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Law-Making for Trade Liberalization and Investment Promotion in Jordan

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1. INTRODUCTION

By way of background, the Jordanian economy had a spectacular run in the 1970s and early 1980s. Growth in GDP at constant 1994 basic prices averaged 12.5 percent between 1976 and 1982, with per capita incomes increasing by 50 percent during the said period[1]. As the Kingdom moved into the second half of the 1980s, however, growth in the economy diminished, and it has weakened steadily ever since, except for a short episode of expansion in the early 1990s.

In the second half of the 1990s Jordan suffered from a weak economic performance, despite significant economic and trade policy reforms that emphasized private sector led export development. GDP growth averaged 2.9 percent between 1996 and 1999[2]. The country's unemployment rate remains high, and per capita income in 1999 was 24.7 percent below its peak reached in the early 1980s, though with a slight improvement in 2000-01[3].

One reason may be that the reforms were insufficient to decisively change the incentive structure at the "ground level". An alternative possibility is that though the incentive structure changed, firms have been unable to react, either because they have not had time, or because they are shackled by infrastructure problems and the institutional environment. Some exogenous factors over which Jordan had no control, such as the troubles in Palestine and successive years of drought, were contributing factors to the disappointing investment and export responses. Finally, it is possible that though the reforms have sent clear signals and firms *are* responding, this response is not apparent because the evidence has not yet been collected and analyzed.

Yet, for all these challenges, structural reforms remain the kingdom's best bet in the short run to take full advantage of the opportunities offered by globalization, while containing its risks. Now in tandem with WTO membership, a Free Trade Agreement with the United States and an Association Agreement with the European Commission Jordan has secured a unique position in the Arab world vis-à-vis the West. The kingdom is now able to differentiate itself from the region and embark upon a new trajectory, benefiting from economic links to the US and other leading countries that may help insulate Jordan somewhat against political and economic instability.

2. GENERAL TRADE PERFORMANCE

Jordan is an open economy in terms of the size of its merchandise foreign trade sector relative to the economy as a whole[4]. A small country with a tiny manufacturing base, Jordan has traditionally run a large trade deficit due its high propensity to import. In 2000, imports totaled $4.6 billion equivalent to more than half of Jordan's GDP[5]. The comparable export figure was $1.53 billion – that is to say that Jordan continues to import 3 to 4 times more goods than it exports[6]. This visible trade gap has historically been covered by capital transfers from Jordanian residents overseas and to a lesser extent revenues from tourism.

Jordan has export and import links with all regions in the world. Regional and sub-regional direction of Jordan's exports and imports as a percentage of their respective totals between 1967 and 2000 is outlined in the tables below.

Geographic distribution of merchandise exports by region

Period	Arab Countries	Europe	US	India	Rest
1967-73	71.5	8.4	0.04	10.8	9.2
1974-82	58.4	12.5	0.03	7.4	21.7
1983-89	48.7	15.0	0.21	14	22.0
1990-1995	39.1	7.5	0.90	14.4	38.1
1996-2000	45.0	7.5	0.015	12.3	35.2

**Source: Central Bank of Jordan Yearly Statistical Series (1964-95) Special issue & various CBJ monthly bulletins.*

Since 1967, the primary markets for Jordanian exports have been Arab countries and to a lesser extent Europe and India, with minimal exports to other regions. More recently during 2000-02, there has been a marked rise in exports (including those sent under QIZ privileges) to the United States. In 2001, exports to the US totaled $232 million compared to $63.3 million in 2000.

Major Jordanian exports include phosphate, potash and other crude materials, as well as agricultural products, chemicals and manufactured goods. The minerals sector, of which potash and phosphate exports are an essential part, has effectively sustained the gross manufacturing output of Jordan, and at the same time provided the kingdom with a major share of its export income.

Geographic distribution of merchandise imports by region

Period	Arab Countries	Europe	US	India	Rest
1967-73	19.9	42.8	13.7	1.8	21.8
1974-82	19.2	47	10.9	1.2	21.7
1983-89	24.1	41.8	11.5	0.3	22.3
1990-1995	22	41.7	11.8	1.9	22.6
1996-2000	22.1	39.4	9.7	1.7	27.3

The import bill remains disproportionably high, three to four times the size of export earnings. Whereas almost 50 percent of Jordan’s exports went to Arab countries between 1967 and 2000, the kingdom bought on average less than 22 percent of its imports from these countries during the same period. The main suppliers of Jordan’s imports have traditionally been Europe and the United States, which have met more than half of the country’s needs for goods purchased abroad. Like many developing countries, Jordan has a much more diversified import structure compared to its exports. Apart from oil, which has traditionally accounted for 10 percent of Jordan’s total import bill, no other single import item exceeds 3 percent of the total .

The implications of trade liberalization for the Jordanian economy are assuming growing significance in recent years. The strong, broad consensus has been that Jordan has by and large gained handsomely from the tariff reductions it has undertaken so far, despite some negative repercussions on the competitive position of Jordanian manufacturers[7]. The World Bank, for example, has typically suggested worthwhile gains from tariff liberalization, as well as from broader microeconomic reforms (these include, among others, a flexible labor market, an attractive tax regime and privatization of state owned enterprises).

However, these rosy statements appear to overstate the gains. In fact, the World Bank’s own work in this area has suggested that Jordanian exports have been stagnant over the period 1996-2000 in current $ US terms (exception being the late surge in exports from QIZs during 2000-01), notwithstanding the wide range of trade and other reforms that were underway[8]. The report went on to say that such a ‘response is inadequate’, and voiced particular concern about the slow pace of Jordanian export growth compared to a robust growth in world trade.

The data in the table below show that Jordanian export growth in US $ terms has, in fact, steadily decelerated since the early 1980s, though rising between 1991 and 1995 largely due to a cheaper JD /$ exchange rate. The main reason for this was the stagnation in the Jordanian economy. This also reflected the persistent weakness in product composition (fertilizers and minerals) that is not geared to fast growing world markets. With the only partial exception of wearing apparel and pharmaceutical exports in the more recent period, the persistent extremely low degree of competitiveness of Jordanian products in both specialized suppliers and science-based goods is illuminating in this regard.

Analysis of export growth in $US

(Annual period averages in percent)

	Period	Exports of Goods & Services ($US)	Imports of Goods & Services ($US)	Domestic Exports ($US)	Merchandise Imports ($US)	Exports of Services ($US)	Imports of Services ($US)
Pre – Reform	1997-82	23.2%	22.1%	23.9%	21.9%	23.1%	24.8%
	1983-89	2.2%	-5.6%	8.6%	-6.6%	0.1%	-2.7%
	1990-95	8.7%	10.4%	9.8%	12.4%	8.1%	5.9%
Post - Reform	1996-2000	0.6%	3.7%	1.5%	5.4%	0.0%	-0.8%

Sources: Yearly Statistical series: 1964-1995 (May 1996) and various issues of Annual Report by the Central Bank of Jordan

A concurrent World Bank report explored alternative measures of competitiveness that utilize trade information. The authors applied “constant market share analysis” to decompose observed export growth into three relevant factors: a world trade effect, a commodity composition effect and a competitiveness effect; to isolate the component of growth that can be ascribed to a change in competitive position. All in all, the report concludes that Jordan is ‘losing heavily’ on competitiveness and weak product composition particularly in the second half of the 1990s during which exports declined in value terms[9].

The profitability of export orientated sectors, which receive little by way of tariff protection, was also supposed to increase through trade liberalization as firms tend to respond by increasing their own productivity and efficiency. Using value added ratios as a proxy for the profitability of a selected number of export oriented industries during 1991-97, the World Bank report remarked on a general decline in value added ratios.

3. IMPORTANT LAWS AND REGULATIONS IN THE AREA OF TRADE

Jordan suffered from large financial imbalances during the 1980s and its external payments situation continued to be precarious, with recurrent foreign exchange shortages and a heavy reliance on balance of payments support.

During 1980-83, the current account, including official grants, shifted from a balanced position in 1980 to a deficit of 7.7 percent in 1983[10]. Large imbalances in the country's fiscal and external accounts emerged, and gross official reserves fell to the equivalent of less than one week of imports by the spring of 1989. By then, it was generally recognized that Jordan's overly restrictive external trade policies and the consequent reduction in its exports were seriously undermining its economic performance.

3.1 Harmonized Commodity Description Coding

But little had happened until 1994, when Jordan adopted a Harmonized Commodity Description / Coding System, in accordance with the Customs Cooperation Council in Brussels. The HS coding practice possesses a five-tier tariff structure of 0, 5, 10, 20, and 30 percent with the exception of alcoholic drinks, automobiles and tobacco which are subject to tariffs ranging from 50-180 percent.

3.2 Import Liberalization Measures

More concrete action started to take shape as of 1996, beginning with the introduction of a structural reform program. This program, in compliance with the IMF recipe, sought to reinvigorate the export sector by eliminating cost-price distortions and introducing import liberalization measures[11].

In this context, the maximum import tariff on 3140 items was brought down to 30 percent in April 2000, with a 10 percent ceiling on materials used as industrial inputs. Exceptions to this rule are imports of cigarettes, alcohol and cars, which remain important sources of Jordanian customs revenues. There were also targeted reductions in tariff rates, which may have somewhat offset the lowering of effective rates of protection due to cutting the maximum tariff rate. For example, a full exemption from tariffs was granted to 494 industrial inputs in May, 2000.

As a result, Jordan's average import tariff on a trade-weighted basis was gradually brought down from 17.5 percent in 1994 to 13.5 percent in 2000. A recent report by the World Bank states that 'now Jordan has the lowest weighted average tariff rate and highest proportion of zero duty items among MENA countries'[12].

3.3 Customs Regulations

The relaxation of trade restrictions was supported by additional measures, aimed at speeding up custom clearance of imported goods. For example, customs authorities have recently installed an Automated System of Customs Date Entry (ASYCUDA). It is expected that ASYCUDA will substantially simplify Jordan's currently time consuming customs clearance procedures. Notwithstanding, customs procedures in Jordan have repeatedly been criticized in reports by the World Bank, foreign embassies and international legal experts. According to the US department of state "cumbersome customs procedures continue to undermine Jordan's business and investment climate… Actual appraisal and tariff assessment practices are frequently arbitrary and may even differ from written regulations… Delays in clearing customs are common". In this regard, a World Bank Report on Jordan voices concern that importers could expect a two-week period for clearing spare parts, often bringing production lines in their factories to a halt. Local exporters are also reported to have had problems convincing custom officers to accept their machinery imports as equipment for industrial use.

3.4 Trademark & Copyright

Such sweeping trade liberalization measures enabled Jordan to become a member of the World Trade Organization on April 11, 2000[13]. Jordan's accession to the WTO was the culmination of governmental efforts to adopt various trade-related legislative adjustments in customs and taxes and within trademark protection, copyright and patents.

In this regard, Jordan's new *Trademark Law, No. (34)* for the year 1999 (Official Gazette No. 4389 dated 1.11.1999), improves protection for famous trademarks, prohibits the coexistence of similar marks, and provides for the cancellation of trademark registrations based on "bad faith". It offers a significant improvement over the previous standards of protection for patents and trademarks -provided by Jordan's Law No. (33) of 1952. However, problems remain with Jordan's trademark application process. Current procedures enable local pirates to produce and sell counterfeit products even after the genuine owners of those trademarks have undertaken (often lengthy) legal proceedings against the pirates. Trademark piracy is common in the clothing, toy, and sporting goods sectors. Enforcement remains inadequate.

In addition to more stringent trademark rules, copyright issues have increasingly come to the fore in recent years. The *Copyright Law, No. (22)* for the Year 1992, and its amendments, Law No 14 for 1998, and Law No 29 for 1999, published in the Official Gazette No.4304 dated 1.10.1998 and Official Gazette No.4383 dated 2.10.1999 respectively, as well as Temporary Law No. 52 for the Year 2001 published in the Official Gazette No.4508 dated 1.10.2001 are modern and comprehensive and have substantially improved protection of copyrighted products in Jordan. The Copyright Law extended protection to a wide range of creative works, including books, motion pictures, computer software and musical works. While Jordan's new Copyright law is valuable, computer software and video piracy are still common. Unauthorized reception and retransmission of satellite signals and services are also widespread.

3.5 Patents

Under WTO rules, if a country fails to enforce international patent laws, punitive trade sanctions could be imposed. Applications should be addressed to the Patents of Inventions Register at the Ministry of Trade & Industry. Applications, drafted in Arabic, must be accompanied by the following documents:

- The name of the invention and the name and address of the applicant
- Whether the invention has already been patented abroad
- Any transfer or assignment or license to third parties to use the patent with due consideration to the confidentiality of the license contract
- Mortgage or seizure of the patent or any limitation on its use

Patents are protected for a twenty year period from the date of the application to the Inventions Register at the Ministry of Trade & Industry. During the period of protection, a monthly annual fee of JD 50 is due to the government (article 20-Annex I). The first year’s fee should be included with the formal application, costing an applicant JD 100 in total.

In case of non-payment at the appointed date, the patent owner shall be given a grace period not exceeding six months provided that the fees are doubled in this case. If payment is not made during this grace period, the Registrar shall issue a decision, declaring the patent and its associated rights abandoned and canceling it from the register (article 32).

3.6 RULES OF ORIGIN

Regulations require that imported goods bear specific labels containing the product’s country of origin (article 24). If the inputs to the production process of a certain imported good do not originate in one country, the country of origin of this product will be the country where the final processing takes place (article 25).

Cotton from Egypt might for example be spun in Syria and woven into cloth in Turkey. As a result of this processing, the cloth will obtain originating status. If the cloth is then exported to Jordan, from say Lebanon which had nothing to do with the manufacturing of this cloth, the imported cloth would be subject to the non-preferential tariff treatment applied to goods of the country of origin or source, whichever is higher.

Likewise, goods which undergo some kind of additional processing in a country other than that of origin are made subject to the tariff treatment applied to goods of the country of origin or country of manufacture, according to the processing degree. By contrast, article 27 provides for preferential tariff treatment in certain cases and for countries that have trade agreements with Jordan; otherwise the full duties are applicable.

3.7 Restrictions

Although Jordan does not impose any import quotas, the country currently maintains a complex system of import and export licenses. Trade in a number of products such as plastic waste, narcotics and diesel passenger cars is prohibited. In other cases, licenses are granted to only a limited number of applicants (sometimes one company). For example, the import of raw leather is restricted to the Jordan Tanning Company. Likewise, the import of oil and oil products is confined to the Jordan Petroleum Refinery Company.

Under article of the Customs Law (CHECK), pre-import clearance is required for certain goods. The import of a number of agricultural products is officially prohibited or restricted. However, and depending on the product, licenses are available from the Ministry of Agriculture. Once approved by the ministry, such clearance is equal to an import license.

The list of goods needing a special import provision also includes flour and its by-products, arms and ammunitions, explosives, remote control operated planes, wireless receivers, cellular phone equipment and other electronic tools and devices. All types of medical drugs are also subject to government clearance.

In addition to provisions concerning the importation of certain items, custom regulations list a limited number of products that require export licenses. These include, *inter alia*, shipments of Jordanian-made products exceeding JD 1000 in value to countries which maintain special banking arrangements with the Kingdom such as Syria and Iraq. Other exceptions to the rule that export licenses are not required include Dead Sea sales, while exports of scrap metal, aluminum and copper are subject to a fee of JD 25 per ton.

3.8 Existing Preferential Trade Agreements

FTA with US - Within its drive for better economic relations with countries beyond its immediate neighbors, and also for important political reasons, Jordan has recently opened up its trade with the US. The Kingdom became the fourth country ever to sign a Free Trade Agreement (FTA) with Washington, and the second state outside the American continent to do so after Israel. The agreement, which came into force on December 17th 2001, will eliminate duties and commercial barriers to bilateral trade in goods and services originating in the United States and Jordan.

The roster of items that will be exempt from customs will grow over a 10-year span, to include almost all exports and imports, except for cigarettes, alcohol and cars, which are important sources of Jordanian customs revenues.

The FTA also includes, for the first time ever in the context of a trade agreement, provisions addressing trade and environment, trade and labor, and electronic commerce. Other provisions address intellectual property rights protection, balance of payments, rules of origin, safeguards and procedural matters such as consultations and dispute settlement.

Implementation of the FTA, along with the dismantling of the numerous trade barriers, is expected to facilitate a substantial expansion of Jordanian exports to the US, which have generally been meager. In 2001, Jordan's exports to the US rose significantly, due in part to expectations of FTA ratification. Exports to the US for 2001 including, among others, those sent under QIZ privileges, were JD 164.4 million compared to JD 44.9 million in 2000.

Association Agreement with the EU - In other forms of cooperation between Jordan and extra regional players, an Association Agreement (AA) with the European commission was signed into law last May, replacing the Cooperation Agreement of 1977. As agreed upon at the Euro Mediterranean Conference, held in Barcelona, November of 1995, the central feature of this pan-Mediterranean policy is the implementation of bilateral free trade agreements between the EU and each of the twelve non-member Southern and Eastern Mediterranean (SEM) countries, including Jordan, Egypt and Lebanon among others, by 2010 (though it appears now that this will not be the case in all likelihood until 2012 at the earliest).

Under this accord, Jordanian exports are granted immediate duty free entry to the EU in the case of industrial goods and phased in reductions of tariffs for agricultural products. Because the agreement provides for reciprocal treatment, the AA will progressively give the EU preferential access to the Jordanian market in a maximum of 12 years from the day the accord comes into force, to include almost all imports from the EU, except for cigarettes, alcohol, used cars, tomato paste, clothing, furniture and carpets which are important sources of Jordanian customs revenues.

At the same time, trade between the Kingdom and EU member countries has remained important for Jordan but marginal for Europe. In 2001 Jordanian exports to the EU countries totaled JD 50 million. By contrast, 31 percent of the Kingdom’s purchases from abroad came from the EU, equivalent to some JD 1.1 billion.

Regionally, economic relations and various forms of cooperation with **Syria** increased in importance. Jordan recently signed a free trade agreement with the Damascus amid hopes that trade between the two countries would double from last year’s level of JD 72.1 million to JD 140 million by the end of 2002.

Under the agreement, Jordan and Syria expanded the list of duty-free goods imported by each side to about 200 items, the largest number in any agreement that Jordan has ever signed with another state. However, the Kingdom retains a 35 percent duty on imports of Syrian garments, alcoholic beverages, biscuits and chocolates to protect its own industries, while Syria will continue to exclude marble, granite and vegetable ghee from the list of over 100 Jordanian products on which it waived tariffs.

The reinstitution of the joint higher committee, which had been suspended since 1990, was a sign of the enhanced understanding between Jordan and Syria in the economic sphere. Relations between the two states are thus expected to develop further in the short-run, with Syria remaining a major importer of Jordanian expertise in the fields of banking, IT and transportation, as well as one of the most important exporting Arab countries to the Kingdom.

Economic and other links between Jordan and countries beyond its immediate neighbors, especially Arab, have also improved, evidence of Jordan’s commitment to trade liberalization. The inauguration of a regional free trade zone, with Jordan, Egypt, Tunisia and Morocco at its center, has been a very important development on the regional economic level in 2001. The four countries agreed on May 9th to formalize a free trade agreement between them ahead of the 2010 target for trade barriers to end in the Euro-Mediterranean area.

Arab Free Trade Area - Meanwhile, slow progress has been made towards establishing an Arab Free Trade Area in 2007 (if not before), with lots of individual exceptions being made to the rule that tariffs must be cut. For example, Jordan has excluded a list of 35 products from tariff reductions. This mostly applies to products competing with nascent local manufacturing, consisting largely of food stuffs and consumer goods, as well as semi manufactured products. The garments industry constitutes a particularly significant part of the Kingdom’s manufacturing activity.

In addition to major reforms in the areas of customs and investments, the need to open up to the region and the rest of the world requires Jordan to have an impartial judiciary system, transparent legal processes, and rigor in the administration of law. Otherwise, the much hoped for foreign trade and investment will not follow, but will dampen economic growth, the government's single most important claim to legitimacy. The demand for judicial reform is urgent and must address issues including consistency to ensure that litigants from different countries, gender and background will be accorded equal treatment.

4. FOREIGN INVESTMENT IN JORDAN

Foreign investment has picked up in recent years, though it is maintained that the bulk of outside investments are “acquisition transactions” under the privatization program. Apart from 1997, when foreign direct investment peaked at $361 million, the comparable figures for 1999 and 2000 stood at $158 and $300 million, respectively[14]. Preliminarily estimates put that figure at $350 million in 2001 (the cushion has been provided by revenues from privatization sales carried out in the past two years and from strong investor interest in the privileges offered by Jordan’s Qualifying Industrial Zones). Most of these flows came from EU member states. For example, France has taken keen interest in Jordan’s privatization program. The sale of the Jordanian government’s Jordan Cement Factories Company (JCFC) stake to the French based TNC giant Lafarge was the first successful divestiture to a foreign company in Jordan’s privatization program, and an international consortium led by France Telecom later acquired forty percent of the Jordan Telecommunications Company. Up till now, investment in Jordan is far from being a valid proposition, except for QIZs. Whether the Aqaba Special Economic Zone proves to be lucrative remains to be seen. The vision for the Aqaba SEZ is to create a self sustaining industrial, commercial, and investment center in addition to its seaport, which can anchor large maritime traffic.

The government hopes the Aqaba SEZ will create 70,000 jobs and attract $6 billion in foreign investment in tourism, transport, industry, commerce, services and particularly information technology by 2010[15]. Indications so far are that 849 investors have applied for space, 5.9 percent of whom are believed to be foreign. An additional 8.2 percent of registered enterprises are jointly established by foreign investors and local entrepreneurs, while the remaining companies are wholly Jordanian[16].

The admission of expatriate private sector and foreign expertise into the Aqaba SEZ is sought by the government in order to cope with the demands of finance as well as to train local workers. For that purpose, Jordan has sought a strategic developer. Bidders included the UAE’s Jabal Ali Free Zone International, Hillwood Strategic Services and US engineering giant Bechtel[17]. The government reached a final agreement with the latter in June 2002 to act as an ‘interim manager’ responsible for the marketing and promotion of the Aqaba SEZ[18].

Though it is too early to judge the ultimate success of the new Aqaba scheme, prospects for future foreign involvement in the zone appear to have worsened, partly because of the negative investor sentiment and political considerations brought on by September’s events in the United States. Under existing conditions, these will continue to impinge heavily on foreign investors wishing to take part in the Aqaba initiative.

Meanwhile, the government of Jordan is planning a major overhaul of its investment promotion drive to attract more capital inflows despite Middle East violence that has scared off many foreign investors.

At a meeting of the Advisory Economic Council headed by His Majesty King Abdullah II, and attended by top businessmen and decision-makers, the Monarch gave the go-ahead to implement recommendations for a one-stop investment shop by end 2002. The proposed Jordan Authority for Economic Development, which would emulate Ireland's FORAS, a state body responsible for developing Ireland's industrial policy, is expected to oversee investor friendly policies and implement new tax incentives essential to attract foreign capital investors. The Advisory Economic Council forecast that foreign direct investments could top JD 3 billion in the next five years[19].

5. IMPORTANT LAWS & REGULATIONS OF INVESTMENT

The Jordanian government has eliminated legal barriers to foreign investment and ownership in most sectors, except for construction and commercial services where foreign ownership may not exceed 50 percent. These include: wholesale & retail trade; transport; wastewater treatment; food services; travel agent services; import and export services and advertising services. Apart from the abovementioned sectors, Jordan continues to ban foreign ownership, whole or partial, in activities related to military and national security; sports clubs (except for health clubs); stone quarrying for construction purposes; customs clearance services as well as land transportation of passengers and cargo. Moreover, foreign ownership in publishing and aircraft maintenance is capped at 60 percent. It has also attempted to move toward a more export-oriented and diversified economy. At this time, disincentives to invest in Jordan stem principally from concerns about the lack of regional stability, and not of the country's own making.

5.1 Investment Promotion Law

Jordan's main legal framework for investment is provided in Law No. (16) of 1995 and its amendments for the year 2000 (AKA "The Investment Promotion Law") , which was published in the Official Gazette No. 3075 on October 16, 1995. This law was then replaced by Law No. (13) of 2000, published in the Official Gazette No. (4423) dated on 2/4/2000.

Article (4) of this law divided the country intro three development areas: Zones A, B and C. Investments in the latter, the least developed areas of Jordan, receive the highest level of exemptions. However, all agricultural, maritime transport and railway investments are classified as Zone C investments, irrespective of their location. At the same time, Qualifying Industrial Zones (QIZs) are treated as Zone B projects unless they fall in Zone C.

Investment incentives in Jordan include, inter alia, exemption from customs duties which remain substantial on a wide range of goods imported normally into the Kingdom, and in some cases absence of taxes on social services on property as well as partial or full exemptions from most municipality and planning fees. For example, those who import spare parts shall be exempt from duties and taxes provided that the parts value does not exceed 15 percent of the value of fixed assets requiring such parts, and that these parts are imported into Jordan within ten years from the production date.

In addition, investors involved in industrial parks designated by the Jordanian authorities as Special Industrial Zones are granted exemptions on income and social services taxes for a two-year period as well as exemption from paying property tax and other fees.

As for trade, net profits from exports are fully exempt from income tax unless otherwise specified. Products that are excluded from the net profit exemption include: fertilizers, phosphate and potash as well as Jordanian exports that are governed by specific trade protocols. However, it is interesting to note that such exemptions, under WTO, were supposed to be phased out by the end of 2002, though it appears now that this will not be the case in all likelihood until 2004 at the earliest. (Embassy Report)

Incentives are available to both domestic and foreign companies and encourage production for the export market. For example and, subject to approval by the Investment Promotion Committee, Article (7) of the Investment Promotion Law grants any project that falls within one of the sectors aforementioned in Article (3) of this law exemptions from income and social services taxes for a ten year-period from the day the project is approved, according to the following provisions:

- 25 percent for a project in a Zone A development area
- 50 percent for a project in a Zone B development area
- 75 percent for a project in a Zone C development area

An additional year of exemptions is granted to projects each time they undergo some kind of development or modernization that results in at least 25 percent increase in their production capacity for a maximum of 4 years. Moreover, Article (8) of this law contemplates, among other things, additional exemptions from fees and taxes (once every 7 years) for projects in the hotel and hospital sectors. This provision applies to purchases of furniture and supplies, provided that these items are imported into Jordan or used in the project within four years from the date of the committees’ decision approving the list of purchases and their quantities.

The process for making a foreign investment in Jordan was also simplified. Regulation No. (39) of 1997 and its amendment for the year 1999 (AKA "The Non-Jordanian Investment Promotion Regulation"), expanded foreign investment opportunities in the Kingdom by lifting most restrictions on foreign participation. All sectors of Jordan's economy, except those specifically noted, are open to 100 percent foreign participation. Notwithstanding, a minimum capital requirement of $70,000 was set for foreign investors, who wish to participate in some kind of commercial activity in Jordan. These regulations do not apply to foreign ownership in state owned enterprises. All said, the council of ministers may, by virtue of Article 5, offer foreign businesses similar provisions as those offered to local investors.

In other moves to ease restrictions on foreign investors and boost their confidence in the Kingdom's commitment to reform, the government has eliminated any formal screening procedure for foreign investments in sectors covered by the Investment Promotion Law, though on the whole central government approval (informal or not) is still seen by many investors as a prelude to ensuring the success of their projects.

Article 25 of this law provides guarantees to foreign investors that expropriation is prohibited, "unless such expropriation is done by way of compulsory purchase for the purpose of public interest". This article also provides for a 'just' compensation to be paid to the investor, whose investments were expropriated by the Jordanian government. As of August 2002 there were no known cases of expropriation in Jordan.

Article 30 guarantees the right of foreign investors to repatriate, in a fully convertible foreign currency, 100 percent of profits and capital, including proceeds from the sale of shares or liquidation of the company, and allows for unrestricted reinvestment of profits. Likewise, guest workers may transfer their salaries and compensation abroad without limit or prior official authorization. (The Jordanian dinar (JD) is fully convertible for all commercial and capital transactions. The exchange rate of the Jordanian Dinar remains fixed at 0.71 JD/ $, a rate maintained since 1995)

Article 33 of the investment promotion law allows for third party arbitration of investment disputes as provided by domestic law or may refer the case to the "International Centre for the Settlement of Investment Disputes" to which Jordan is a signatory. Foreign investors should note, however, that contractual arbitration clauses notwithstanding, in cases where the government is a party to the dispute; the greater likelihood is that it would seek settlement in local courts. It is to be noted that dispute settlement procedures in Jordan are consistent with WTO requirements.

Jordan is a member of WTO and is also expected to accede to the World Intellectual Property Organization (WIPO) by the end of 2002. It is also a signatory to the Paris Convention, Berne Convention, Rome Convention, Phonograms Convention, and the Universal Copyright Convention. Prior to its accession to the WTO in April of 2000, the government took a significant step forward in improving enforcement of copyright laws, patents and trademarks along the lines of the TRIPS agreement.

In 1998, Jordan was removed from the United States Trade Representative’s Special 301 “Watchlist” of countries deemed to be inadequately protective of intellectual property. However, further follow-up will be needed, as the effective implementation mechanisms and legal procedures have not yet been fully established. Except for Jordanian pharmaceutical companies, which are unable now to produce in-patent drugs without expensive licensing agreements, prosecutorial and judicial delays have stymied the hopes of any tangible progress.

For example, the number of local pirate resellers and CD burners remains very high. Unlicensed software was detected in corporate end users, including high street banks and various government offices. The rate of computer software piracy in Jordan, which is defined as the volume of software pirated as a percent of total software installed in a country, was 71 percent in 2000. This in turn cost the computer industry lost turnover amounting to some $2.1 million, according to the US-based Business Software Alliance.

5.2 Financial Sector Reform

Jordan's new Banking Law No. 28 of 2000 (Official Gazette no. 4448) redefines the scope of banking activities, including those in accordance with Islamic law. The new legislation also provides for prudential regulation and strengthens the supervisory role of the Central Bank vis-à-vis the banking sector in terms of loan classification and credit limits; specifies certain limits and quantitative requirements on a bank’s foreign currency exposure (now capped at 24 percent) and lays out procedures for intervention in troubled institutions and their liquidation.

Also in the banking and financial sectors, a new legislation passed by Parliament in August of 2000, offers insurance on bank deposits up to JD 10,000. In addition, the Central Bank of Jordan has raised the capital adequacy ratio from 10 percent to 12 percent and reserve requirements of investment banks to 14 percent, the same as those for commercial banks.

With respect to checks and other forms of payment, the CBJ has computerized its check clearing system to reassure depositors and prevent account holders from issuing checks without sufficient funds. In fact, the new law mandates the CBJ to circulate the names of account holders to all banks, who had three of their checks bounce, with instructions to withhold checkbooks for a certain period of time.
Closely related, Jordan enacted a modern Securities Law in 1997. This created three bodies: the ASE, run by the private sector; the Securities Depository Center (SDC), which settles transactions; and the Jordan Securities Commission (JSC), the supervisor and regulator of the market. It was only in March 1999, though, that the Amman Financial Market was legally split up to create the JSC, the SDC and the ASE.

Since the split, several changes have been made. In 2000, the market replaced its blackboard-based trading room with an electronic system. Most brokers on the market are already trading remotely from their offices. The advantages of electronic trading have put the ASE on a par with the majority of modern exchanges around the world and provide a technical foundation for future growth and development.

Meanwhile, the JSC has been pressing ahead with regulations to improve transparency of corporate finances. Companies are now required to disclose fully their financial performance on a quarterly basis. Even if the JSC continues to improve transparency, more needs to be done in terms of promoting a culture of “equity investment”, both among individual and institutional investors. According to the London-based Financial Times newspaper, only 20 per cent of the Jordanian population own equities. Part of the reason is that Jordan has only recently started introducing instruments such as mutual funds, to make equities more accessible to the general public.

5.3 Taxation

Jordan’s tax regime remains one of the country’s most attractive business features, despite the government’s decision to increase the tax rate on sales at the outset of 2001. (A recent IMF mission to Jordan described the Kingdom as a country with a ‘generous’ system of tax holidays P.81) Regionally, Jordanian income tax rates compare favorably with most other countries. For example, the corporate income tax in Jordan ranges from 15 to 35 percent compared to a range of 32 to 40 percent in Egypt. The comparable figure in Morocco is also high at 35 percent. The main categories of taxation in Jordan are customs duties (discussed separately), income tax and general sales tax.

Jordan’s main income tax regulations are contained in Law No. 57 of 1985 and its amendments in 1989 (Law No. 4), 1995 (Law No. 14) and most recently by Law No. of 2002. The new Law imposes a 35 percent maximum marginal rate. Taxes on individual incomes vary between 5 percent (for annual incomes less than $3,000) and 25 percent (for annual incomes exceeding $20,000). The law also calls for equal treatment of all citizens, regardless of gender.
Personal income taxed is imposed on incomes and profits realized within Jordan by residents and income generated by investments abroad of capital originating from Jordan.

Exemptions and deductions: certain types of incomes are exempt from being taxed. These include income earned by Jordanians working abroad; interest on obligations issued by the government and financial institutions.

Personal exemptions are allowed as deductions from adjustable gross income, irrespective of the level of income and the number of dependents. Minimum personal exemption for a single taxpayer is JD 1000, and for a married taxpayer with no dependents is JD 1500. In addition, exemptions for each dependent child are JD 500, and for each other dependent is JD 200.

Personal deductions include up to JD 1500 for each dependent attending college education. 50 percent and salaries paid by the government, public institutions, and local authorities. 50 percent of the first JD 12,000 and 25 percent of the amount above that for salaries, wages, allowances, bonuses, and appropriations paid to the employees by institutions other than those in the preceding paragraph.

Corporate Income tax: The income tax position on companies, corporations or enterprises is regulated by Law No. 57 of 1985 and its amendments in 1989, 1992, 1995…Taxable business income is defined as income or profit from activities carried out in Jordan. These include:

- Profits of shares and dividends are taxed at 10 percent, except for profits distributed in the form of shares and contribution to increase the capital.
- 20 percent of the net income of Jordanian companies operating outside the Kingdom is taxable
- Profits of bank’s finance and insurance companies are subject to a minimum tax.

Exemptions and deductions: Jordanian tax legislation provides for three types of exemptions from corporate income tax. The first covers activities traditionally exempt from such taxes including, inter alia, local authorities, labor unions, pension funds and other non-profit making institutions. Exemptions also apply to agricultural activities, interest income on bonds issued by industrial corporations as well as profits from concessions granted by the government. In addition, enterprises may be exempt partially of their net profit depending on their location.

As expected, the rationalization of import tariff rates, which reduced the trade-weighted average tariff rate to 13.5 percent from 17.5 percent in 1994, has resulted in significant shortfalls in domestic tax revenues. In 2001, customs duties contributed to approximately 14.4 percent of budget revenues and to more than 23 percent of fiscal income. The comparable figures during 1992-95 averaged 22.3 percent and 41.1 percent, respectively[20]. This is where a value-added tax (VAT) or a general sales tax (GST) comes in. Jordan’s GST is aimed at increasing tax income to replace customs revenue to be lost as tariff rates fall. At the same time, the idea behind GST is also to modernize the tax system, eventually converting GST into a fully-fledged VAT.

So as not to unduly hurt Jordan’s poor, products exempt from the Jordanian GST include basic necessities such as meat, dairy products, and bread. There is also a special sales tax on the import of certain commodities including cars, cigarettes, and alcoholic drinks. While the GST will still be levied at 13 percent of value of import or supply of goods and services, the special tax is set separately.

The GST in Jordan applies to traders who have a sales turnover of the equivalent of more than $350,000 a year, $42,000 for other service providers, or $84,000 annually if they are industrialists. However, last year, the government decided to expand the GST base, thus subjecting more merchants to the tax, arousing fears it would burden an already-strained sector.

The proposal would subject merchants who have a minimum annual turnover of $210,000 to the tax, and is expected to bring in an additional $14 million in revenues for the state. The move is in line with International Monetary Fund recommendations on increasing government revenue and coping with a budgetary shortfall.

5.4 PRIVATIZATION

Words have proved a lot easier than action over the past fifteen or so years on the privatization front. Since the mid-1980s public transport, the national airline, the telecommunications service were repeatedly identified as prime candidates for privatization. But little had happened for more than a decade beyond the commissioning of consultancy studies. Concrete action started to take shape only towards the end of the 1990s. In 1997, an Executive Privatization UNIT (EPU) was created to assist the Ministerial Higher Committee for Privatization in the implementation of privatization policy. With Parliament approval of the Privatization Law (Number 50 of year 2000), the Ministerial Higher Committee was succeeded by the “Executive Privatization Council” as the body in charge of formulating privatization policy, identifying candidate enterprises and measures for privatization. At the same time, the council and supervises the “Privatization Proceeds Fund”. Similarly, the Executive Privatization Unit was succeeded by the Executive Privatization Commission (EPC) to be in charge of implementing the privatization program and of managing the “Privatization Proceeds Fund”. By Summer 2002 the following main privatization developments had taken place:

A) Public Transport Corporation: Concessions to operate four routes packages in the Greater Amman area for ten years were awarded to three private local operators in 1998. The number of daily users since then has more than doubled, increasing as it did from 50 thousands to 120 thousands per day. It is also reported by the EPC that 400 new jobs were created as a result.

B) Jordan Cement Factories Company (JCFC): A 33 percent stake in the company was sold to Lafarge Cement Group of France in October 1998, now increased to 40 percent. This divestiture has been good for JCFC, which has cut costs, raised employee productivity, and lowered financing expenses.

C) Greater Amman Water and Wastewater Networks: A performance-based management contract was signed by LEMA, a joint venture between Suez Lyonnaise des Eaux (French) and

Arabtech Jardaneh (Jordan). This transaction is linked to a $55 million World Bank loan to upgrade and improve the network in Amman. It is reported by the EPC that unaccounted-for water was reduced from 54% in 1999 to 48% in 2001.

D) National Electric Power Company (NEPCO) and Independent Power Operators (IPP): NEPCO was a well managed and successful state enterprise, yet it was subjected to privatization in the form of "unbundling" or dismantling it into three operating companies for generation (CEGCO), transmission (NEPCO), and distribution (EDCO). The privatization plan consists of divestiture to the private sector of 60% of CEGCO and 100% of EDCO, together of 100% of government shares in Irbid District Electricity Co. (being 55.4% of the total shares). The plan also consists of meeting future electricity needs by licensing Independent Power Operators (IPPs) on BOO basis. Negotiations are underway with the Belgian Consortium Tracteble who was declared a "preferred bidder". The Consortium shall build, own and operate a new 450 megawatt power generation plant at an estimated cost of $300 million, to become operational by 2005.

E) Jordan Telecommunications Company (JTC): Jordan Telecom Company (JTC): A 40 percent strategic stake in JTC was bought by a consortium led by France Telecom and the Arab Bank for a record $508 million. According to preliminary estimates, more than 6,500 new jobs have been created in telecommunications and related sectors since the sale of JTC and the establishment of a second mobile phone operator.

F) Royal Jordanian Airlines Company (RJ): Divestment in the aviation sector, however, has been grounded even before take off. Although successive Jordanian governments have paid lip service to privatizing the national carrier, all efforts up till now have failed due to lack of investor interest. Emphasis has now shifted towards selling off the five non-core RJ businesses. In the first major British investment in the Jordanian privatization program, ALPHA Airports Group Plc acquired 51 percent of RJ's catering division, for a cash consideration of £ 8.9 million. ALPHA's Jordanian partners, Eastern Investment and Development Company, would hold an additional 29 percent, while RJ kept the remaining 20 percent of shares. The privatization agenda in 2001 also included the successful sale of RJ's Flight Training Centre to US based Flight Safety Boeing Training International for $18 million. In addition, Spanish interests have acquired the Jordan Airport Duty Free Company in a deal worth $60 million. In late April government sources also confirmed the sale of 6.8 million shares in the Jordan Cement Factories Company to the Social Security Corporation (SSC) for JD 30 million. On that same basis, the government sold its stake in the Jordan Petroleum Refinery Company to the SSC for JD 5 million.

Though a total of 51 enterprises had been wholly or partially privatized by the end of 2001, the proceeds from privatization have not exceeded $1 billion[21]. Despite major successes in the past, the rapid pace of privatization appears to have slowed in 2001. Full scale privatization is proving to be complex, slow and more difficult than might have been expected[22]. The slow pace of the Jordanian experience is almost invariably blamed on a lengthy combination of factors, which tend to diffuse on what exactly is impeding the process. The long list of negatives include worker resistance, absence of bipartisan understanding, lagging policy reform, and more importantly a regional business climate which is not necessarily very encouraging for outsiders wishing to take interest in Jordan's privatization program.

Nor has privatization targeted manufacturing in particular. For that to occur, Jordan needs to begin privatizing industrial corporations and utilities. In this regard, the government intends to sell off its holdings in the electricity sector, in an attempt to boost the pace of its privatization program, while trying to raise additional funding for the socio-economic development plan.

The Central Electric Generating Company (CEGCO) is expected to attract several bids. The National Electric Power Company (NEPCO) is also up for sale, while the privatization plan for the Irbid District Electricity Company (IDECO) is still on the drawing board. The government of Jordan has recently engaged consultants to evaluate the three companies and outline a strategy for their divestiture.

Jordan has also announced plans to privatize the Jordan Phosphate Mines Company (JPMC) by the end of 2002. The government owned a 60 percent stake in JPMC, now grown to 65 percent following a December decision to convert a portion of the company's debt to the treasury, estimated at around JD 22 million, into state shares. The privatization of JPMC is a crucial step to encourage foreign investment, increase output, and stimulate modernization in the company. Canada's Potash Corporation of Saskatchewan is likely to be the winning bidder, buying a 40 percent stake in the company, after an earlier offer to purchase the whole of state shares in JPMC (65 percent) was turned down by Jordanian authorities.

5.5 Labor laws and regulations

Unemployment continues to be a major problem in Jordan. The number of Jordanians out of work began to rise in the late 80s and climbed to dramatic proportions in 1990-91, after which unemployment remained high, though with a slight fall in 1999/2000. The actual levels of unemployment are the subject of debate. The official 2001 figure for unemployment among

Jordanians is 14.9 percent[23]. Unofficially, the level of unemployment in the country has been put much higher.

Labor relations in Jordan are governed by the **Labor Law** (decreed in 1996) and the Social Security Law, decreed in 1978. The provisions of the Labor Law apply to all employees and employers as defined by Article 2 of the Law. The new legislation expanded existing fringe benefits, reduced the maximum weekly working hours to 48 during a six-day week, and increased rates of overtime and holiday pay by up to 25 percent of the regular wage. Except in the event of an emergency, an increase in daily working hours is subject to approval by the Minister of Labor.

Employees are entitled to an annual fourteen-day fully-paid sick leave, or 21 days if the worker has been working for the same employer for 5 years or more. Sick leaves may be extended by an additional fourteen days if the employee was hospitalized. At the same time, the Labor Law makes provisions for compensation regarding on-the-job injuries. A worker is also entitled to a one-time fourteen day leave to make the pilgrimage to the Islamic holy shrines in Mecca, provided he has worked for the same company for five years.

Jordan has a federation of labor unions, and several sectoral unions. Union actions deal mainly with salary increases and other benefits. Workers are free to join unions without objection from their employers, except for employees of. As a general rule, strikes and close-downs are regulated by the Labor Law (regulation no. 8 for the year 1998). According to articles 3 and 5 of this regulation, employees must notify their employer in writing about their intensions to strike or close shop specifying the exact date they intend to do so. Labor unions represent 30 percent of the total workforce, claiming a membership of 350,000 workers.

Female employees are allowed ten weeks maternity leave with full pay prior to and after delivery provided that the subsequent period to delivery shouldn’t be less than six weeks (Article 70). Article 67 provides for 52 weeks of unpaid maternity leave for women working in companies employing 10 or more workers. Employers who employ twenty or more women must provide daycare for all children under four years of age. (IPR)

The minimum age for child employment under controlled conditions has been raised to sixteen years. However, children are prohibited from working in some jobs that are considered potentially harmful. The new law places restrictions on the types of jobs minors may hold as well as on the number of hours they are allowed to work. (IPR)

With respect to discharging a worker, Article 28 of the Labor Law allows downsizing without prior notification. However, the termination of an indefinite employment contract must be for a cause and is deemed wrongful if it is unrelated to the employees’ professional skills or personal conduct. For example, the employer may discharge the employee without any notice (written or otherwise) if:

- He submits forged certificates or documents in bad faith
- He fails to meet his contractual obligations
- He commits an error that cost his employer or the firm he works for ‘serious’ material loss
- He violate company rules and regulations
- He discloses company’ secrets
- He is convicted by a court decision of a felony or misdemeanor touching on honor and public moral

By contrast, Article 31 permits employers to make workers redundant if economic or technical circumstances necessitate reorganization. However, workers whose service has been terminated shall enjoy the right of returning to work within one year from the day they were sacked, if the employer has overcome his problems and there is no good cause not to employ them again.

Jordan's labor law places quantitative and financial restrictions on the employment of non Jordanians (article 12). All foreigners wishing to work in Jordan require a work permit from the Jordan Ministry of Labor. Work permits for guest workers are not given unless the employer proves to the Ministry that he was unable to find suitable candidates in Jordan. The period of permit may not exceed one-year renewable. Officially, Arab technicians and experts are given priority over non-Arab professionals. However, enforcement of this rule is reportedly very sketchy.

The **Social Security Law** No. 19 for the year 2001 stipulates employers with 5 persons or more (aged 16 & above), irrespective of their nationality, or whether the work is being performed inside or outside Jordan, and regardless of the duration or form of contract, must pay social security contributions to the SSC (article 4). In addition to providing a guaranteed retirement income, the SSC Law also insures workers against injuries and occupational diseases, temporary disability due to sickness, healthcare for the worker and his close family, and insurance against unemployment. (Article 3)

Article 97 of the Labor Law extends to all private sector and public sector employees (except members of the armed forces) the right to form and join unions of their choosing. One major union umbrella organization, the General Federation of the Labor Unions (GFLU), shall have a corporate body, though each labor union affiliated with GFLU, and a number of independent unions all operate freely. About 25 percent of the national labor force is unionized.

Article 120 of the Labor Law allows for collective bargaining, provided that a “Conciliation Representative” from the Ministry of Labor assumes the responsibility for resolving the dispute. Otherwise, the case is then raised to the minister. Employers must negotiate a collective contract with the union that represents the majority of their workers in a given enterprise.

The **National Minimum Wage** was introduced in October 1999, entitling workers - for the first time ever in Jordan- to a guaranteed minimum pay rate. The law sets the minimum wage at JD 80 ($113). The general rule is that all workers included in the provisions of the Labor Law No. (8) for the year 1998 are entitled to the national minimum wage - part-time workers, temporary workers, agency workers, casual workers, home-workers and piece workers as well as full-time permanent workers. It is illegal for an employer to pay less than the minimum wage. Violators risk pay fines of up to JD 100.
Labor leaders and employees have consistently called for a higher minimum wage arguing that this figure is far below the official poverty line of a JD117 per family. Unions have also strongly criticized the government on outdated and deficient legislation that in effect enables employers to continue their mistreatment of workers. For example, the law does not preempt whether or not provisions for board, transportation or both are deductible from the minimum wage. In an interview to the Jordan Times, a senior labor activist made the telling point that employers can claim to offer their workers services worth JD 20 a month, which in turn means that employees will get only JD 60 a month[24].

ANNEX 1

QIZs: A Success Story

According to US Customs authorities, a QIZ product must be “a new and different article that has been grown or manufactured within the zone”. The term new or different product means that such goods “must have been substantially transformed in the West Bank, the Gaza Strip or a qualifying industrial zone into articles with a new name, character or use." In practical terms, weaving fabrics from yarn or making orange juice concentrate from fresh oranges and other ingredients would qualify the product manufactured in the QIZ as “new and different”.

Products become eligible for duty-and quota-free access to the US market provided Arab countries have included Israel in a diagonal cumulation system but which cannot include Arab countries without Israel. Diagonal cumulation means that the input originating from any of these countries is allowed to be used for production of the ultimate product, where more than two states are party to a single agreement, in this case the QIZ. More specifically, 35 percent of the appraised value of the good produced in the West Bank, Gaza Strip, a Jordanian QIZ or Israel, upon entering the US, must consist of the cost or value of materials produced and direct cost of production operations performed in these countries.

The original QIZ agreement signed, on the 16th of November 1996 in Doha, Qatar stipulated that both Jordan and Israel would: “contribute and maintain at least one-third of the minimum 35 percent”. The remaining third of the minimum content requirement can come from any combination of input from Jordanian QIZs, Israel or the West Bank and Gaza. Alternatively, the Jordanian manufacturer in the QIZ and the Israeli manufacturer can both shoulder at least 20 percent of the total cost of production of goods eligible for duty-free treatment, excluding profit. Cost of production may include, among other things, wages and salaries, marketing expenses or research & development.

However, for various reasons related to the high prices of Israeli inputs as well as to attitudes on both sides, Jordan and Israel decided to amend the agreement by February 1999. Hence, a five-year grace period was established in which minimum Israeli content was reduced to as little as 7 percent for high-tech and 8 percent for all other goods. The reductions period, which begins the day a business enters the QIZ, was designed to allow more Jordanian companies to benefit from the scheme during the initial stages of production.

Entrepreneurs setting up business ventures in QIZs are exempt from paying prevailing Jordanian Income and Social Security taxes (these can go up to 30 percent and 10 percent, respectively). QIZs also allow foreign investors to acquire full ownership or control of plants within their boundaries. More important, these zones offer investors full repatriation of capital, profits and salaries as well as an absence of customs tariffs (which remain substantial on a wide range of materials imported normally into the Kingdom).

The biggest impact is being felt in exports of footwear on which US customs tariffs range from 25 percent to 48 percent depending on the product. QIZs mitigate this by allowing such exports to enter the US market without having to pay any duty. Jordanian exports of garments and wearing apparel have also been a beneficiary of QIZ saving up 33.6 percent in US tariffs on similar products. According to certificates of origin issued by the Jordanian authorities, QIZ exports mounted a crescendo from $25 million in 2000 to $150.1 million in 2001. In the first six months of 2002, QIZ exports have already exceeded $138 million

ANNEX 2

Law of Aqaba Special Economic Zone

This new Law, enacted in August 2000, creates the financially and administratively independent Aqaba Special Economic Zone Authority, ASEZA, which succeeds both the Aqaba Municipality and the Aqaba Region Authority, and which assumes the responsibility for economic and social development of the Aqaba region.

The ASEZA will be governed by a Board of Commissioners, six in number, appointed by the Council of Ministers and Royal Charter for four years, with extensive powers to administer the region and execute the ASEZA law.

The Law totally excludes the SEZ from the applicability of customs duties and any other rates and taxes on imports into the SEZ, general sales tax or any tax that replaces the sales tax on imports to the SEZ or sales of goods and services within the SEZ territory.

The Law further defines a category of firms under the name of “registered corporations” as “any person registered with the Authority and licensed to undertake economic activity in accordance with the Aqaba SEZ law.

The “registered corporations” (RCs for short), with the notable exception of banks, financial institutions, insurance and re-insurance companies as well as land transport companies, will be exempt from the following tax provisions applicable in Jordan, (Article 30):

1) Income tax, social services tax, taxes on distributed profits of shares in companies, with respect to income accruing from activity of the RC in the SEZ or abroad. Entrepreneurs setting up business ventures need pay only five percent tax on net business income, except banking, insurance and land transport services, which are subject to prevailing Jordanian income tax laws (these can go over 30 percent). The Aqaba zone also offers a sales tax of 7 percent (in contrast with a 13 percent levy for other parts of the Kingdom) and an absence of customs tariffs (which remain substantial on a wide range of goods imported normally into Jordan).

2) Taxes on the real estate or buildings required for the activities of the RC.

In addition, if the RC is already enjoying exemptions or privileges in accordance with any other law or special agreement that are more favorable than provided by this Law, it will continue to enjoy those benefits to the end of their due course. However, the RCs that qualify for the above noted tax exemptions will be subject instead to “income tax at the rate of 5 percent on the overall taxable income accruing to the RC from its activity in the Aqaba SEZ or accruing abroad as a direct outcome from its activity in the Aqaba SEZ. (Article 32 a)”

The Preamble, literally “the Requiring Reasons”, of the Law of Aqaba SEZ provides that it aims at “giving the investors (in Aqaba) broader and more far reaching incentives than provided under current legislation relating to encouragement of investment and the establishment of free zones and industrial estates.” The Preamble further provides that the Aqaba SEZ is “to encompass all types of economic activity.”

NOTES

[1] World Bank 2001 “*The Hashemite Kingdom of Jordan: Sources of Growth*” Draft Report, October 2001, Annex I, pp5

[2] Jordan Department of Statistics

[3] Authors own calculation based on data from World Bank 2001

[4] Taken together, total Jordanian exports and imports in 2000 amounted to $6.1 billion relative to a GDP of $8.4 billion, or 73 percent

[5] Central Bank of Jordan, Department of Research and Studies *Monthly Statistical Bulletin*, July 2002, pp 66

[6] Ibid

[7] The seemingly impressive developments in manufacturing exports (including clothes and pharmaceuticals) during 2001 do not, necessarily, indicate that industry has performed exceptionally well; on the contrary, real value added in manufacturing rose by a mere 4.9 percent in 2001, a significant decline from the 2000 rate of 5.8 percent. Rather, they reflect the fact that trade liberalization and tariff reductions under bilateral and multilateral pacts have eroded Jordanian manufacturers’ value added per unit of export inducing them to sell more of their products in order to make up for the lost profits .

[8] World Bank 2001 “*The Hashemite Kingdom of Jordan: Sources of Growth*” Draft Report, October 2001, pp 23 & 67

[9] Ibid

[10] See Kardoosh, M “Jordan’s Economy – Prospects and Future Challenges”, Friedrich-Ebert-Stiftung, September 2002

[11] World Bank 2001, pp3

[12] Ibid, pp28

[13] Under the terms of Jordan’s membership of the WTO, custom tariffs must be reduced to 20 percent by 2010

[14] Figures are from the World Investment Report

[15] See, however, Kanaan, T “The Aqaba Special Economic Zone: an Economic Review” *Arab Bank Review*, Volume 2, no. 2, October 2000 for a critical evaluation of this new scheme

[16] According to figures supplied by the ASEZA Investment Directorate

[17] Hattar, S “ASEZA to select ‘strategic developer’ by mid-September” in the *Jordan Times* 8 June 2001

[18] Hattar, S “Aqaba Special Economic Zone selects Bechtel as ‘interim manager’” in the *Jordan Times* 4 June 2002

[19] Al Khalidi Sueliman, “Jordan seeks to attract more foreign capital”, as reported by the Reuters news agency, 24 April 2002

[20] Central Bank of Jordan, Annual Report 2001 (English), pp 45
[21] Executive Privatization Commission, Privatization Newsletter Issue No. 11 / April 2002, pp 15-17

[22] Examples of this include, of course, problems related to the divestiture of RJ and to a greater extent the privatization scheme of the Aqaba Railway Corporation (ARC). While the former has never really secured a firm offer from a foreign buyer, the case of the latter is more interesting with a signed 25 year concession agreement to lease the ARC to an international consortium led by Raytheon Engineers & Constructors, an American defense and engineering giant, in a deal worth $25 million. The agreement was frozen after the Jordan Phosphate Mines Company and the American consortium failed to sign an agreement to set the prices and the amounts needed for transporting phosphates, transport officials said.

[23] Jordanian Department of Statistics, Household Surveys Directorate, Employment and Unemployment Survey 4th round, 2001

[24] Ben Hussein, M New minimum wage goes into effect” in the *Jordan Times*, 2 October, 1999