Global Value Chains Diagnostic – Case Study

Apparel - Made in Jordan[1]

- Jordan entered global value chains in the apparel industry in the early 2000s
- Apparel and textile goods became the most important export products
- The success of the industry mainly resulted from the preferential trade agreement with the United States and inflow of foreign direct investment and intermediate industrial supply
- The sector exhibits limited spillovers to the domestic economy, but has potential for upgrading in value chains and entering new markets

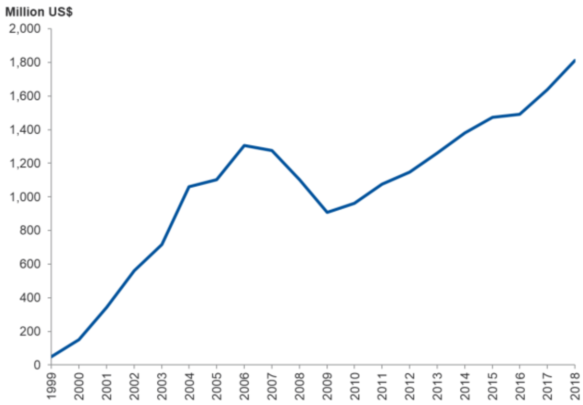
Success of the apparel sector

Today, the apparel and textiles business became one of the key economic and export sectors of Jordan. The country awards special importance to the industry given the high volume of its exports (23 per cent of total export value in 2018). With no previous history in garment production, Jordan has emerged to be one of the top twenty garment suppliers to the US.

This development of the apparel and textiles sector has been achieved through entering and integrating into global value chains in the early 2000s and focusing on exports of consumer goods to international markets. The industry has grown steadily and exports value amounted to around US$ 1.8 billion in 2018 (see Chart 1). Ninety per cent consists of high-quality sportswear for brands such as Nike and Under Armour, and the majority is destined for the North American markets, but also to a lesser extent to Canada, China and the EU. Exporting to international markets overseas has also become increasingly important for Jordan in recent years since regional exports markets have slowed down due to political and economic instability in the region.

Jordan's garment industry employs around 77.000 people, 2.5 per cent of the total workforce, working in 1300 factories, with more than two thirds of the workforce being women. However, the industry is heavily skewed towards larger factories (500-2500 employees), of which 85 factories account for around 95 per cent of exports and employment.

Chart 1: Export volume of apparel & textile articles (HS product codes 50-63)



Sources: International Trade Centre (2018) and authors' calculations

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Development and transformation

Jordan became signatory to the Qualifying Industrial Zone (QIZ) in 1996 (Joint US-Israel-Jordan-Egypt agreement), which allowed Jordanian firms in designated industrial parks to export duty-free and quota-free to the US (no tariffs) under a relaxed rules of origin scheme, using a specified mandatory share of Israeli inputs in the production of goods.[2]

Prior to the QIZ agreement, Jordan had no textile and apparel industry. When the QIZ agreement came into force, the textile industry grew quickly in both volumes of production and employment. Jordanian manufacturers and US buyers (e.g. Wal-Mart, JC Penney, Nike, Macy's and Under Armour) established reliable supply chains and the US became the main market for Jordanian exports of apparel and textile products. Both countries further signed a free trade agreement in 2010, which reduced time and costs of production without the requirement of importing costlier Israeli inputs under the former QIZ agreement.

Due to highly flexible rules of origin of raw and intermediate inputs used in the production process and the permission of employing foreign workforce in the designated economic zones, Jordan has been able to source inputs and labour from third countries and still benefit from duty-free access to the US. This has led to an inflow of foreign garment manufactures and investments (mainly from Greater Mainland China), which helped to develop the textiles industry.

However, the industry has evolved over time and adapted to new challenges. Decline in US demand the global financial crisis in the period 2007-2009 led to a drop in Jordanian exports.

In this period, a number of Asian companied in Jordan closed their factories in the country, which lead to a change in the product composition of garment exports. Exports of fashion wear have been declining, whereas exports of sportswear doubled between 2008 and 2018. Generally, textile products changed from non-knitted to knitted textiles, which can be seen in increasing volumes of both exports and imports of knitted or crocheted articles (HS code 61), whereas exports and imports of non-knitted products (HS code 62) declined between 2008 and 2018 (see Chart 2). In the knitted apparel product group (HS code 61), special garments for professional and sporting purpose are by large the most important product group in the garment industry and account for US$ 1.5 billion out of the total US$ 1.7 billion of exports in 2018.

Chart 2: Trading partners in intermediate goods (exports and imports as per cent of trade, 2018)

2-Digits Code	Textiles Export Products (million US$)	2008	2018	2-Digits Code	Textiles Import Products (million US$)	2008	2018
'52	Cotton	2	1	'52	Cotton	31	14
'60	Knitted or crocheted fabrics	17	7	'60	Knitted or crocheted fabrics	377	587
'61	Articles of apparel and clothing accessories, **knitted or crocheted**	795	1,657	'61	Articles of apparel and clothing accessories, **knitted or crocheted**	91	298
'62	Articles of apparel and clothing accessories, **not knitted or crocheted**	244	93	'62	Articles of apparel and clothing accessories, **not knitted or crocheted**	226	79

Sources: International Trade Centre (2018) and authors' calculations

[2] Firms must meet certain criteria such as promoting economic cooperation with Israel and satisfying local content requirement with at least 35 percent must be produced locally, of which a minimum of 11.7 percent must be of Jordanian and 8 per cent of Israeli origin. The other 15.3 percent may come either from the Jordanian QIZs, Israel, the West Bank or the US. The remaining share can be completely foreign value-added.

Challenges and opportunities

The transient nature of textile value chains, the dependence on foreign investors and the concentration on few buyers in US market is a constant risk to the textiles industry in Jordan. Declining demand in the US market during the global economic crisis of 2008/2009 had an impact on Asian firms closing factories in Jordan during and led to a strong decline in the volume of exports. Also, the sector is dominated by a few large firms, mostly foreign companies that rely on a high share of imported inputs (from China and Turkey) and migrant workers (only 25 per cent of workers are Jordanians). These underlying factors have led to limited domestic spillover effects and hindered the development of local content and regional value chains.

The industry focuses on products with relatively higher value-added for mid and mid-high segments, preferring "low volume, high price" production over "high volume, low price" production as in countries like Bangladesh and Vietnam. Jordan cannot become competitive in this latter segment because of higher lead times from order placement to final shipment, higher cost levels (due to higher wages, energy prices and water scarcity) and smaller economies of scale. This effectively hinders the industry in entering the global fast fashion segment and supplying large foreign buyers and confirms the business case to focus on the medium/high market segments.

Additional opportunities for Jordan's textile industry lie in the diversification of its exports markets beyond the US and start benefiting from the preferential market access to the EU. In addition to being the largest consumer market, the EU is also easier and cheaper to access, due to closer proximity through road transport via Turkey to European destinations than the lengthier maritime transport through the Gulf of Aqaba.

However, despite the preferential access to the EU and the recent implementation of the EU-Jordan Compact agreement that further liberalises market access and rules of origin for Jordanian products (GVC country diagnostic - Jordan), Jordanian firms still lack information about the EU market, standards and buyers' requirements. This poses a significant obstacle for enhancing trade.

To support the international competitiveness of the sector, as well as its contribution to domestic value-added, investment in production line quality and improvements in standards and certifications will be key. This can be achieved by enhanced technical assistance, support to business matchmaking with EU buyers and ensuring access to appropriate financial resources.

Further information is available to supplement this country factsheet:

- GVC Diagnostic – The Southern and Eastern Mediterranean region
- GVC Diagnostic - Egypt / Jordan / Morocco / Tunisia