

Chapter Thirteen

Jordan's Competitiveness in the Arab World, 2002–2003

Introduction to the Arab World Competitiveness Report (AWCR)

The AWCR 2002–2003 represents the first systematic benchmarking exercise for the region, merging broad macroeconomic and political analyses with analyses of country competitiveness. The underlying approach of the AWCR is largely consistent with that of the GCR, defining competitiveness as the set of institutions and economic policies supportive of high rates of economic growth in the medium term. Unlike the GCR, however, the AWCR does not attempt to rank individual countries according to their international competitiveness mainly because of significant data limitations.

In brief, the AWCR is primarily concerned with the ability of the region to achieve sustained economic growth in the medium and long run. That this ability is severely impeded by a wide range of structural factors becomes immediately clear when one examines the growth performance in the Arab World over the last few decades relative to other regions. Such impediments –and the appropriate policies to remove them– are examined in this Report in individual chapters.

The Arab countries participating in the first AWCR 2002–2003 include Algeria, Bahrain, Egypt, Jordan, Kuwait, Lebanon, Libya, Mauritania, Morocco, Oman, Qatar, Saudi Arabia, Syrian Arab Republic, Tunisia, UAE, and Yemen Republic.¹

The present Report analysis aims to identify the position Jordan holds both regionally and internationally. The international and regional comparisons are accomplished by merging the AWCR² survey responses with the responses from the executive opinion survey carried out in the 2001–2002 GCR³. The similarity of a large number of questions in the two surveys has allowed the merging. Thus, the entire list is re-ranked to create a possible ranking between 1 (the highest ranking) and 83 (the lowest ranking), factoring out the two doubled cases, Egypt and Jordan.

Recent Trends

The structure of output in many countries continues to be driven by resource extraction. However, alongside Lebanon, Jordan is acknowledged by the AWCR as one of the most advanced countries in terms of the transition towards services. The services sector already accounts for almost two thirds of the GDP in Jordan. Nevertheless, the manufacturing sector in Jordan, representing 16% of the GDP, rendered the highest growth

1 The tables and numbers used in this report are obtained from the Arab World Competitiveness Report 2002–2003.

2 The Executive Opinion Survey of the Arab World Competitiveness Report 2002 was conducted in ten Arab countries, Bahrain, Egypt, Jordan, Kuwait, Lebanon, Oman, Qatar, Saudi Arabia, Tunisia, and the UAE. The feedback from a number of countries has been insufficient; however, enough responses were received to provide an informative snapshot of business executives' perceptions regarding the competitiveness environment in their country.

3 The Executive Opinion Survey of the Global Competitiveness Report 2001–2002 was conducted in 75 countries, Jordan and Egypt among them; the GCR survey was carried out during the second quarter of 2001 (approximately six months prior to the AWCR survey).

during 1980-2000, namely 5.4%, whereas the agricultural sector experienced the sharpest decline over the same period. (See table 13.1)

The need for rehabilitated economic growth in the Arab world is emphasized by the accelerated population growth. In Jordan, the population increased rapidly at an average annual growth of 4.3% between 1965-2000. Given the specific demographics of Jordan, the young population age structure in addition to the average age having fallen, there is serious reason for concern, since the availability of labor force is expanding at a faster pace than the population growth.

Table 13.1: Jordan: Structure and Growth of Output (%)

| | Growth | | Net Growth |
|----------------------|-----------|-----------|------------|
| | 1980-1990 | 1991-2000 | |
| Agriculture | 6.8 | -1.9 | -8.7 |
| Industry | 1.7 | 5.6 | 3.9 |
| Manufacturing | 0.5 | 5.9 | 5.4 |
| Services | 2.2 | 5.1 | 2.9 |

Nevertheless, the ratio of the population lying within the (0-14) years age-range has gradually declined since the 1950's. Moreover, it is expected to keep on declining as shown in table (13.2). The decline in the ratio of children below fifteen of age triggered the increase in the proportion of the population of working age, which reached 55.4% in 2000. Further, it is likely to rise to 61.9% in 2025. These factors place Jordan under additional strain in the attempt to prevent unemployment from rising. Furthermore, they reflect negatively on the attempt to improve the life quality of the population and provide sufficient as well as qualitative employment opportunities. However, as seen in table (13.3), this challenge is augmented because the annual average growth of the GDP is not happening at a fast and substantial enough pace. In addition, the low and sluggish GDP per capita average annual growth is unsatisfactory to produce a significant improvement in the living standards in Jordan.

Table 13.2: Demographic Profile of the Jordanian Population

| | 1950 | 1975 | 2000 | 2025* | 2050* |
|--|-------|---------|---------|---------|----------|
| Population Size (000) | 472.5 | 1,936.7 | 4,913.1 | 8,666.1 | 11,709.1 |
| Age Structure Trends: 0-14 years (%) | 45.7 | 47.2 | 40 | 30.8 | 22.5 |
| Age Structure Trends: 15-59 years (%) | 46.9 | 48.5 | 55.4 | 62.2 | 61.9 |
| Age Structure Trends: +60 years (%) | 7.4 | 4.3 | 4.5 | 7 | 15.6 |

*Figures beyond 2001 are estimates based on projections

| | Jordan | Kuwait | Egypt | Oman | U.A.E | Saudi Arabia | Syria |
|--|--------|--------|-------|------|-------|--------------|-------|
| Population (Annual Average Growth 1965–2000 in %) | 4.3 | 4.2 | 2.2 | 3.9 | 9.5 | 4.3 | 3.2 |
| Labor Force (Annual Average Growth 1965–2000 in %) | 4.4 | 4.3 | 2.4 | 3.8 | 10.5 | 4.8 | 3.3 |
| GDP (Annual Average Growth 1965–2000 in %) | 4.7 | 0.0 | 5.6 | 9.5 | 3.3 | 4.6 | 5.7 |
| GDP Per Capita (Annual Average Growth 1965–2000 in %) | 0.4 | -3.9 | 3.3 | 5.0 | -3.9 | -0.1 | 2.3 |

Like Jordan, most Arab countries experience similar challenges, notably Kuwait, Saudi Arabia and UAE where GDP per capita has actually shrunk. In some cases, in Saudi Arabia for example, the decline has been quite dramatic, as it has halved since its peak in 1980. Such economic difficulties, particularly in the Gulf region (oil-exporting countries) have major implications for the Arab world.

Therefore, in an attempt to increase economic growth, Arab governments have decided to expand the role of the private sector by embarking on privatization programs and institutional reforms designed to improve the climate of private investment. However, governments have generally sold small portions of state-owned companies, in many cases retaining operating and managerial control. In addition, there has been a reluctance to allow foreign strategic partners to invest in key industries. Moreover, the failure to address pricing issues, as well as the reluctance of governments to address the over-manning issue in the industries to be privatized has drastically diminished the attractiveness of many infrastructure privatization projects. Therefore, the implementation of these programs has been inconsistent and often delayed, as Arab governments have attempted to reconcile competing stakeholders' interests with job loss prevention.

Jordan in the Arab World

The Report indicates that there are necessary conditions for growth and there are engines for growth. It also stresses the fact that it is important to differentiate between necessary conditions for growth and development (e.g. roads, basic infrastructure, low to moderate inflation, etc) and true engines of development. Without satisfying minimum thresholds on the necessary conditions for growth and development, development will not take place. Yet, these factors alone are not sufficient for development. Engines of development, by contrast, are the true driving forces that propel an economy to higher levels of income. It is possible for an economy to be basically sound and stable yet stagnating because the engines are not working with sufficient power. To a certain extent it may be necessary to have several engines functioning simultaneously and complementing each other in order to achieve sufficient power for development.

Additionally, the Report identifies ten necessary conditions for growth. These include; macroeconomic stability, deep financial markets, openness to international trade, quality of government, new economy, education,

infrastructure, rule of law, red tape, and low corruption. The overall performance of Jordan in meeting these conditions is average except for two distinct areas as revealed by the analysis, openness to international trade, and the development of Internet infrastructure.

The Report also distinguishes five engines for growth. These are; start-ups and entrepreneurship, capital accumulation, low taxes, innovation and transfer of technology, and exports. Similarly, Jordan's overall performance in these areas is average with the exception of exports other than natural resources, and innovation and technology transfer, a fundamental driving force behind growth in which Jordan ranks very low.

Hence, there are weaknesses that need to be addressed and improved. If they are not addressed directly, they will continue to obstruct Jordan's performance in this area. Nevertheless, since Jordan is not a technology innovator, and given its current stage of economic development, the rankings received are up to expectations. However, poor performance in innovation is usually compensated through higher performance in technology transfer.

To help clarify Jordan's current situation in terms of necessary conditions for growth and engines for growth, the following analysis report explores different areas viewed by the AWCR as relevant to national competitiveness. These areas are Government and Country Performance, Institutions, Infrastructure, Human Resources, Technology, Finance, Openness, Competition, and Company Operations and Strategy.

A. Government and Country Performance, and Institutions:

The Government and Country performance, and Institutions give a sense of the macroeconomic environment in which businesses operate. As part of Government and Country Performance, the results concerning recession expectations, which address the likelihood of economic recession next year, position most Arab countries surveyed in the lower two thirds on the international ranking. The only exception is Qatar, occupying the 18th place. Kuwait is in the 49th place followed by the UAE in the 54th place. Jordan ranks 59 out of 83 countries, with only six Arab countries ranking better. Nevertheless, the survey results suggest that many of the business leaders in Arab countries perceive the specter of recession to be hovering over their countries.

On the other hand, it is encouraging to see that in a number of areas some of the Arab countries come up to the very top of international rankings. For instance in administrative regulations some Arab countries did well. The UAE ranks 4th, Bahrain follows closely with a ranking of 6th, and Qatar with a ranking of 11th followed by Jordan ranking 19th. In these countries, business leaders surveyed do not consider administrative regulations overly burdensome. At the other end of the spectrum, a number of Arab world countries are at the bottom of the ranking. Such countries include Egypt, which comes in at 72nd, Saudi Arabia ranking 79th and Lebanon, which comes at 83rd or last, indicating that business leaders in the respective countries consider the local administrative requirements most burdensome.

Significantly, the issue of how much time senior company management spend working with government agencies positions three Arab countries at the very near bottom of the list: Kuwait is in the 78th place;

Saudi Arabia ranks 81st and Tunisia 83rd. Jordan, on the other hand, ranks 20th in the international rankings, performing better than the other nine Arab countries.

On issues related to corruption in the economic sector, many of the Arab countries show great strength. For example, in terms of tax evasion four countries top the list, the UAE, Qatar, Bahrain, and Oman. While five of them hold the top seven places (Kuwait ranks 7th after Singapore and Hong Kong). This demonstrates that business leaders in these countries do not consider tax evasion is a problem in their own country. At the other end of the spectrum is Egypt coming at 63rd position and Lebanon coming at the bottom of the list, the 76th place. Jordan places 44th, before Egypt and Lebanon. These rankings also hold for the indicator of irregular payments in annual tax collection, where the five top countries are once again quite high on the international list, with Lebanon again coming near the bottom end of the list, in the 78th place. Jordan comes in at the 49th place with six Arab countries attaining higher rankings.

Regarding the frequency of irregular extra payments or bribes concerning import and export permits; Lebanon has the worst score in the region; 51st. On the other hand, Jordan ranks 26th which falls in the first third in the international survey superceded by Oman, UAE, Bahrain, and Qatar with ranks of 2nd, 13th, 14th, and 20th respectively.

Notably, the question of whether government officials are neutral or whether they favor well-connected firms and individuals when deciding upon policies and contracts, places Saudi Arabia and Lebanon poorly, at 72nd and 73rd slots, respectively. Jordan ranked 36th positioning itself in the second third of the 83 countries.

Nonetheless, when examining the issue of whether unfair or corrupt activities of other firms impose costs on the respondent's firm, Lebanon and Saudi Arabia were among the worst with ranks of 62nd and 65th respectively, while Jordan ranked 35th. In spite of Jordan's competitive rank, five Arab countries received higher rankings.

As for the issue of whether government subsidies artificially keep uncompetitive businesses alive, or at best, improve the productivity of industries, four countries ranked in the top 10 of the combined sample; Oman, Qatar, Tunisia, and the UAE occupying the 5th, 6th, 7th, and 8th slots, respectively. Jordan ranked 40th in this indicator followed by Egypt and Lebanon, where the latter two countries ranked 46th and 72nd respectively out of 83 countries.

In terms of public institutions, when asked what amount of profits and wages business leaders believed were unreported or kept off books in their industry, Oman and Qatar ranked 3rd and 4th, after Belgium and Finland, while Bahrain and the UAE ranked 14th and 15th. In these countries, business leaders perceive that business dealings are relatively transparent unlike Jordan, which ranked 51st. Nevertheless, similarly, when asked what percentage of businesses in the country are unofficial or not registered, Oman ranked 1st, and Qatar 4th, immediately after Singapore and Japan. Jordan did well as it ranked 33rd, doing better than five Arab countries. In other words, the black market is not perceived to pose a major problem.

Finally, with respect to the independence of the judiciary from government interference, Kuwait ranked 17th while Jordan ranked 38th performing better than only four countries, Tunisia, Egypt, Saudi Arabia and

Lebanon. Yet, Jordan ranked 28th for intellectual property protection, while six Arab countries received lower rankings.

B. Banking and Finance:

In the banking and finance sector, the challenge of international accountability is a major issue for all Arab financial institutions as they are trying to integrate into the global economy. Some of these challenges arise from international economic governance and others are market-driven. Most Arab banks adhere to the Basel Committee standards of capital adequacy or have low risk ratings; therefore they enjoy more favorable terms in their dealings with both international banks and other Arab banks. It is important to note that accountability to national Central Banks no longer carries much weight, especially where economies are heavily indebted and are subject to foreign exchange restrictions or uncertainties about sustainability of exchange rates, which applies to Jordan, Lebanon, and other Arab countries.

With regard to responses concerning whether the banks operating in the respective countries are sound, a number of countries rank in the upper third of the international rankings. Bahrain ranked 23rd; Kuwait 25th; and the UAE 29th, indicating that business leaders are satisfied with their countries' banking sector. Further, none of the Arab countries surveyed fall at the bottom of the rankings in this area, demonstrating that the banking sector in the region is regarded to be in good health versus other regions. Nevertheless, Jordan ranked 50th with seven Arab countries doing better in this particular area.

Several business leaders surveyed also believe that over the past year it has become easier for companies to obtain credit. Kuwait ranked 1st overall before Italy and Taiwan, followed by Bahrain and UAE, ranking 8th and 9th respectively. This reinforces the feeling that the banking sector in a number of these countries, mainly the Gulf region, is functioning well. However, this is not the case with Jordan which ranked 46th, positioning itself near the lower middle third of the international list, with five Arab countries receiving higher rankings.

For the survey item concerning loan facilitation on grounds of a good business plan and low collateral, most countries in the Arab world scored below the mean of the sampled international rankings, with the exception of Bahrain, which came in at 19th place. Jordan ranks 74th on this particular indicator, scoring better than only one Arab country, which is Oman at 82nd place. Nonetheless, lending remains predominantly short-term and trade-related; very little lending is directed at long-term productive investments.

However, in contrast to the question on credit availability, access to local equity and bond markets is perceived as much more thorny. The question about the level of difficulty in raising money by issuing shares on the local stock market, places all Arab countries in the middle third of the international list. Jordan comes 53rd, with five Arab countries doing better, with the exception of two Arab countries falling lower on the international list in this area; namely the UAE at 61st place and Saudi Arabia at 72nd place.

Similarly, access to bond markets is also seen as problematic for companies. Kuwait ranks 16th, being the only Arab country to enter the upper third of the international ranking. Most of the other Arab countries covered by the survey are in the middle or lower third of the rankings. For example, the UAE comes in at 53rd. Close to the bottom of the list is Jordan in the 67th place, followed by Saudi Arabia in the 73rd place, and at the very

bottom is Oman occupying the 83rd place. Debt finance is generally not an available form of financing in these countries. In other words, bond and equity offerings are not perceived as sufficiently developed in the region to provide adequate financing for companies to grow and expand in the international market.

In the area of Arab Stock Markets, Jordan is not considered a main country in this sector. Nevertheless, equity markets in the Arab world are in general considered underdeveloped. By far, Saudi Arabia is regarded as the largest stock market in the Arab world in terms of market capitalization, with Egypt and the UAE competing for the 2nd position as seen in table (13.4). For the most part, listed companies are not allowed to issue bonds nor other types of financial securities to diversify their financial sources. However, the efficiency of the market is not the major constraint, rather it is the economic policies of the government.

| Rank | Country | Market Capitalization 31 December 2000 <i>(in the US\$ million)</i> | Percentage Change Year to 3 July 2002 |
|------|--------------|--|---------------------------------------|
| 1 | Saudi Arabia | 67.2 | 13.9 |
| 2 | Egypt | 28.7 | 0.8 |
| 3 | U.A.E. | 28.2 | 8.3 |
| 4 | Kuwait | 18.8 | 31.6 |
| 5 | Morocco | 10.9 | -22.1 |
| 6 | Bahrain | 6.6 | 1.2 |
| 7 | Qatar | 5.5 | 25.9 |
| 8 | Jordan | 4.9 | 8.5 |
| 9 | Oman | 3.5 | 21.7 |
| 10 | Lebanon | 1.6 | -4.5 |

Table 13.4: Arab Stock Market Capitalization and Performance

C. Infrastructure, Human Resource Development, and Technology:

Several countries in the region need to enhance the quality of their infrastructure. For instance, Egypt and Lebanon rank lowest in the region in terms of overall infrastructure quality. With regard to availability of telephones, Tunisia and Saudi Arabia ranked 65th and 66th, respectively. Saudi Arabia also rated low in the sufficiency of competition (to ensure high quality and low prices) in both the communications and transportation sectors. In terms of electricity prices, Lebanon is perceived to have among the highest prices, occupying the 81st place out of 83 countries. Jordan ranked 30th in terms of the overall infrastructure quality, ranking better than four Arab countries including Saudi Arabia, Tunisia, Lebanon, and Egypt. With regard to the availability of telephones, Jordan did better than six Arab countries ranking at the 31st place, and 38th and 26th in the quality of competition in the telecommunications and transportation sectors respectively. Hence, on average, Jordan performs moderately well in terms of infrastructure.

With regard to Internet infrastructure development, Jordan does not position itself among the leaders in

this particular area worldwide. For instance, Jordan scores 1.4 whereas the United States scores 2,925.3, for Internet hosts per 10,000 inhabitants. Regarding telephone lines per 100 inhabitants, Jordan scores 9.3 whereas Denmark scores 75.3. On personal computers per 100 inhabitants, Jordan scores 1.4 whereas Sweden scores 50.7.

In terms of human resources development, the quality of public schools in Saudi Arabia, Lebanon, and Egypt have been rated below average. Although Jordan ranks better than these countries in the indicator at hand it still ranks rather low, occupying 50th place. The quality of math and science education in Saudi Arabia is also perceived to lag behind most other countries in the world. In contrast, Jordan performed better than seven Arab countries. Whatever little empirical evidence does exist, often in the form of participation of a very small number of Arab countries in international education assessments, comes to reinforce this assumption. Only three countries in the region Jordan, Tunisia, and Morocco participated in the 1999 Trends in Mathematics and Science Study. The tests in the study sought to assess the relative science and mathematics performance of 8th grade students. All three countries scored significantly below the international average, and very significantly lower than the highest performing countries. However, Jordan scored highest of the three countries.

However, Jordan may face a dilemma in human resources development due to the huge gap existing in the quality of education provided by public versus private schools. This is reflected in the scores attained by Jordan in this indicator; Jordan ranks last amongst Arab countries and comes in at 61st place in the international rankings, which is in the lower third. Only two Arab countries received ranks in the upper third, and four Arab countries were in the lower third.

Additionally, failing to expand the access to, and improve the quality and equitable distribution of, educational resources could have serious consequences. Such consequences include possible regional isolation from global knowledge, information, and technology, the key drivers of prosperity and economic growth, in addition to discouraging private business investors. If potential investors cannot hire a highly qualified and trained labor force, the investments will not deliver profits. Consequently, investments in physical capital will not take place in economies with low-quality human capital.

Moreover, one of the major challenges is the discrepancy between educational curricula and the actual needs of the labor markets, which furthers the dilemma of high unemployment rates and declining real wages in Jordan. The educational system falls to guide and assist citizens to adapt to a dynamic world of rapid technical change. In conclusion, the educational system falls short of graduating students who are up to the challenges of today's global world of knowledge and information technologies.

According to the AWCRC, the investment in human development and physical infrastructure, besides the improvement of the quality of public institutions, contribute to attracting greater flows of Foreign Direct Investment (FDI), particularly those involved in export-oriented business. Addressing these three areas will enhance the competitive advantage of a country as an investment destination. Perhaps one of the most important considerations is the availability of a skilled, productive, and flexible workforce. In any case, it is difficult for a country to attract FDI engaged in higher value added activities, much less establish the linkages that enable the country to take advantage of the FDI benefits. Consequently, a country can increase investment flows by improving the quality of its public institutions and physical infrastructure. However,

unless human resource skills are developed and enhanced, real FDI inflow will not improve.

Since technology is an important potential driver of growth and competitiveness in the Arab world, it is informative to look at the rankings in this area on an international scale. In fact, there is a very wide range of perceptions vis-à-vis the overall technological sophistication of the various countries. The UAE performs well ranking 18th followed by Bahrain at 24th. At the other end of the spectrum, Oman ranked 67th and Saudi Arabia 72nd. Although Jordan performs better than five other Arab countries in this area, it ranks in the middle third of the list, occupying the 41st place, followed by Lebanon and Tunisia.

In terms of firm level technology absorption, a number of the Arab countries fall into the high to average range of countries in the international survey. The UAE, Qatar, Kuwait, Bahrain, Tunisia, and Lebanon all range from 17th to 37th in the rankings. Business leaders in these countries feel that firms in their countries absorb outside technologies reasonably well. On the other hand, business leaders from Jordan, Egypt, Saudi Arabia, and Oman were much less positive about their firms' interest in absorbing new technologies. It is noteworthy that respondents from Jordan were less positive on this issue in the AWCR than in the GCR survey, taking Jordan from 52nd (GCR) to 67th (AWCR) in the international rankings. Conversely, Egyptian business leaders were more positive, moving Egypt up from 76th (GCR) to 56th position (AWCR).

The question of innovative capacity in countries in terms of the availability of scientists and engineers, a crucial issue for technological innovation, received mixed responses. While Jordan (9th), Lebanon (13th), Tunisia (21st), and Egypt (22nd) are all ranked in the top third of the countries surveyed, most countries are positioned much lower on the international list. Kuwait, the UAE, and Qatar are all ranked quite low, at 60th, 63rd, and 71st, respectively. At the very bottom of the list are Saudi Arabia and Oman, in 77th and 82nd place respectively. In addition, in terms of company spending on R&D, Jordan ranks 67th out of the 83 countries with five Arab countries attaining higher scores (Tunisia, UAE, Qatar, Kuwait, and Egypt). This survey indicates that most Arab world countries surveyed find it difficult to develop the scientific talents needed to prosper in a knowledge-based economy.

The responses of how well countries retain their scientists and engineers are rather mixed. On the issue of Brain Drain four of the surveyed countries, Kuwait, Qatar, the UAE, and Bahrain, are among the top eight of the ranking, along with other countries such as the USA, Finland, and Japan. However, for many of the other countries, Brain Drain is regarded as a genuine dilemma. Jordan comes in 72nd, and Lebanon ranks 82nd, or second-to-last. It seems that while some countries are able to retain their top talents, others lose them on a large scale to better opportunities elsewhere.

Turning to the government prioritization of ICT, some of the Arab countries come in very high on the international rankings. The UAE comes in 1st on the ranking, ahead of Singapore and Finland. This state of affairs is determined by the enormous effort made by the country towards becoming a high-tech hub. It is followed by Tunisia in 4th place and Bahrain in 8th place. Jordan ranks 5th reflecting the perception that ICT is a major priority of the Jordanian government.

However, despite several government initiatives towards ICT prioritization, the feedback regarding the issue of government intervention in the form of subsidies and tax credits for firm level R&D is less positive. With

the exception of Tunisia, which ranks relatively high, most business leaders responding to the survey do not believe their governments are using these incentives to encourage innovation; the nine Arab countries surveyed, positioned from the middle to the very end of the rankings. Jordan ranked 71st in terms of subsidies, yet it ranked 39th, second to Tunisia amongst Arab countries in terms of tax credits. Particularly negative responses were reported from Lebanon, which fell second-to-last in the rankings on both questions, and Saudi Arabia, which was third-to-last on the question of tax credits. It seems that, in general, these types of incentives would be more beneficial to all the Arab countries surveyed if governments were serious about prioritizing the new technological tools.

D. Economy Openness to International Trade and Exports:

In terms of openness, the Jordanian economy remains significantly low. This is mainly due to four major indicators pertaining to the assessment of openness. These indicators include cost of importing foreign equipment, hidden import barriers, exchange rate premium, and exchange rates and exports.

Comparing Jordan to other Arab countries in terms of costs incurred from foreign equipment imports, Jordan ranks 9th out of 10 Arab countries, with Oman ranking first and Egypt ranking last. Jordan's performance in this indicator implies that when a firm needs to import foreign equipment, the combined effects of import tariffs, license fees, bank fees, and the time required for administrative red tape, raises the cost by 11-20%. While in Oman, for example, costs increase by less than 10%.

As for hidden import barriers (i.e. barriers other than published tariffs and quotas), Egypt has the worst score in the region on both surveys coming at 82nd place. Jordan scored in the middle third of the international rankings at 44th place along with Tunisia; 49th place. All Arab countries with the exception of Tunisia and Egypt performed better than Jordan in this area, revealing that hidden import barriers, other than published tariffs and quotas pose a significant problem for Jordan.

In terms of the exchange rate premium, Jordan ranked 27th, meaning that Jordanian firms do not pay a premium over the official exchange rate in order to obtain foreign currency. Nevertheless, six Arab countries, Oman, Qatar, Lebanon, UAE, Kuwait and Bahrain preceded Jordan in this indicator ranging from the 1st to the 20th place.

Whereas in terms of exchange rate and exports, the Arab country with the highest score, indicating a favorable exchange rate for exports, is the UAE which ranks 4th in the international rankings. Both Jordan and Lebanon came in last ranking at 53rd and 65th place respectively, indicating that the current official exchange rate of both countries is not favorable for exports.

The Jordanian Dinar has been pegged to the US Dollar since late 1995. Nevertheless, by examining the evolution of the effective exchange rate in Jordan since 1995 until 2001, it becomes evident that there is a general upward trend illustrating the depreciation of the Jordanian Dinar. This depreciation may adversely affect Jordanian exports, as their competitiveness in the world market would diminish considerably.

Exports are a crucial source of growth; they allow smaller economies to sell in much deeper and wider markets

than the home market. For most economies, the global market is huge when compared to the domestic market. Market penetration at the global level is possible without price-cutting that would dampen profits, since the global price tends to be insensitive to changes in supply from smaller countries. Moreover, exports enable a country to achieve higher overall productivity by increasing specialization in sectors where productivity is higher.

The examination of the trade performance of individual Arab states shows that in most countries export diversification has remained low, in particular in the Gulf countries, where exports continue to be heavily concentrated on hydrocarbon products. Factor-based specialization continues to comprise the bulk of Arab world exports, and few companies have been able to gain competitive advantage by absorbing new technologies and producing increasingly sophisticated products. As a result, many countries remain highly susceptible to external shocks. A key challenge lies in establishing a business environment that is conducive to entrepreneurship and risk taking.

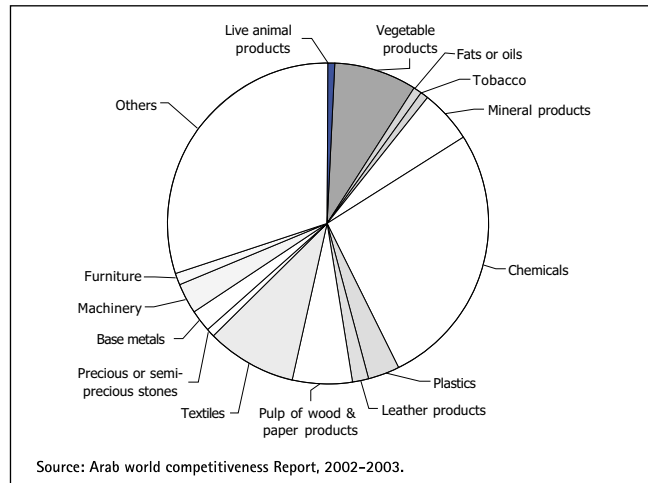


Figure 13.1: Breakdown of Jordan's Exports for the Year 2000 According to Sector

In Jordan, the domestic export of goods was US\$ 1.9 billion in 2001, while its imports for that same year amounted to US\$ 4.9 billion. Based on the data included in the AWCR, Jordan has one of the most diversified export portfolios (see figure 13.1) among Arab countries. The highest five groups of exports for Jordan constitute around 27.3% of the domestic exports as indicated in the following table:

| Sector | Export Value (\$ million) | Percentage of domestic exports |
|---|---------------------------|--------------------------------|
| Products of the chemical or allied industries | 249 | 13.1 |
| Textiles | 86 | 4.5 |
| Vegetable products | 77 | 4.1 |
| Pulp of wood, paper and paper board | 57 | 3 |
| Mineral products | 49 | 2.6 |

Table 13.5: Value of Jordan's Top Five Exports and their Share of Domestic Exports in 2000

The information available in the Report on Jordanian national exports in 2000 show that the leading exported products are as follows:

Table 13.6: Jordan's Exports According to Product Group

| Product according to 4 digits (HS-code) | Exports 2000 | | Export growth, 1996–2000% per annum | | World trade growth, 1996–2000% per annum | | Share in World | | Leading export markets for Jordan | |
|--|--------------|-------|-------------------------------------|-------|--|-----|----------------|----|-----------------------------------|----|
| | US\$ m | Value | Quantity | Value | Quantity | % | 1st | % | 2nd | % |
| Mineral or chemical fertilizers | 78 | -9 | N.A. | 1.9 | 0.4 | 2.0 | India | 14 | Philippines | 11 |
| Medicaments consisting of two or more constituents | 58 | 150 | 201.1 | 4.1 | 6.3 | 1.3 | Saudi Arabia | 35 | Libya | 14 |
| Women's or girls' suits, jackets | 49 | 449 | 539.1 | 4.4 | 7.9 | 0.2 | USA | 49 | Israel | 47 |
| Medicaments consisting of mixed and unmixed products | 41 | 38 | 38.3 | 14.2 | 10.2 | 0.1 | Saudi Arabia | 34 | Algeria | 17 |
| Tomatoes | 34 | 3 | N.A. | -1.3 | -0.1 | 1.1 | UAE | 34 | Kuwait | 26 |
| Calcium and aluminum calcium phosphates | 32 | -31 | N.A. | -3.6 | -4.0 | 3.0 | Turkey | 25 | Thailand | 20 |

The performance of 40 selected key export product groups in Jordan has been examined closely whereby each product group has been classified according to the growth of international demand in conjunction with Jordan's world market share for this group. The AWCR makes use of four classifications, which are; champions, underachievers, declining sectors and achievers in adversity. It is worth mentioning that the 40 selected key export product groups represent 34.3% of the domestic exports of Jordan. The results are as follows:

1. Jordanian leading export products that performed better than other countries and increased their international market share in growing markets (Champions):

The percentage of exports, falling under this category, from Jordan's 40 selected key export product groups is 68%. The leading export products of Jordan classified as champions are the following:

- Medicaments consisting of mixed and unmixed products
- Medicaments consisting of two or more constituents
- Women or girls' suits and jackets, etc.

Jordan's exports of medicaments consisting of mixed and unmixed products and medicaments consisting of two or more constituents and women or girls' suits, jackets etc. have increased their

share of world imports. These exports are growing faster than world trade in general; Jordan has been able to outperform world market growth. Exporters of these products have proved their international competitiveness during the late 1990s. Trade promotion efforts for these products are less risky. Therefore Jordan should aim at broadening the supply capacity of such products.

2. Jordanian leading export products lagging behind other countries with decreasing international market share in growing markets (Underachievers):

The percentage of exports falling under this category is 5%. However, the leading export product of Jordan classified as an underachiever is:

- Mineral or chemical fertilizers, potassic

International demand for potassic mineral or chemical fertilizers, has been growing at above-average rates, while Jordan's exports have been lagging behind. As a result, Jordan started losing international market share. In general, the bottleneck is not international demand, but supply factors. It is essential for these products to identify or remove the specific bottlenecks that impede a more dynamic expansion of exports.

3. Jordanian leading export products increasing their market share in declining markets (Achievers in Adversity):

The percentage of exports falling under this category from among the 40 selected key export product groups is 8%. However, the leading export product for Jordan that is an achiever in adversity is:

- Tomatoes

The share of Jordanian tomato exports is growing in the declining world import markets. Therefore niche-marketing strategies are required to isolate the positive trade performance from the overall decline in these markets.

4. Jordanian leading export products with decreasing market share in declining markets (Declining Sectors):

The percentage of exports falling under this category from among the 40 selected key export product groups is 16%. However, the leading export product of Jordan described as a declining sector is:

- Calcium and aluminum calcium phosphates

World imports of calcium and aluminum calcium phosphates have declined simultaneously with the market share of Jordan. Trade promotions need to adopt an integrated approach to take into account bottlenecks both on the supply and on the demand side.

In spite of Jordan's diversified export portfolio, the openness of the Jordanian economy remains significantly low.

E. Competition and Company Operations and Strategy:

This category aims to provide a micro and internal perspective concerning the business environment in which firms operate, describe competition, company operations, and strategy indicators were used. In the evaluation of competition in relation to the ease of starting a new business, several Arab countries scored poorly. The UAE ranked 1st among the Arab countries with a rank of 7th on the international survey. Jordan ranked 35th before Egypt, Kuwait, Lebanon, and Saudi Arabia which ranked 39th, 55th, 61st, and 64th respectively.

Similarly, when respondents were asked about the typical number of days required to start a new firm in the country; Jordan ranked 19th falling under the first third of the international survey (27.7 days). The combined sample had an indicator of 40.2 days. While the average response from Saudi Arabia was 109.4 days, the longest time of all, Oman, Kuwait, and Lebanon also fared poorly at 73rd, 74th, and 76th respectively.

In terms of the number of permits needed to start a firm, Jordan ranked 58th in the international survey. On the other hand, Lebanon, Oman, Egypt, and Kuwait ranked below Jordan occupying the 59th, 60th, 73rd, and 83rd respectively. The average cited by respondents from Kuwait is 14.7 permits, placing the country at the very bottom of the combined sample, which have 4.2 permits on average.

With regard to company operations and strategy, the Arab countries did poorly overall, particularly Jordan, whereby most of the ranks received were concentrated in the lower third of the international rankings. For example, regarding the reliance on professional management, the best ranking received for an Arab country was 33rd place, belonging to Oman. On the other hand, most Arab countries in this indicator, namely; Bahrain, Egypt, Qatar, Lebanon, Saudi Arabia and Jordan, were concentrated in the lower third with the ranks of 58th, 69th, 70th, 73rd, 76th and 77th respectively.

Similarly, in terms of the general approach of companies to human resources, (i.e. investing very little in training and employee development or investing heavily to attract, train and retain staff), the only Arab country to achieve a rank in the upper third was Tunisia which occupies the 19th place. In contrast, four Arab countries achieved ranks concentrated in the lower third. These countries include Kuwait, Egypt, Lebanon, and Jordan, which ranked 67th, 71st, 72nd and 73rd respectively.

Furthermore, in relation to the breadth of international markets of exporting companies in Arab countries, it was found that half of the Arab countries surveyed were concentrated in the middle third whereas the other half were in the lower third. This reflects a reality whereby most companies export to a few foreign markets. In this respect, Jordan was among the countries located in the lower third with a rank of 57th place, with five countries preceding it. These countries were the UAE, Egypt, Bahrain, Qatar, and Tunisia at 29th, 38th, 41st, 42nd, 43rd place respectively.

In contrast, most Arab countries rank well in the control of international distribution indicator with seven countries in the upper third segment, amongst them Jordan that ranks 12th, which is the second highest

rank among Arab countries. The remainder also received competitive ranks, but only in the middle third of the international rankings. The results in this indicator mean that the major segment of the international distribution and marketing network in the Arab countries is owned and controlled by local companies rather than foreign companies.

Nevertheless, in addition to the above stated indicators in which the performance of Arab countries was rated as poor, Arab countries received somewhat poor rankings in other indicators that make up company operations and strategy. These include the extent of branding, extent of regional sales, willingness to delegate authority to subordinates, extent of incentive compensation, and the efficiency of corporate boards.

Conclusion

To wrap up the analysis, we may conclude that the AWCR contains an assessment of the conditions, structures, and policies that are integral to the competitiveness of the Arab region in the global economy. Nevertheless, differentiating the necessary conditions for growth and development from true engines of development highlighted in the Report, is critical. Satisfying minimum thresholds on these development conditions accomplish this task. Most Arab countries seem to be taking significant steps towards these basic conditions, but this is not sufficient to stimulate development. By contrast, the true driving force that propel an economy to higher levels of income, is incorporating these two aspects. The case seems to be that most economies in the Arab region have sound and stable policies, but these economies are stagnating because the engines of growth are not working at sufficient capacity and infrastructure. The need may arise to have several engines functioning simultaneously and complementarily in order to achieve sufficient growth and development.

The factor that requires most attention is that policy makers must focus on labor and education policies in order to encourage foreign investment and diversify export portfolios. Measuring the necessities for each country individually is rewarding. Nevertheless, the level of skill and education in the labor force is to ultimately determine the ability to absorb, use, transform, and innovate upon the technologies that are either developed locally, or harnessed from the international production system. Although the yields on investment in education are fairly long-term, it is imperative that governments allocate sufficient resources in the immediate term, because only by enhancing human resources can a country truly sustain higher levels of development.

In brief, for Jordan to attain higher competitiveness, it first needs to adequately satisfy the necessary conditions for growth through integrating the country further into the global economy, deepening financial markets, capitalizing on the tools provided by the new economy such as the Internet, improving the quality of education, and reducing red tape. Jordan then needs to invest in engines for growth, in particular those relating to innovation and technology transfer, as well exports, whereby the value placed on quality is increased to enhance competitiveness in the international market. Finally, one aspect that is integral to both necessary conditions for growth and growth engines is investment, which is considered a major stimulus for economic growth in developing countries.

In conclusion, it seems clear that there is a great diversity in the rankings of countries covered in most of

the areas investigated. A number of countries figure near the bottom of the international list on many of the questions asked, demonstrating that a great deal will need to be accomplished in these areas to create environments that are conducive to growth and competitiveness. On the other hand, it is encouraging to note that some of the Arab countries are already making significant progress in specific areas and thus serve as critical benchmarks for the rest of the Arab world.