IMF Country Report, 2007

## FINANCING OF THE DEFICIT: Debt and Privatization Proceeds in Jordan

The reduction in the fiscal deficit has relieved the debt burden for Jordan somewhat. Total government debt stood at 72.5% of GDP in 2006; the government has established a goal of bringing down this debt to 60% of GDP by 2012 under the Medium Term Fiscal Framework. Increasingly, privatization proceeds recently have been assisting in financing the government's fiscal agenda.

The declining debt stock of the country has resulted in an improving debt service ratio which stood at 7.6% of GDP in 2006. Jordan has also been making an effort to finance an increasing part of the deficit through domestic debt to reduce its dependence on other-currency denominated debt: this is also necessitated by the winding down of its earlier debt schedule from bilateral sources<sup>6</sup> and the temporary nature of privatization proceeds on an annual basis.

Within its external debt profile, the government has also made an effort to put greater emphasis on multilateral and bilateral concessional loans rather than commercial debt. This has resulted in a decrease in the imputed interest rate on the debt stock. Further, due to improved balance of payment conditions and growing foreign exchange reserves, external debt servicing through foreign exchange receipts has almost halved from 16% in 2001 to about 8% in 2006.<sup>7</sup>

The Executive Privatization Commission (EPC) has been working on its projects of disinvestments of some major publicly owned organizations and recent divestitures have resulted in a sudden increase in privatization proceeds that have gone towards financing the deficit gap. However, as mentioned earlier, there is no guarantee that this program will continue at its current levels on a sustained basis.

<sup>6</sup> Such as the Paris Club debt

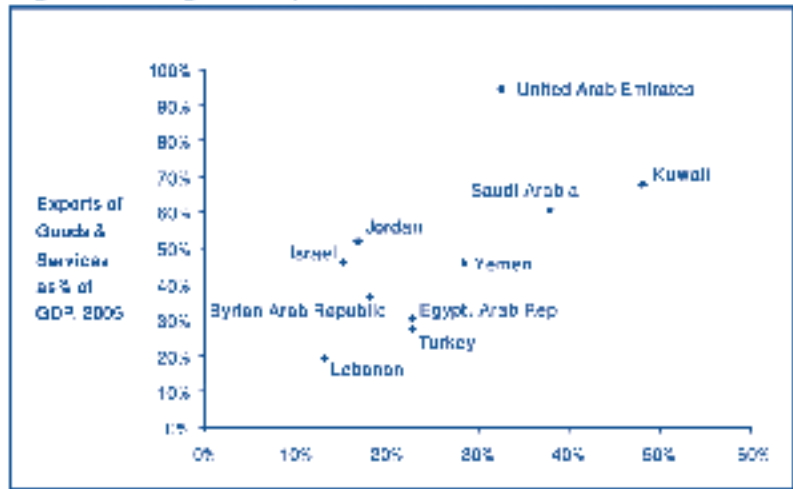
<sup>7</sup> Min of finance debt report

## EXTERNAL SECTOR: TRADE & SERVICE FLOWS

Jordan's trade flow is fairly robust with growing exports and imports and very high remittances from the Jordanians working overseas - exports of goods and services contribute to 51% of GDP.<sup>8</sup>

Jordan's trade and current account deficits have been increasing since 2003, with the onset of the Iraq war. The trade deficit stood at 35% of GDP in 2006, reflecting an ongoing widening gap that emerged in 2003 primarily as a result of a surge in imports in that year driven by increasing oil prices precipitated by the Iraq war.

Figure 2.9 - Regional Exports

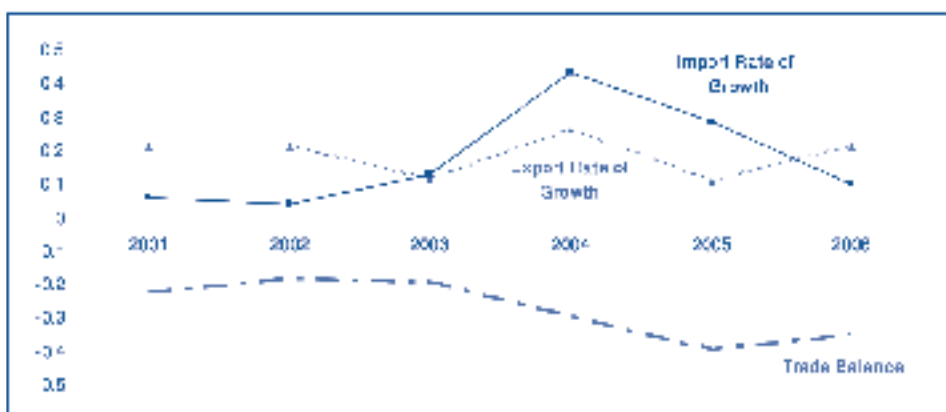


Source: World Bank 2007, JAA Calculations.

As oil accounts for a significant portion of Jordanian imports - about 24% in 2006 -, the country's trade balance is vulnerable to external shocks caused by volatility in oil prices. Iraq was a source of cheap oil for Jordan until the war disrupted this relationship. As Figure 2.10 illustrates, Jordan's economy is significantly more open than regional neighbors in terms of exports as a percentage of GDP; however, its export growth is merely average. This indicates the critical role service income plays in its foreign exchange receipts - which will be discussed later.

The trade balance has improved since 2005 with a decline in import growth rates and resurgence in exports largely due to the weakening of the dollar. While these trends may provide relief in the short term, structural shifts in the balance of trade remain necessary as devalued currency is neither sustainable, nor a component of true competitiveness.

Figure 2.10 - Trade Balance (% GDP), Rate of Growth of Exports & Imports

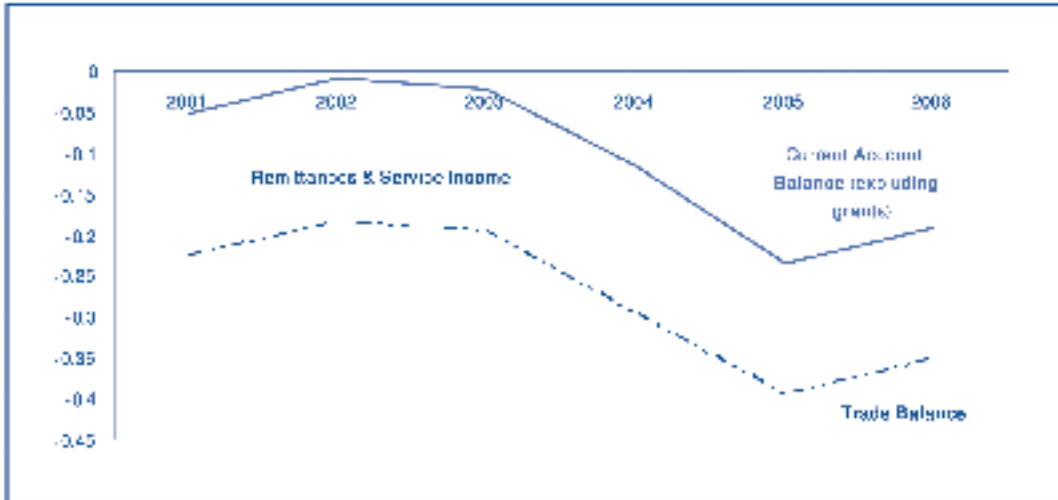


Source: Country Report-2007, EIU, IMF Country Reports

<sup>8</sup> WDI 2007

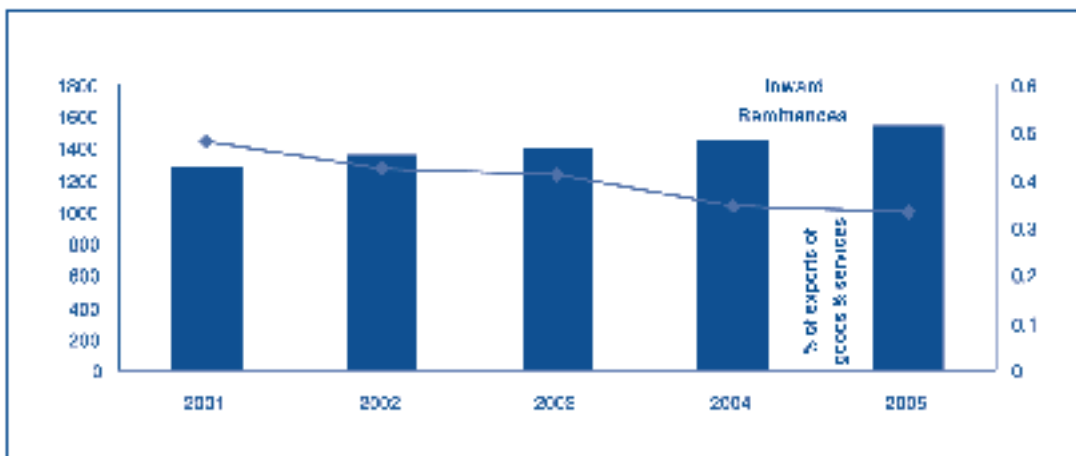
The overall current account balance (excluding official transfers) stood at a deficit of 19% in 2006 - the large trade deficit was partially offset by sustained high inward remittances from the Jordanian diaspora and service income receipts, primarily from the tourism sector.

Figure 2.11 - Current Account & Trade Deficits (% GDP)



Source: Country Report- 2007, EIU, IMF Country Report

Figure 2.12 - Inward Remittances (JD mn), % of Exports of Goods & Services



Source: Country Report- 2007, EIU, IMF Country Report

## FINANCING OF THE DEFICIT: Foreign Direct Investment

Jordan's current account deficit was more than offset by FDI and other flows of capital - the country's foreign exchange reserves have been growing steadily. After measuring barely 1% of GDP in 2003, FDI flows surged and stood at 12% of GDP in 2005 - much higher than other countries in the region and well above the regional average. As a share of gross fixed capital formation, FDI accounted for around 50%.

Figure 2.13 The Role of Foreign Investment

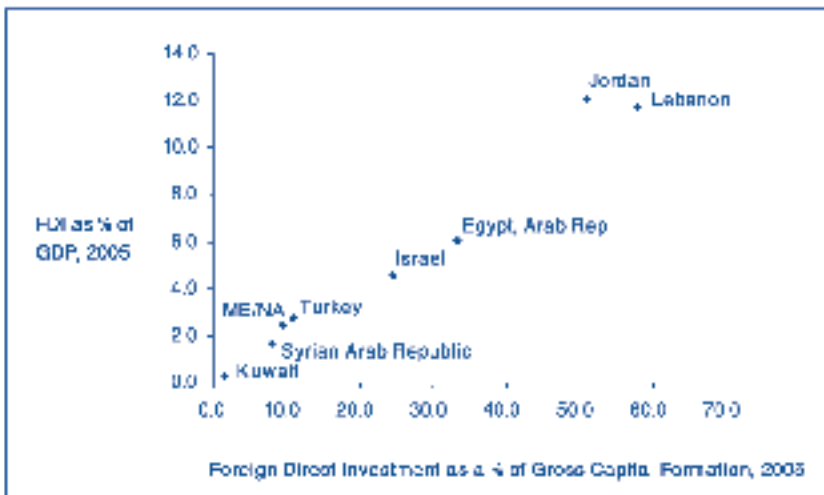
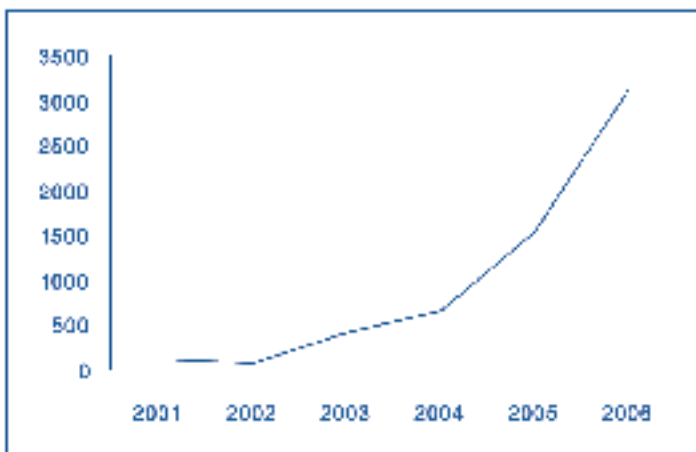


Figure 2.14 - FDI Flows (USD mn)



Source: World Bank 2007, JAA Calculations.

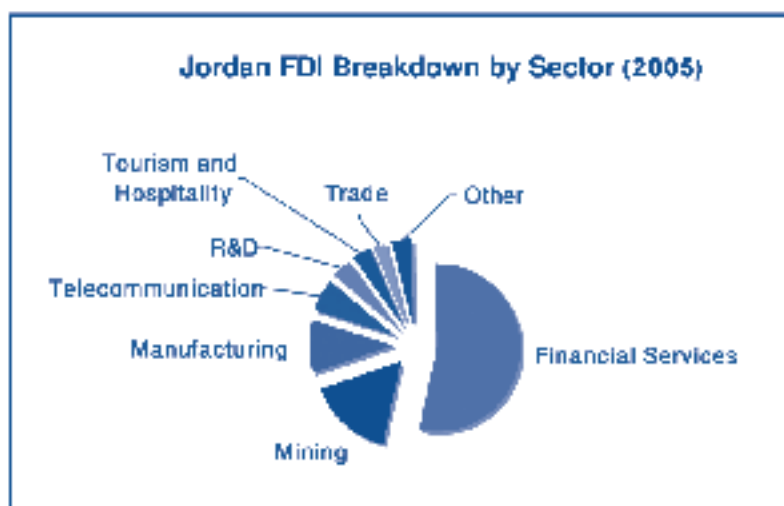
In terms of absolute flows in USD, Jordan's performance on FDI in comparison to the region has been average – USD \$1.5 billion in 2005 as compared to USD \$5.3 billion in Egypt or USD \$9.8 billion in Turkey. FDI grew at a compound annual growth rate (CAGR) of 87% for 2003-2005 compared to other countries such as Egypt (375%) and Kuwait (310%). However, preliminary estimates show that the FDI flow in 2006 exceeded USD \$3 billion - more than doubling in a year. However, significant questions have been raised on both the accuracy of the Jordan's current FDI data as well as the underlying reasons for its apparent growth.

No one consistent set of foreign investment figures can be used to accurately assess the performance and underlying drivers of foreign investment growth in Jordan. Different agencies are tracking different types of investment figures, causing confusion among policymakers and the public.<sup>9</sup>

Jordan's FDI growth certainly reflects the large increases in liquidity in the region, one off government privatizations in 2006, a real estate boom in Amman and Jordan's success in attracting increasing amounts of investment into the Special Economic Zones (SEZs).

One example of significant success has been the Aqaba Special Economic Zone (ASEZA) - established in 2001. So far, the zone has attracted over 1,500 new enterprises and a total investment of USD \$1.5 billion in registered capital. An estimated USD \$11 billion additional investment is forecasted for the period 2006-2014.<sup>10</sup> Despite specific successes in certain SEZs, much of Jordan's FDI still remains untrackable. A recent survey by the Department of Statistics of Jordanians residing overseas investing back in Jordan revealed that much of the inflow of expatriate investment is in non-productive sectors.

**Figure 2.15 - Jordan FDI Breakdown by Sector (2005)**



Source: Department of Statistics, Government of Jordan 2007

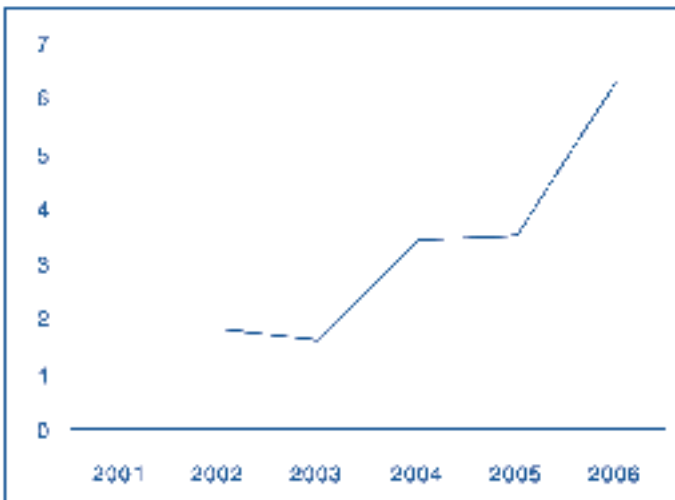
## MONETARY POLICY & BANKING SECTOR

As previously mentioned, the Jordanian government does not have complete flexibility in its monetary policy given the fixed peg of the dinar to the US dollar. However, the government has made a concerted effort through interest rate adjustments and open market operations to contain inflationary pressures that have arisen due to easy liquidity in the regional and domestic markets, high oil prices and the macroeconomic strain of absorbing large numbers of war refugees. Hence, while overall inflation rose in the last year to over 6%, this was primarily driven by food and fuel prices.<sup>11</sup> Core inflation continued at the previous trend of around 2%. Interest rates closely follow the US interest rate trends and the yield curve has moved up over the past years.

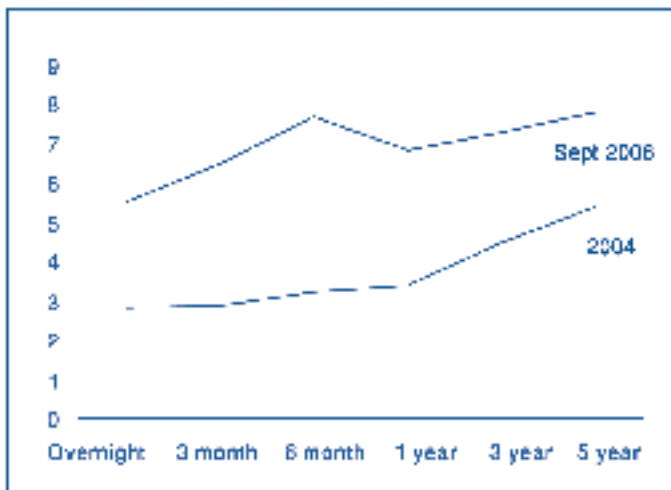
<sup>9</sup> Jordan Times, Yusuf Mansur Editorial, October 16, 2007.

<sup>10</sup> <http://www.azem-aqaba.com>

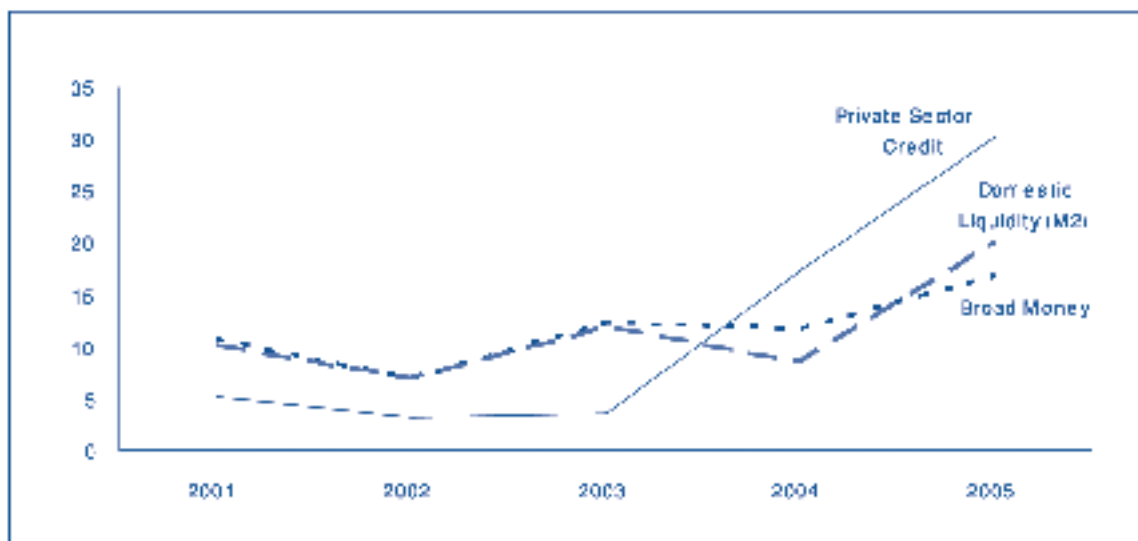
<sup>11</sup> Food prices were driven up due to increasing fuel prices that led to higher distribution and transportation costs. Another important reason has been increasing exports of Jordanian fruits & vegetables that have caused a domestic supply scarcity driving up the prices.

**Figure 2.16 - Inflation Rate**

Source: Department of Statistics, Government of Jordan 2007

**Figure 2.17 - Yield Curves**

Source: World Bank 2007, JAA Calculations.

**Figure 2.10 - Rates of Growth in Liquidity & Private Sector Credit**

Source: IMF Country Reports, Central Bank of Jordan Statistics

Banking sector indicators reflect increasing stability (the capital adequacy ratio was 21.4 in 2006). This stability coupled with high liquidity has given rise to the availability of high amounts of credit to the private sector as well as the use of new and riskier lending instruments that will require greater supervision in the future.

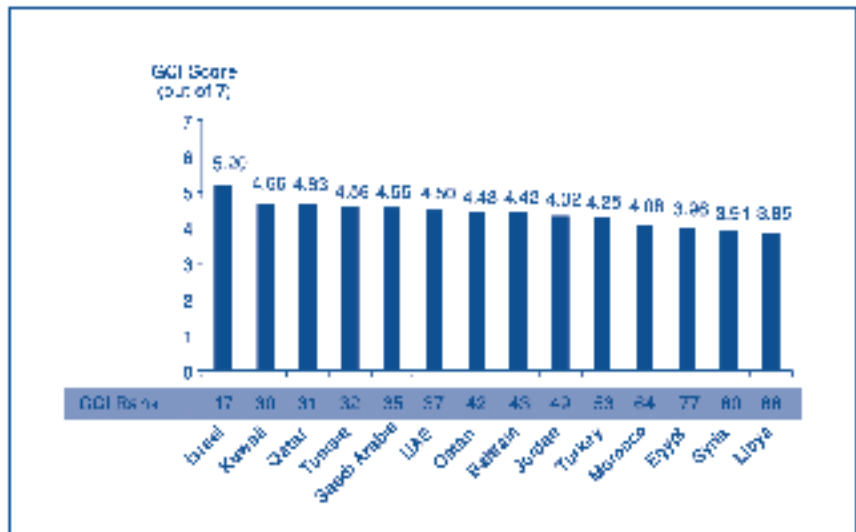
## MICROECONOMIC ENVIRONMENT

### Jordan's Competitiveness Rankings:

Jordan ranked 49<sup>th</sup> on the Global Competitiveness Index (GCI) and 48<sup>th</sup> on the Business Competitiveness Index (BCI) in the 2007-2008 Global Competitiveness Report.

Jordan maintained its position in the top 50 competitive economies despite the inclusion of more countries in the report and increased focus on competitiveness across the world. Jordan's rank in the GCI remained unchanged while its rank in the BCI slipped slightly from 46<sup>th</sup> last year.

Figure 2.19 – Global Competitiveness Index Rankings - MENA



Source: GCP 2008

Despite placing in the top 50 competitive economies, Jordan ranked just 9<sup>th</sup> among MENA countries, ahead of North African countries such as Morocco (64<sup>th</sup>) and Egypt (77<sup>th</sup>), but behind the GCC countries, Tunisia (32<sup>nd</sup>), and Israel (17<sup>th</sup>).

The GCI expanded its sub-components to 12 from 9. These subcomponents, or pillars, fall into 3 major groupings: basic requirements, efficiency enhancers and innovation and sophistication factors. These 12 pillars are:

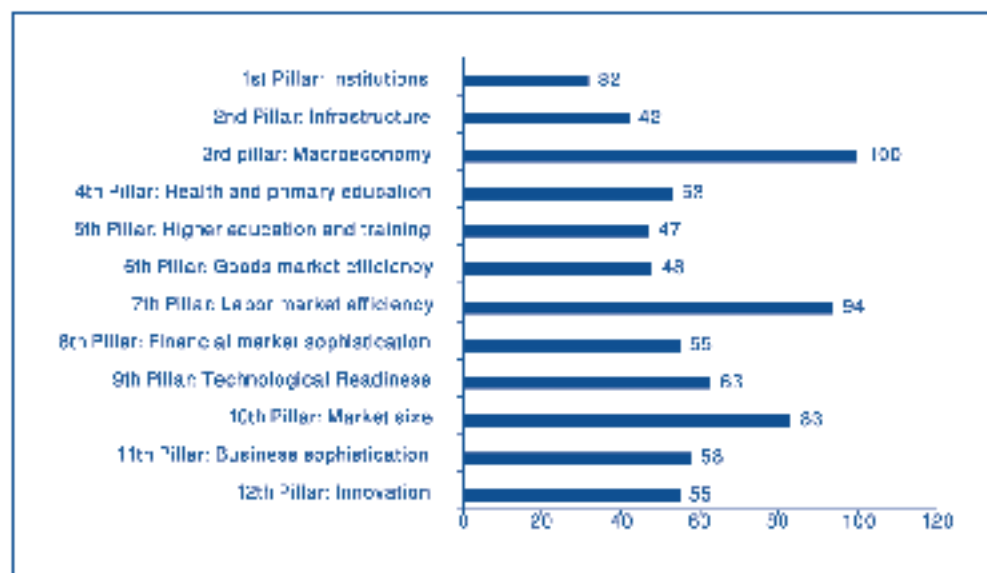
1. Institutions
2. Infrastructure
3. Macroeconomy
4. Health and primary education
5. Higher education and training
6. Goods market efficiency (new)
7. Labor market efficiency (new)
8. Financial market sophistication (new)
9. Technological readiness
10. Market size (new)
11. Business sophistication and
12. Innovation

Figure 2.20 – Pillars of the Global Competitiveness Report



Source: GCR 2008

Figure 2.21 - Jordan's Performance on the Twelve Pillars of the Global Competitiveness Index, 2007 (a lower rank means better performance)



Source: GCR, 2008

The GCI takes into account the fact that countries at different stages of development have different drivers of competitiveness. The stages of development are factor-driven, efficiency-driven and innovation-driven. Under this model, Jordan is characterized as a transition economy between factor-driven and efficiency-driven. At this stage, the GCR states that competitiveness is contingent upon a well-managed macroeconomic framework, strong institutions, adequate infrastructure and a capable workforce.

**Jordan ranked comparatively well on institutions (32<sup>nd</sup>) and infrastructure (42<sup>nd</sup>).** The strength of Jordan's institutions and infrastructure shone through in the results of the report and contributed to Jordan's maintenance of its top 50 position. Jordan's key competitive advantages under institutions include presence and protection of physical (29<sup>th</sup>) and intellectual (40<sup>th</sup>) property rights, light burden of government regulations (25<sup>th</sup>), ethical behavior of Jordanian firms (29<sup>th</sup>), prudent government management (35<sup>th</sup>) and judicial independence (40<sup>th</sup>). Jordan's strength in infrastructure is based on the quality of its road (37<sup>th</sup>) and air (36<sup>th</sup>) infrastructure as well as the quality of its electricity supply (34<sup>th</sup>).

However, Jordan's weaknesses in the macroeconomic environment (100<sup>th</sup>), labor market efficiency (94<sup>th</sup>) and market size (83<sup>rd</sup>) reduced its overall ranking. Similar to last year, Jordan's dismal score in the macroeconomic environment pulled back its overall rank. As indicated earlier, both Jordan's annual fiscal deficit (112<sup>th</sup>) and its government debt (105<sup>th</sup>) present an ongoing risk to the economy. Jordan's other especially low rankings appear in 2 of the new pillars, labor market efficiency and market size. Within the labor market efficiency pillar, Jordan's key weaknesses are in hiring and firing practices within the country (103<sup>rd</sup>), reliance on professional management (95<sup>th</sup>), its ability to retain the country's most talented workers (brain drain - 86<sup>th</sup>), and the female participation in the labor force where Jordan ranks just 124<sup>th</sup> out of 131 countries. This indicates that Jordan is missing out on a significant pool of educated workers and potential economic value. While there is quite a bit that can be done to improve its labor market efficiency, there is very little Jordan can do to directly improve its market size. By definition, Jordan is a small market. The only reasonable policy response is to ensure that Jordan's economy is as open as possible to the flow of goods and services and to support the regional and international market linkages for Jordan's export business.

In the areas of education and health, Jordan's rankings are at par with its overall ranking, but this conceals disturbing weaknesses in primary and secondary enrollment. Known for its strong education system, it is surprising to see Jordan's ranking in both primary enrollment (82<sup>nd</sup>) and secondary enrollment (62<sup>nd</sup>) appear as competitive disadvantages. As a barometer for Jordan's future workforce, these are 2 of the most urgent issues to address for Jordan. The good news in education is that Jordan ranks comparatively well in education expenditure (25<sup>th</sup>), quality of the higher education system (37<sup>th</sup>), quality of the math and science education (47<sup>th</sup>) and tertiary enrollment (48<sup>th</sup>).

Jordan's rank in the goods market efficiency pillar mask wide differences and inconsistencies in its ranking on specific indicators. There is significant disparity and inconsistency between the strengths and weaknesses in the assessment of Jordan's goods markets. Key strengths include the tax rate (21<sup>st</sup>), time required to start a business (25<sup>th</sup>), intensity of local competition (33<sup>rd</sup>), the extent of market dominance (31<sup>st</sup>) and the degree of customer orientation (36<sup>th</sup>). However, these strong scores are counter-weighted by equally poor scores in the trade-weighted tariff (83<sup>rd</sup>), extent and effect of taxation (73<sup>rd</sup>), number of procedures to start a business (85<sup>th</sup>) and the buyer sophistication within Jordan (92<sup>nd</sup>). These numbers reveal remarkable paradoxes in the Jordanian economy. The rank in overall tax rate in Jordan is impressively low, but the weak ranking on trade-weighted tariff reveals that Jordan may be constraining a key driver of future prosperity: trade. The time required to start a business indicates the efficiency with which the system works, especially when considering that the number of procedures is so comparatively high. The number of procedures is itself concerning as this can increase the direct cost for the business as well as opportunities for corruption in the process. The result on customer relations is troubling - Jordan's market appears to be well oriented to the needs of the customer, yet its access to sophisticated customers on which industry relies for feedback on product quality is limited.

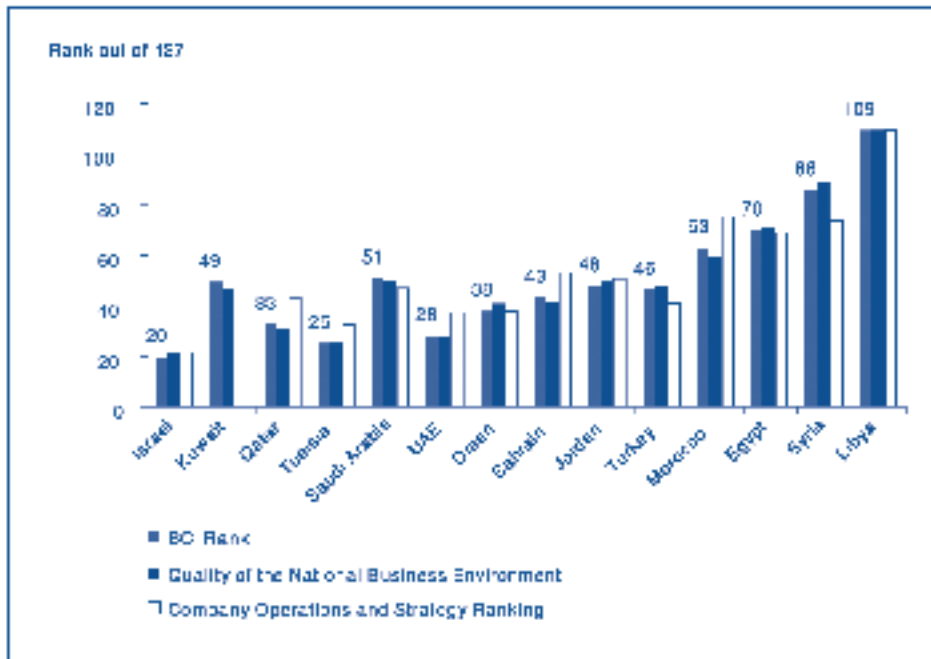
Business and financial market sophistication appears to be a moderate weakness for Jordan with only a few notable strengths and dramatic weaknesses. Jordan's financial market sophistication is buoyed by its comparatively strong local equity market (39<sup>th</sup>), but is significantly constrained by its weak ability to protect investors (87<sup>th</sup>). Under business sophistication, Jordan's one moderate strength is business' control of international distribution and its main weakness is the extent to which Jordanian businesses market their products and services (75<sup>th</sup>).

Despite increased focus and attention on Jordan's knowledge-driven sectors, Jordan's rankings in technological readiness and innovation reveal debilitating weaknesses countered by only a few strengths. Jordan has good access to the latest technologies (37<sup>th</sup>) and its firms have the absorptive capacity (42<sup>nd</sup>), but Jordan ranks low on its laws relating to IT. On innovation, Jordan is producing a strong pool of scientists and engineers (38<sup>th</sup>); however, company research spending (75<sup>th</sup>) and collaboration with universities (69<sup>th</sup>) is holding back the country's innovative capacity.

## THE BUSINESS COMPETITIVENESS INDEX<sup>12</sup>

Jordan ranks equally well on the Business Competitiveness Index (BCI) at 48<sup>th</sup> out of 127 total countries in the 2007 report, slipping 2 ranks overall from its 2006 ranking. However, when taking into consideration new country additions, Jordan stayed level on a percentile basis. Maintaining its top 50 ranking is impressive with the data pool now including nearly all highly developed economies. Jordan ranks behind UAE (28<sup>th</sup>), Qatar (33<sup>rd</sup>), Bahrain (43<sup>rd</sup>), and Turkey (46<sup>th</sup>), and above Saudi Arabia (51<sup>st</sup>), China (57<sup>th</sup>), and Egypt (70<sup>th</sup>).

Figure 2.22 - BCI Summary and Comparators for 2007



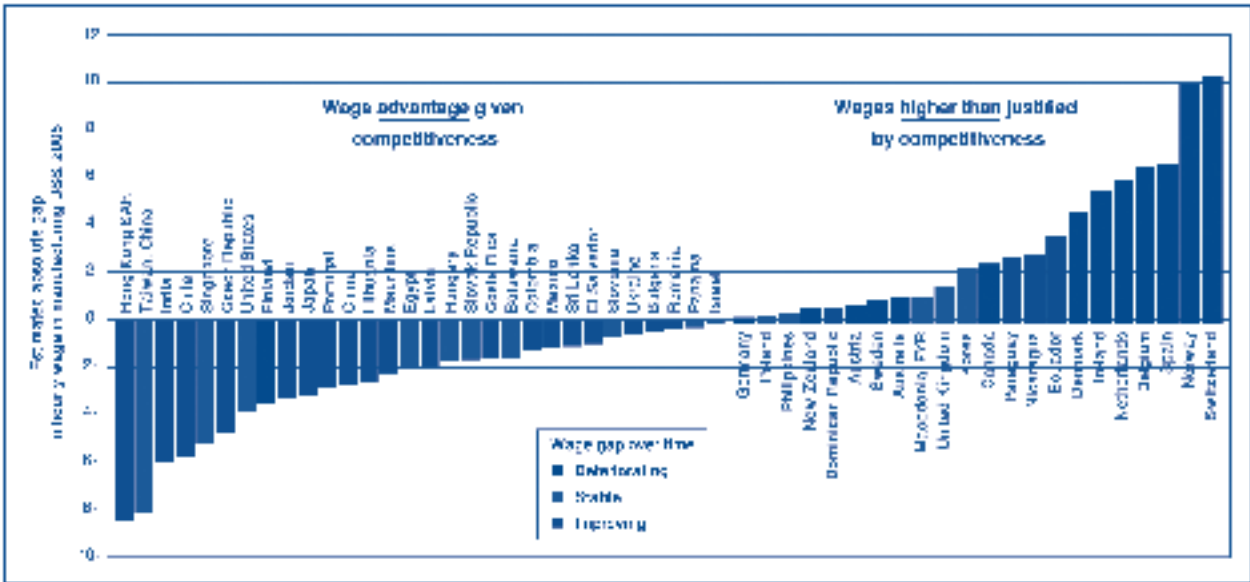
Source: GCR, 2008

There are 2 components of the BCI and Jordan does relatively well on both. There is very little difference between the rankings for the quality of the national business environment (49<sup>th</sup>) and the rankings for company operations and strategy (51<sup>st</sup>). The relatively equal rankings demonstrate a balance in Jordan's economy. However, according to the BCI methodology, a much stronger weight is placed on the national business environment (over 80%) while the quality of business operations and strategy is weighted much less. This reflects how critical the business environment is to a country's competitiveness and the importance of Jordan continuing to take steps to further improve the business environment. The Jordan's performance in the BCI echoes much of the GCI conclusions: strong infrastructure, efficient legal framework, strong institutions; however, poor cellular connectivity, limited buyer sophistication, and weak marketing capabilities.

<sup>12</sup> The Business Competitiveness Index is the product of the Institute for Strategy and Competitiveness of Harvard Business School.

Jordan is highlighted in this years report for its good value as an investment location. The graph below compares countries where wages are higher than would be expected based on their competitiveness to countries where wages ought to be higher based on the performance of their economy. Jordan and the countries to the left of the graph have a "wage advantage." It is interesting to note that Jordan is in good company with some of the most dynamic economies in the world; also appearing on the left of the graph are India, China, Chile, Singapore, Czech Republic, USA and Finland.

Figure 2 24 – Wages vs. Competitiveness



Source: Porter, Michael and Christopher Karlisle. Global Competitiveness Report 2000

## WORLD BANK DOING BUSINESS 2008

Similar to the Global Competitiveness Report, the World Bank's Doing Business Report has emerged over the past 4 years as an authoritative, objective snapshot of how easy it is for businesses to conduct business in a given country. The report has a more limited scope than the Global Competitiveness Report - focusing on the regulatory environment for doing business.

Despite continuous discussion about reform in the regulatory environment for business in many sectors and at a variety of levels, in the last year Jordan's ranking across the 'Doing Business' indicators remained largely stationary and the overall ease of doing business rank actually dropped a point from 79 to 80. This placed Jordan slightly above Lebanon (85) and not far behind UAE (68). Other regional competitors, Egypt and Saudi Arabia, were both named top reformers for 2007 while Jordan only passed one reform this past year.

**Table 2.3 - World Bank Doing Business 2007 Selected Indicators: Jordan and Benchmarks**

		Jordan	Egypt	Lebanon	UAE	USA	Switzerland	Ireland	Malaysia	OECD	MENA
Getting Credit	Strength of Legal Rights Index (0-10)	5	1	4	3	7	6	0	0	6.4	3.7
	Depth of Credit Information Index (0-6)	2	4	5	2	6	5	5	8	4.6	2.6
Paying Taxes	Payments (Number)	26	86	19	14	10	24	9	85	15.1	25.1
	Time (Hours Per Year)	101	711	180	12	325	60	76	168	183.3	238.8
	Total Tax Payable (% of Gross Profit)	15.1	13.2	11.4	0	27.1	6.4	14.2	19.1	20	14.7
Starting a Business	Procedures to Start a Business (Number)	10	7	6	11	6	6	4	9	6	9.7
	Time to Start a Business (Days)	14	8	46	62	6	20	13	30	14.9	38.5
	Cost to Start a Business (%GNI)	66.2	28.6	94.1	38.9	0.7	2.1	0.8	18.1	6.1	66
	Min. Capital (%GNI per capita)	795.4	7	60.4	312.4	0	13.9	0	0	82.5	487.7
Dealing with Licenses	Procedures to Obtain a License (Number)	16	26	20	21	19	14	11	25	14	19.4
	Time to Obtain a License (Days)	122	240	211	125	40	154	185	285	153.3	201.4
	Cost to Obtain a License	488.1	474.9	228.5	1.5	134	52.7	19.6	10	62.2	445.7
Registering Property	Procedures to Register Property (Number)	8	7	8	8	4	4	5	5	4.9	6.8
	Time to Register Property (Days)	22	190	25	6	12	16	38	141	28	48.4
	Cost to Register Property	10	1	6.9	2	0.6	0.4	16.2	2.4	4.6	6.6
Employing Workers	Difficulty of Hiring	11	0	44	0	0	0	11	0	25.2	25.8
	Cost of Hiring	60	60	30	0	0	10	20	30	27.9	31.2
Protecting Investors	Rigidity of Employment Index	80	27	25	20	0	17	17	10	80.8	33.1
	Disadvantage Index	5	7	5	4	7	0	10	10	6.4	5.6
Contract Enforcement	Investor Protection Index	4.8	5	5	4.3	8.8	8	5.8	8.7	6	4.7
	Procedures	89	42	87	50	32	82	20	80	81.3	43.5
	Duration	689	1010	721	607	300	417	515	600	443.3	699
	Cost	51.2	25.3	30.8	28.2	9.4	21.2	26.9	27.5	17.7	24

In the country rankings (not shown in the table) Jordan ranks higher than average in the categories of paying taxes (19), trading across borders (59), employing workers (45) and dealing with licenses (71). Despite respectable performance in these areas, Jordan has not shown improvement as nearly all the indicators associated with employing workers, paying taxes and dealing with licenses remain exactly at 2003 levels and the indicators associated with trading across borders can only boast a very modest improvement in cost and time which was not strong enough to counter a drop of 8 points in the ranking.

**Despite this stagnation there have been some modest improvements over the past several years.** Since 2003, 4 procedures to start a business were eliminated and associated costs were significantly reduced from 81 days and 104.1% of per capita income to only 14 days and 66.2%. Moreover, the cost associated with obtaining a license decreased more than 16% since 2005.

**Table 2.4 – Jordan’s ranking in Doing Business 2008**

Rank	Doing Business 2008
Ease of Doing Business	80
Starting a Business	133
Dealing with Licenses	71
Employing Workers	45
Registering Property	109
Getting Credit	84
Protecting Investors	107
Paying Taxes	19
Trading Across Borders	59
Enforcing Contracts	128
Closing a Business	87

That being said, Jordan lags behind its competitors in the areas of protecting investors (107<sup>th</sup>), registering property (109<sup>th</sup>), enforcing contracts (128<sup>th</sup>) and starting a business (133<sup>rd</sup>).

The closing a business rank dropped 3 points in last year while the areas of protecting investors and registering property saw no change in actual indicators their rankings dropped 2 and 3 points respectively in the past year. Enforcing contracts saw no change.

This stagnation represents a serious challenge to Jordan’s economic competitiveness as competition is increasing to attract FDI and other forms of investment. This competition is particularly apparent in the status of Egypt and Saudi Arabia as top reformers in 2008.

Egypt’s deep reforms greatly improved its position in the ease of doing business rankings by reducing the capital required to start a business from EGP 50,000 to just EGP 1,000 while cutting the time and cost of start-up in half. Moreover, the Egyptian government established a one-stop shop at ports helping to reduce the time to import and export by 7 and 5 days respectively. Other reforms streamlined bureaucracy associated with construction, reduced fees for registering property and facilitated access to credit.

Saudi Arabia ranked 7<sup>th</sup> in the list of top reformers by eliminating the minimum capital requirement and more than halving the number of days for company start-up. It also reduced the number of documents required for importing, further reducing the time required for import and export by 2 days.

## COMPETITIVENESS OBSERVATORY INDUSTRY SURVEYS: AGGREGATE RESULTS

From July to September of 2007, the Competitiveness Observatory conducted industry surveys of 210 industry leaders across the 5 sectors described in detail below. These surveys resembled the GCR surveys, but were customized by sector to uncover sector-specific constraints in the business environment. The results of the surveys are revealing at both the sector level (detailed below) as well as at the aggregate level. Echoing the GCR results, over 60% of survey respondents highlighted tax rates and regulations and a poor work ethic in the national labor force as the most problematic factors for doing business. Over 50% of respondents cited policy instability and inefficient government bureaucracy as key constraints to doing business. Just 14% of respondents highlighted crime and theft as problematic in Jordan.

When asked to indicate the particular advantages of being based in Jordan, 83% of survey respondents across the 5 industries cited political stability as a key advantage. The availability and cost of labor was chosen by nearly 60% of the respondents, follow closely by (surprisingly given the GCR results) the access to market 51% and infrastructure 49%. Just one third of businesses highlighted the regulatory environment as an advantage, and, despite its comparatively low tax rate, only 10% of respondents chose the tax rate as a particular advantage to being based in Jordan.

### SECTOR ASSESSMENTS

The following 5 chapters assess the competitiveness of 5 sectors in Jordan: pharmaceuticals, information technology, tourism, medical tourism, and higher education. These assessments serve 2 purposes. First, the assessments provide an in-depth analysis of the competitiveness of the sector, including market trends, recent performance, benchmarking, and a review of the sector-specific business environment highlighting the key constraints to sector growth. The assessment of the business environment uses the Porter Competitiveness Diamond as an analytical framework. Second, the results of the assessments, when aggregated, provide a "bottom-up" cross-industry perspective of the common themes and constraints to growth of the private sector in Jordan.

These assessments are based on the most recent and reliable information available from national, regional and international sources. The main sources of data and information that have been used for these assessments are:

- Jordan specific statistics and analysis compiled in the past 5 years
- Sector-specific surveys with 85 questions per sector covering sector leaders views on (213 collected across 5 sectors):
  - Sector performance and competitor comparisons
  - Sector costs: materials, labor
  - Workforce: training, brain drain
  - Standards: licensing, accreditation
  - Marketing: sector-wide, and firm specific
  - Public-private collaboration
- Regional and international benchmarking based on:
  - International industry reports
  - Publicly available sector-specific data from each benchmark country
  - Interviews with industry representatives from benchmark countries

### **Sector Selection**

The initial selection of the 5 sectors spotlighted in this report was based on 4 criteria:

1. Current performance and importance to the Jordan economy: output, employment and export values.
2. Potential future importance: growth in the performance indicators and growth in investment.
3. Strategic importance and/or need for information to inform public discourse: presence of important industry-government initiatives, public interest in the current state or potential for the sector, other political and economic circumstances may call for specific spotlights on the industry.
4. Ability to monitor progress: number and openness of firms in the industry, presence of a cluster, availability of information.

Based on the criteria, the 5 sectors were selected as pilot sectors for the Observatory to analyze. It is intended that the Observatory will expand its work to other sectors in the near future.

### Regional and International Benchmarking

In order to get a fully institutionalized system for benchmarking and monitoring the competitiveness and performance of the 5 key Jordanian sectors, a thorough benchmarking exercise was carried out for the relative regional and international peer sets. The benchmark countries considered in this report are listed below. These benchmark countries were selected based on the performance of the sector (size and growth), as well as the potential for unique lessons for Jordan. For instance, while Qatar has a very small higher education system, the establishment of its Education City is an important benchmark for Jordan to track.

The benchmarking exercise aimed at allowing cross-country comparisons within various sectors to monitor the performance of each sector in a systematic manner. The set of indicators included all the underlying determinants of competitiveness, namely: measures of performance (inc. exports, productivity, etc.), factor conditions, demand conditions, context for strategy and rivalry, and related and supporting industries. Ultimately, through benchmarking Jordan's competitive advantages and disadvantages to the Arab region and worldwide by key indicators, this would enable the observatory to highlight opportunities and gaps within the Jordanian economy at the sector-level.

#### Regional and International Benchmarking

Pharmaceuticals	<ul style="list-style-type: none"> <li>- Turkey</li> <li>- UAE</li> <li>- Israel</li> </ul>	<ul style="list-style-type: none"> <li>- Switzerland</li> <li>- India</li> <li>- Canada</li> </ul>
Medical Tourism	<ul style="list-style-type: none"> <li>- Lebanon</li> <li>- Egypt</li> <li>- Saudi Arabia</li> </ul>	<ul style="list-style-type: none"> <li>- Costa Rica</li> <li>- Thailand</li> <li>- Singapore &amp; India</li> </ul>
IT	<ul style="list-style-type: none"> <li>- Egypt</li> <li>- UAE</li> </ul>	<ul style="list-style-type: none"> <li>- India</li> <li>- UK - USA</li> <li>- Singapore</li> </ul>
Tourism	<ul style="list-style-type: none"> <li>- Turkey</li> <li>- UAE</li> <li>- Egypt</li> </ul>	<ul style="list-style-type: none"> <li>- Italy</li> <li>- Malaysia</li> <li>- Switzerland</li> </ul>
Higher Education	<ul style="list-style-type: none"> <li>- Egypt</li> <li>- Lebanon</li> <li>- Qatar</li> </ul>	<ul style="list-style-type: none"> <li>- UK</li> <li>- US</li> <li>- Sweden</li> </ul>