Report No. 4170-JO

Jordan
Export Strategy and Export Promotion in Manufacturing Industries

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D. The Five Year Plan (1981-85) and Beyond

15. The strategic goals of the new five-year plan (1981-85) include, inter alia, a reduction in the heavy dependence on external assistance and a vast increase in manufacturing and mining output. Compared to an overall growth rate for the economy of 10 percent per year, the output of the manufacturing and mining sectors is expected to increase by about 18 percent per year.

16. Within an overall framework of generally export-led growth for the industrial sector the Plan also outlines a few specific strategies, notably (a) forward integration of the mining sector with special emphasis on phosphate and potash derivatives and (b) special emphasis on competitive export manufacturing and on industrial interlinkages with Arab countries.

17. The Plan projects investments in mining and manufacturing totalling JD 579 million at constant 1980 prices. Compared with the last Plan this would represent more than a 50 percent increase in real terms. A few large projects, namely, phosphate mining, fertilizers, potash, cement and petroleum refinery, would account for about three quarters of this investment total and provide over 50 percent of the projected increase in output. Reflecting the gradual completion of these projects, annual investments, measured in constant prices, would remain fairly stable, with some increased share at first for certain specified medium-sized projects and subsequently for the large mass of unidentified projects in the private sector. The projected investments and outputs outside the major projects are shown below.

Table 2.7: FIVE-YEAR PLAN (1981-1985). PROJECTED INVESTMENTS IN MANUFACTURING INDUSTRY AND NET OUTPUTS OUTSIDE THE MAJOR PROJECTS

(JD Million at 1980 prices)

Year	Investments	Net Outputs
1981	13.2	114.4
1982	21.4	138.5
1983	23.8	142.7
1984	23.3	148.9
1985	28.8	177.0

The increase in net output of JD 95.7 million over 1980 would correspond to an incremental investment of JD 110.5 million and a capital output ratio of only 1.2. This figure would seem too low. Hence, somewhat higher investments would probably be required to achieve the Plan objectives in this area1/.

18. At the same time, the major question is not whether the industrial targets can be reached for the private sector but how this sector could be expanded at an even more rapid rate than envisaged in the Plan. By 1985, investments in medium-sized and small industrial projects would still account for only 25 percent of the total industrial investments and there are no new large industrial projects on the horizon. Hence, unless private investments are stepped up beyond those envisaged in the Plan, there could be a hiatus in industrial growth in the period immediately following the Plan2/.

19. In evaluating the need for an expanded industrial effort, it is useful to view the manufacturing sector within the perspective of the overall development of Jordan's balance of trade. To assist us in this analysis, we have reproduced after having updated the base year, for reference only, balance of trade projections for 1981-1990, as carried out by the recent Bank Plan Review Mission (Table 2.8). Even though, today, manufacturing exports account for a small portion of Jordan's total foreign exchange revenues, and exports in most cases are rather marginal in relation to domestic production, the hoped for increase in manufacturing exports (outside the large basic industries) of $260 million at constant prices between 1980 and 1985 is by no means negligible when compared to the projected increase in merchandise trade deficit of $860 million. Neither, perhaps, can it be regarded as decisive.

20. It is only when we expand the planning horizon to 1990 that its true significance becomes apparent. According to Table 2.8, between 1985 and 1990, total merchandise exports are projected to grow by $1.0 billion at constant prices, i.e. by 77 percent. Although there may still be good expansion possibilities in phosphates and potash and their derivatives beyond 1985, these industries can hardly be expected to shoulder as high a proportion of the total load at the end of the decade as in the middle years. Any major expansion, moreover, would call for very sizeable investments in transport infrastructure. To meet the certain challenge in the latter half of the 1980's, it is, therefore, crucially important that growth in manufacturing exports beyond 1985 be initiated from a base at least equal to the Second Plan target.

21. Consistent with the country's economic philosphy and with the flexibility required for successful export growth, the Plan emphasizes that industrialization would be based on individual initiative as distinguished from government mandates. In this context, the Plan specifies the creation of an institutional framework and investment climate which would assist the

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1/ See World Bank Plan Review Mission Report No. 4129-JO Chapter II and IV.
2/ Ibid, chapter II.

Table 2.8: BALANCE OF TRADE PROJECTIONS, 1980-1990

(as $ million at constant prices)

	Actual 1980	1981	1983	1985	1987	1990
I. At 1980 Prices						
Balance of Trade	-1,841	-2,024	-2,498	-2,699	-2,676	-2,770
Exports and re-exports of Goods	574	646	953	1,336	1,665	2,343
Agricultural Products	64	67	74	79		
Mining and Major Manufacturing	158	182	372	537		
Other Manufacturing	180	208	278	442		
Re Exports	172	189	229	277		
Imports of Goods	2,415	2,670	3,451	4,035	4,341	5,112
Oil	381	444	590	778		
Capital Goods	833	896	1,215	1,281		
Other Goods	1,214	1,328	1,646	1,976		

Source: Bank estimates.

private sector. It also envisages a strengthening of co-operation between the private and government sectors, as in joint ventures with foreign partners[1/].

22. With respect to the direction of industrial growth, the Plan stresses the need for an infusion of advanced technologies and advanced methods of management as a way of expanding Jordan's industrial development options. It does not, however, contain a detailed blueprint or strategy for the expansion of individual industries, a subject to which we shall turn in the next chapter.

1/ The private sector is defined in the Plan to include companies in which "the Government and its institutions hold equity shares". It may in fact have the controlling voice. While this is different from the conventional distinction between the public and the private sectors, it clearly expresses the Government's preference for main reliance on the free enterprise system. The Government's equity participations in mixed enterprises including participation by autonomous public institutions are shown in Annex E. On industrial strategy and industrial policies see Jordan: Plan Review Report No. 4129-JO Chapters II and IV.

III. OPPORTUNITIES, STRATEGIES, AND TARGETS

A. Introduction

23. The basic concern in this chapter is export strategy. Because of the smallness of Jordan's home market, this becomes virtually identical with industrial strategy. To gain insights into industrial strategy, three types of clues will be examined: the present competitiveness of different industries, Jordan's comparative advantage in factor endowment and access to markets, and, finally, identified investment opportunties in certain areas. In the final section, these threads will be drawn together to provide the outline of a desirable export strategy.

B. Present Competitiveness

24. It is difficult to evaluate the present competitiveness of Jordan industries with great precision. Imports are heavily protected. In the absence of any systematic study of Jordan prices as compared with competing imports, the competitiveness of Jordan producers in relation to imports can only be measured indirectly, namely by their effective protection[1/]. Similarly on the export side, most of Jordan's manufactured exports are to neighboring markets where they enjoy a preferential position. We shall present indications of export competitiveness but since these are based primarily on interviews with a limited number of existing exporters, they do not carry the full weight of systematic survey.

25. Annex B shows that in fifteen industries for which import competition is relevant and meaningful information available, the effective protection varies from a high of over 100 percent (bakery products) to a low of about 4 percent (industrial and other chemicals). For a first group of five heavily protected industries the effective protection averages 75 percent; in the next group of six industries, it falls to an average of slightly above 40 percent. In the final group of five industries, the average is 11 percent but this is heavily influenced by the fact that the corresponding product groups include many articles not made in Jordan (e.g. in basic metals, chemicals, or grain mill products) as well as items like concrete reinforcing rods and cement, imports of which are subject to quantitative restrictions.

26. In Jordan protection is motivated by high differential between import prices and domestic costs. Jordan's price competitiveness appears on this basis to be low by international standards in those consumer goods industries,

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1/ For several reasons, rates of tariff protection are only imperfect proxies for price and cost competitiveness. First they do not take into account whether a given Jordanian industry is taking full advantage of the actually available protection (respectively incurs the full cost penalty of higher prices for inputs purchased within the country). Secondly, in many cases where protection is low, particularly for engineering products, there is no equivalent production in Jordan.