

Reflections on EU-Jordanian Cooperation: Towards Tertiary Economics

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Context to EU-Jordanian Cooperation

While 2021 marks the 42nd year of European Union (EU) presence in Jordan, the EU and Jordan solidified their relationship with the 1995 Barcelona Declaration. They did so as parties whose interests might straddle the European/Middle East divide into what might be thought of as the Mediterranean region. The Declaration rested on the pillars of regular political dialogue, the development of economic and financial cooperation, and greater emphasis on the social, cultural and human dimensions. It was born in the early hope of the Oslo Accords, in which the EU sought to buttress the peace process with the economic integration of its key players, among them Jordan. By gradually eliminating tariffs, the Declaration's crowning objective was to establish a free-trade area between the participating Mediterranean partner and EU members (Barcelona Declaration, 1995).

This Declaration would form the basis of the Union for the Mediterranean (UfM), the 42-member body formed in Paris in 2008. The Union brought nearly all EU members together with the Mediterranean Basin states. Twenty-five years after Barcelona, however, parties on both sides of the Mediterranean question its efficacy. EU observers regretted the lack of resolve to see good governance and human rights measures implemented in Mediterranean partner countries (Amirah-Fernandez, 2020). In turn, partner observers tended to cite the EU's preoccupation with Eastern European parties and their inclusion in the EU, much to Turkey's chagrin. There was also frustration with the lack of progress on the Israeli-Palestinian front, the 2008 flare-up of which nearly aborted the Union. The economic prospects also failed to bear fruit when – long after passing its 2010 deadline – the free-trade area was not established.

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was the lack of “common identity and shared goals” among the parties. This translated into an absence of a Mediterranean “regional will”, exacerbated by the fact that while the EU parties could come together on a united platform, the non-EU parties – some of which did not formally recognise each other – could not (Borrell, 2020). The Union yielded to the European Neighbourhood Policy (ENP), which continued the pivot towards Eastern Europe, lightening the weight of Mediterranean representation. Due to the structural challenges of negotiating multilateral consortia, Union parties instead focused their energies on pursuing bilateral relations with each other.

Expectations of Jordanian Authorities Towards the EU

Jordan rooted its relationship in cooperation on long-standing interests: an outcome to the Palestinian-Israeli conflict and EU-Jordanian trade agreement.

Jordan was among those pursuing bilateral relations with the EU, rooting its relationship in cooperation on long-standing interests. Politically, this mainly concerns an outcome to the Palestinian-Israeli conflict based on Oslo’s two-state framework. The shockwaves of Trump’s Peace to Prosperity Plan would highlight the EU’s moderating role. Days after the Plan was released, Borrell reaffirmed that “Jordan plays a very special role... in particular as regards Jerusalem and as the Custodian of the Holy Sites. We share the commitment to a two-state solution and respect for international law” (Jordan Times, 2020). While the incoming Biden administration endorses a two-state solution, Jordanian authorities are depending on the EU to champion the principle in international fora, especially by ensuring that the West Bank remains viable grounds for a Palestinian state.

Trade represents the chief economic interest between Jordan and the EU. The bedrock of EU-Jordanian trade is the 2002 Euro-Mediterranean Agreement between Jordan and 15 EU members. The comprehensive agreement worked to eliminate virtually all customs duties on trade in industrial, fish and marine, and agricultural products. However, Jordanian businesspeople struggled to establish relationships with European counterparts, largely because of the agreement’s rules of origins clauses, which required that 60% of material inputs be Jordanian.

Considered major landmarks, agreements in 2016 and 2018 simplified the clauses so that only 30% of material in Jordanian products had to be made in Jordan. These agreements were signed in the era of the 2012 Jordan Compact, in which the EU’s concern for Syrian refugees was increasingly reflected in its economic relations with Jordan. Syrian livelihoods were promoted and valued as safeguards against donor fatigue and an overburdened United Nations High Commissioner for Refugees (UNHCR). At various points in time, agreement stipulations included, for example, that 15-25% of export production lines had to include UNHCR-registered Syrians (Al Nawas, 2020). Already facing domestic unemployment challenges, Jordanian authorities in turn expected refugee aid initiatives to have a 7:3 Syrian to Jordanian benefit ratio, a formula widely observed by the donor community (FAO, 2018, p. 2). While EU-Jordan trade saw boosts after the 2012 Jordan Compact and the 2016 and 2018 Rules of Origin Agreements, growth did not last beyond a year in each case (EU Directorate-General for Trade, 2020, p. 9).

The inability of the agreements to sustain growth indicates that there are more structural obstacles to trade between Jordan and the EU. While 18.2% of Jordan's imports come from the EU – making it Jordan's top exporter – the EU only imports 3% of Jordan's products, making it the seventh importer of Jordanian products. In total volume, the EU is Jordan's second biggest trading partner after Saudi Arabia – mainly Germany, Italy and France. On the other hand, Jordan is the EU's 65th – and its 15th in the West Asia North Africa region. In 2019, the EU exported some €34.36 billion worth of goods to Jordan, more than ten-fold the €3.21 billion it imported from Jordan (EC Directorate-General for Trade, 2020, pp. 7-9). This trade balance must be read in spite of Jordan's smaller population and lower purchasing power relative to the EU (Vergbert, 2020). Given that Jordan's average import-export ratio stands around 6:4, it is also unusually negative relative to other partnerships (WITS, 2018).

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The imbalance is mainly attributable to the nature of the export markets. Namely, that Jordan needs high value goods produced by Europe such as machinery and transport equipment – imported at €1.189 billion in 2019 – while Europe does not need Jordan's highest valued goods, namely chemicals and pharmaceuticals. Although making up 43% of its Jordan imports, the EU imported from Jordan only €40 million worth of fertilisers. The EU maintains a protectionist policy that aims to ensure domestic fertiliser production, and has in place a 6.5% tariff on imports of phosphorus and potassium, resources in which Jordan holds a significant global share. Still, of the 23% of potash that the EU does import, only 3% comes from Jordan. By way of regional comparison, 9% comes from Israel (EU Science Hub, 2021, p. 321).

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Pharmaceuticals represent an even greater challenge, whereby the EU imports only 5% of its medicinal needs (Eurostat, 2020). As such, it imported only €3 million from Jordan, while exporting to it €314 million. The stiff competition for the EU's pharmaceuticals market means that Jordan will have to markedly develop its industry. It was perhaps towards this end that Jordan's Economic Growth Plan for 2018-2022 (JEGP) states, "Jordan must invest in preparing its manufacturing sector for compliance with EU quality requirements, identifying and establishing private sector trade linkages and partnerships, credit facilities, and feasible transport solutions" (EPC, 2018, p. 14). This could be a boon for Jordan's pharmaceutical profile, which already enjoys regional clout.

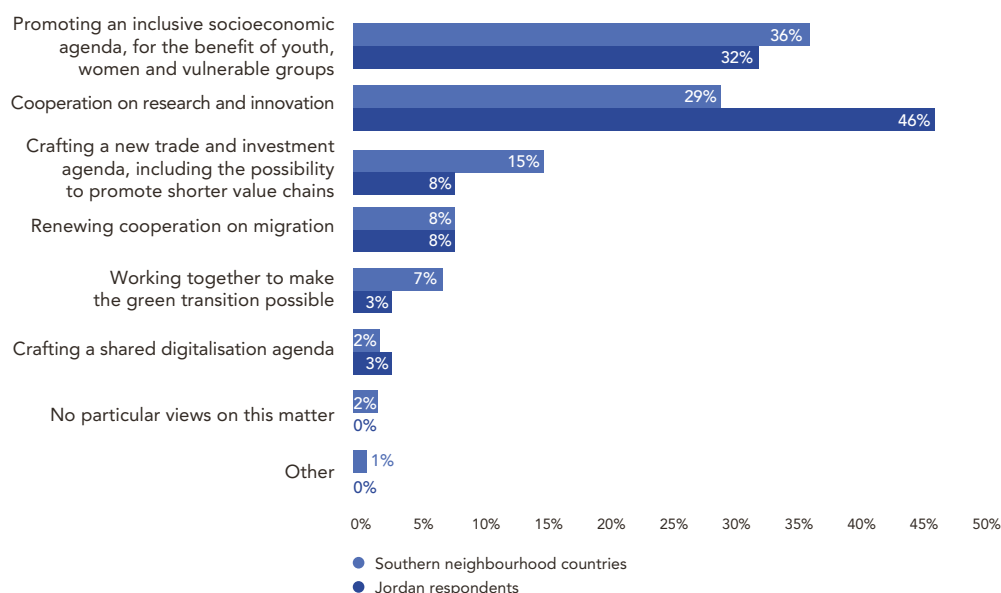
Otherwise, textiles and clothing make up Jordan's next biggest share of exports to the EU, at 16.3%. However, these are manufactured in industrial parks – operating beyond regular tax regimes – that are over two-thirds staffed by foreign workers (METJ, 2020). As such, the €52 million they generate from the EU's imports do not permeate the Jordanian economy as effectively as the pharmaceutical industry, dominated by private enterprise and relying on Jordanian skills.

Observations from the Jordanian Street

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Jordanians tend to reiterate that economics is the most important area of EU-Jordanian cooperation, as per the January 2021 EuroMeSCo Euromed Survey. Moreover, responses indicate awareness among Jordanians that the move away from raw resources towards specialised products and services requires Jordan to have a competitive edge. Towards this end, Jordanians have a rather specific focus on the main opportunities the EU and its southern partners should jointly seize. While southern neighbourhood countries as a whole said that promoting an inclusive socioeconomic agenda was the most important opportunity (36%), 46% of Jordanians said that cooperation on research and innovation was more important (see graph 1).

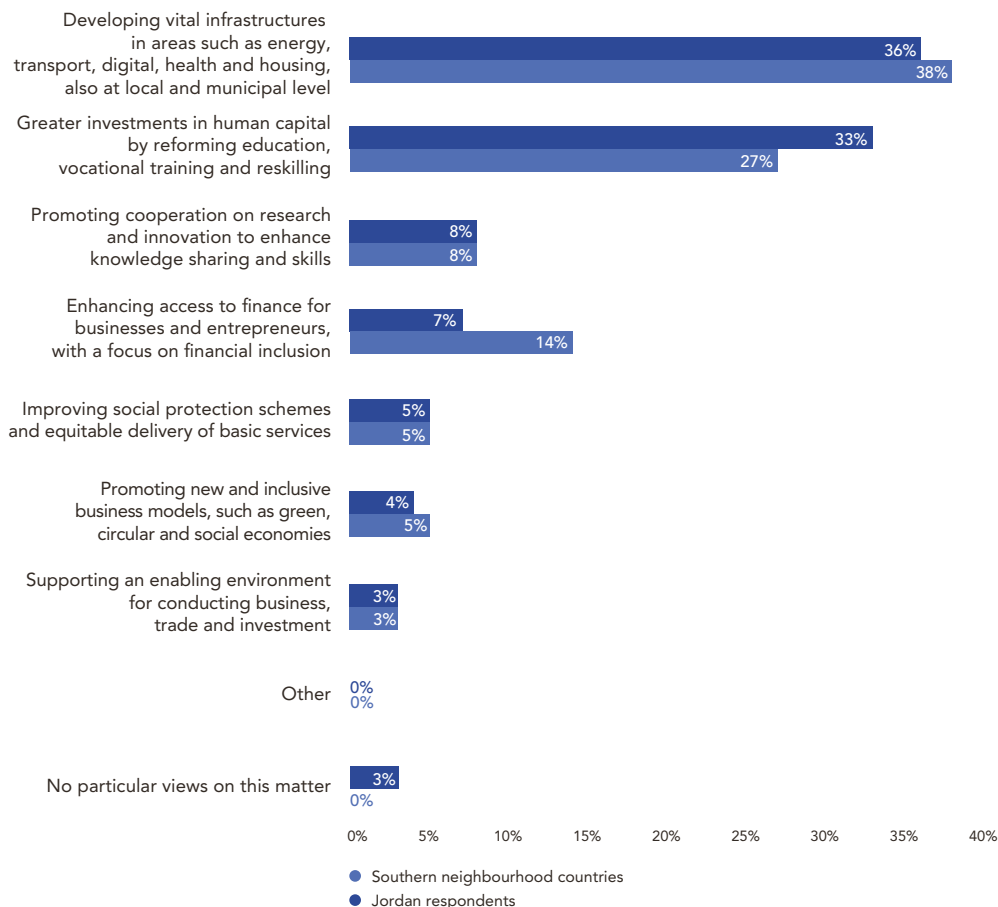
Graph 1: Q.2 What are the main opportunities that the European Union and its southern partners should jointly seize? (Ranked as first option)



Source: Compiled by the IEMed based on the results of the EuroMeSCo Euromed Survey

This might be read in light of a qualified workforce without the resources to develop research and innovation capacities (UNDP, 2020). In terms of resources, it seems that Jordan especially lacks physical infrastructure. This perception was reinforced by the Jordanian response that the most effective way to foster more inclusive economies in the region was through developing vital infrastructure (see graph 2).

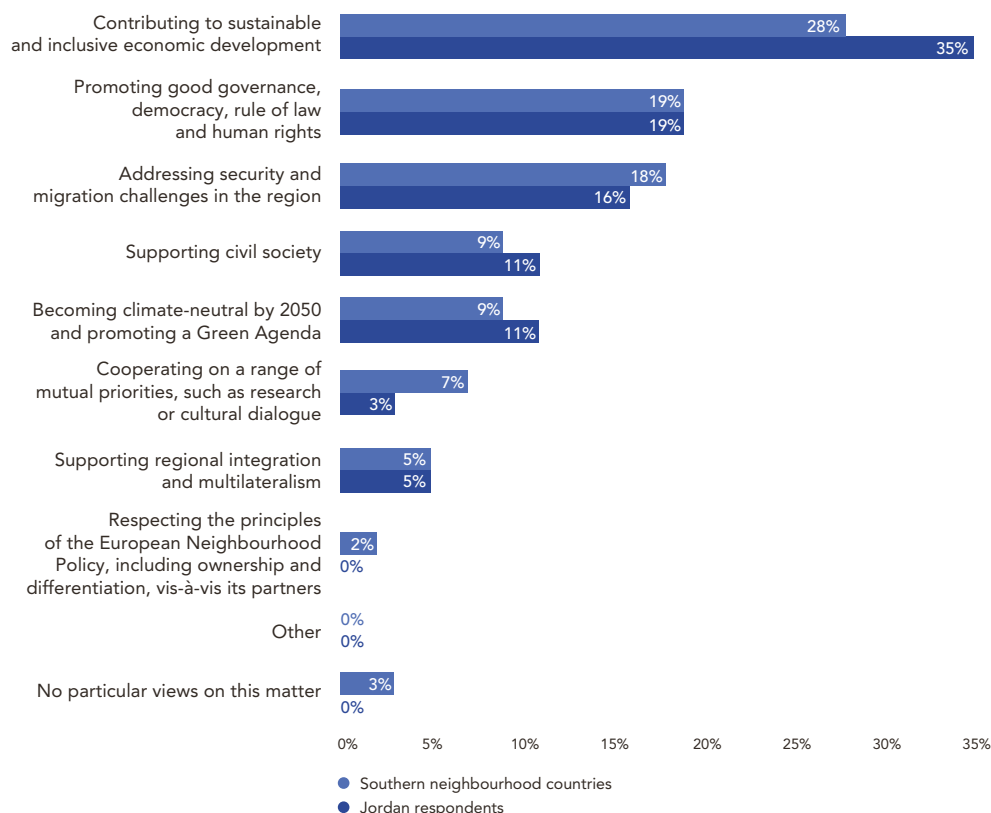
Graph 2: Q.12 Most effective ways to foster more inclusive economies in the southern neighbourhood countries (Ranked as first option)



Source: Compiled by the IEMed based on the results of the EuroMeSCo Euromed Survey

In line with regional trends, Jordanians saw the EU as providing added value in prioritising a sustainable and inclusive economic development agenda relative to other global players. Compared to other regional respondents, Jordanians also had a nuanced appreciation of the EU's added value in supporting civil society and promoting a green agenda, two themes that feature prominently in EU-sponsored projects in Jordan (see graph 3).

Graph 3: Q.5 What is the European Union's added value compared to other global players that are increasingly active in the region? (Ranked as first option)



Source: Compiled by the IEMed based on the results of the EuroMeSCo Euromed Survey

Particular Issue of Importance

Water scarcity and reliance on energy imports will constrain its manufacturing; thus authorities look increasingly towards specialised services.

Jordan must develop sectoral growth according to resource strengths and limitations, both natural and human. While Jordan is not lacking in labour – the Jordan Economic Growth Plan (JEGP) acknowledges – water scarcity and reliance on energy imports will constrain its manufacturing. Rather than goods, Jordanian authorities and respondents thus look increasingly towards services, although not its traditional activities. Neither government nor finance services – Jordan's top two gross national product (GDP) contributors – can continue to be the engines of growth (EPC, 2018, p. 7). The COVID-19 crisis has shown that Jordan cannot rely on the hospitality and tourism sector to dominate either.

Rather, Jordan must look to more specialised services, in harmony with both global trends and Jordanian skills. Jordanians are thus keen to develop their Information and Communications Technology (ICT) sector. Accounting for 12% of GDP in 2018

– a treble growth since 2014 – Jordanians have seen the success that ICT enterprises can have (JIC, 2018, p. 2). Jordanian web-based companies such as Mawdoo3 – dubbed the “Arabic Wikipedia” – Arabia Weather, and Jamalon Bookstore, have become the largest regional providers in their respective services.

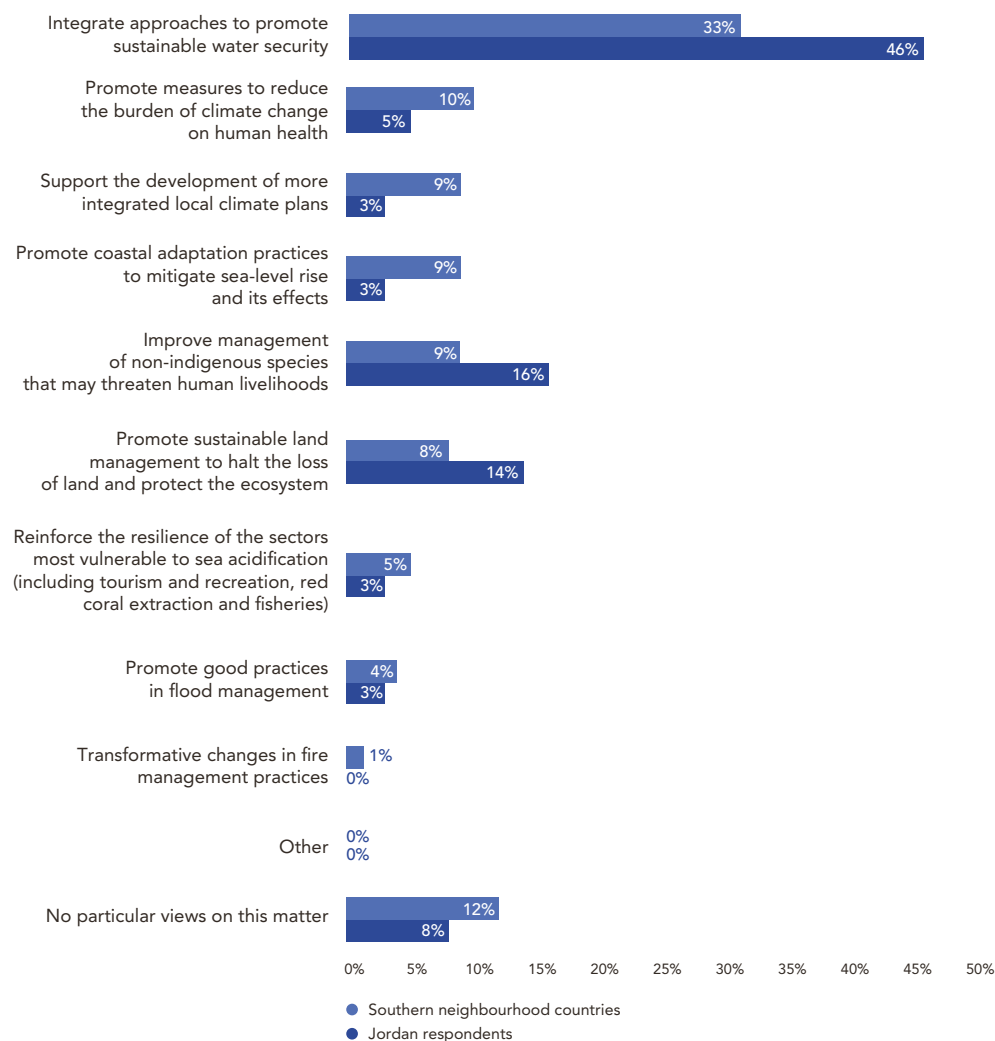
As such, developing ICT is a top government priority. According to the JEGP, Jordan “aims to capitalise on its competitive advantages of having high quality human capital, favourable project economies, competitive wages and its convenient time-zone” by becoming a digital outsourcing hub in the region and internationally. However, it emphasises that key infrastructure is lacking in order to implement digitalisation policies. Jordan requires advanced digital infrastructure, including fibre-optic networks (EPC, 2018, p. 39). In 2019, Jordan saw two of its biggest telecom companies roll out these cables to deliver 5G internet access to homes and businesses across the kingdom.

Beyond infrastructure, respondents indicated the need to develop ICT skills. Globally ranked third in having the most diversified pool of skills amongst its tertiary graduates, Jordan’s ICT sector appears to have a solid foundation upon which to develop (WEF, 2020, p. 39). However, Jordanians do not take this for granted, with responses indicating an acute awareness that the ICT sector requires constant training and cutting-edge skills. More than half of all respondents said that adapting education and vocational training to the requirements of digitalisation was the most effective way to support a digitalisation agenda (see graph 4).

ICT is now a top priority in Jordan but key infrastructure is lacking in order to implement digitalisation policies.

Together with infrastructure, adapting education and vocational training to the requirements of digitalisation is also a key element.

Graph 4: Q.19 Priority measures to face climate and environmental change in the Mediterranean (Ranked as first option)



Source: Compiled by the IEMed based on the results of the EuroMeSCo Euromed Survey

Considering labour readiness as a first step to establishing a thriving ICT sector, Jordan would stand to benefit from a comprehensive survey of its current skill sets in this sector, with recommendations on which skills need to be developed. In order to gain momentum, the sector would need to attract foreign investment. Jordanians are quite aware of this; when asked about what should be done to stimulate trade relations between the EU and its southern partners, most respondents said the EU and its partners should enhance market access by including services and investment in agreements. The EU could thus encourage Jordanian ICT growth by expanding the role of services in upcoming trade agreements and making it a priority on its donor agenda.

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