INVESTMENT PROMOTION CORPORATION OF JORDAN

INVESTOR PROMOTION STRATEGIC PLAN AND INVESTOR SERVICE GUIDELINES

Final REPORT

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1: Introduction

Project Background

The Services Group (TSG) was contracted by the United States Agency for International Development (USAID) to assist the Investment Promotion Corporation of Jordan (IPC) in developing a comprehensive strategy for marketing mining, industrial and tourism related investment opportunities to the international investor marketplace. The strategy entails the development of a comprehensive marketing plan to attract inward investment in specified sectors. The development of the marketing plan is composed of three distinct components. The first component involves the identification, analysis and prioritizing of the targeted sectors, while the second component entails the creation of a marketing plan. A related component is the provision of investor service guidelines to improve the facilitation function of the IPC, which is also provided in the report.

Report Structure

The report contains the following chapters and annexes:

- Chapter 2: *Investor Targeting Methodology* presents an overview of the analytical approach used to analyze the specific sectors considered for promotion. This approach, the investment promotion target identification process, provides the critical filters used to categorize the sectors into the high priority first-tier and second tier prospects. The sector’s categorization is based on a careful review of Jordan's attractiveness as location platform vis-à-vis global sectoral trends.

- Chapter 3: *The Screening Process/Industry Assessment* analyses and determines which sectors Jordan possesses the greatest potential to attract for FDI. The analysis matches the targeted sectors with Jordan’s comparative, competitive and policy realities, and ranks the sectors for promotion accordingly.

- Chapter 4: *Marketing Action Plan* determines the optimal approach for attracting FDI in the sectors ranked as immediate term targets. This plan provides an overall strategy and budget as well as a promotional program for each sector.

The annexes are as follows:

- Annex A: *Sector Structures and Investment Patterns* which contain detailed analysis of structural and investment trends for the sectors that were considered for promotion.

- Annex B: *Location Audit of Jordan* evaluates Jordan's present competitiveness and positioning as a host for FDI relative to the comparison nations for Jordan. Jordan is benchmarked on principal investment factors that affect all site-location decisions. This analysis forms the basis for determining Jordan's comparative advantages and disadvantages.

- Annex C: *Investor Service Guidelines* which provide the best practice methods in improving overall performance in service delivery.

- Annex D: *Detailed Work Plans* provide comprehensive scopes of work for the various actions that have been suggested in the marketing action plan. These work plans act as stand alone modules, complete with individual timelines and budgets.

The report is in draft version, for discussion with USAID and IPC authorities. It represents work undertaken between May and June 1998, which includes a field mission in May 1998. Any changes or comments that are made during these discussions in July 1998 will be incorporated into the final report.

2: Industry Identification Methodology

Introduction

The identification of investment promotion targets for Jordan's industries resulted from a comprehensive methodology that has been successfully applied by TSG in South Africa, Thailand and throughout Asia. The methodology is based on empirical analysis of successful investment promotion efforts in ASEAN (Singapore, Thailand, Malaysia, and Indonesia) and other countries (Ireland, Turkey, Dominican Republic, Costa Rica, and Jamaica). The experience of these countries over the past decade points to the critical importance of two sets of factors that have influenced the direction and level of investment inflows: national comparative advantage and sector-specific competitive trends. The target investment activity methodology of TSG examines selected sectors in light of comparative and competitive realities, and suggests the activities that could locate in a industries based on the location's economic and political attributes.

Screening Process

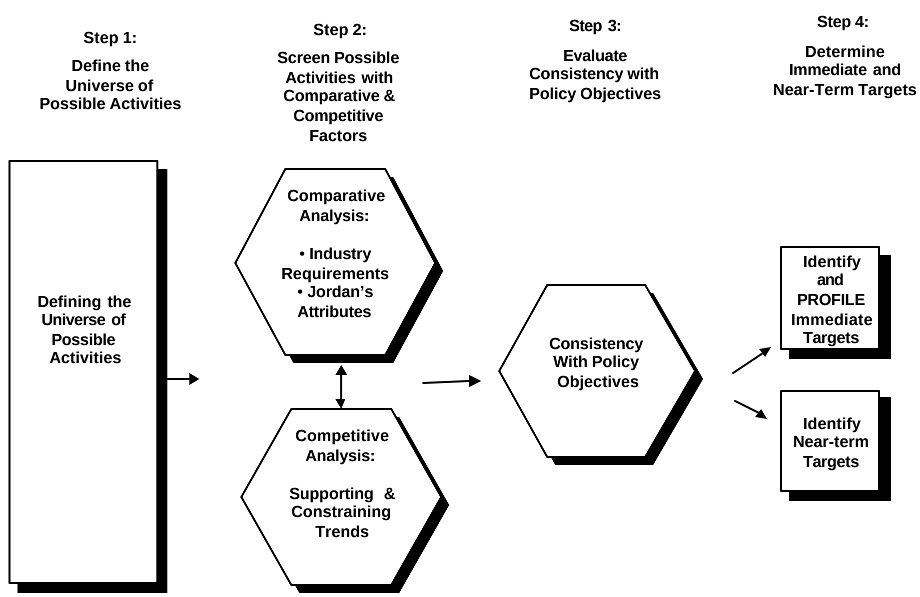
Development of Initial list

As illustrated by the rectangle in Figure 2.1, the methodology's first step is to define and refine a universe of possible activities to be considered for promotion. Based upon an analysis of Jordan's economic structure and current industrial and trade mix, as well as discussions with IPC staff, business officials, foreign investors and government officials, the following sectors were initially considered as potential FDI candidates:

- Downstream potash and phosphate products
- Textiles and textile products
- Dead Sea products
- Software engineering projects
- Various tourism projects

Analyses of these sectors and Jordan's location audit presented in Annex B provide the information base for the investor targeting methodology's screening process. These sectors are examined in detail in Annex A.

Figure 2.1: Overview of Investment Promotion Target Identification Process



Comparative Screen

Firms tend to locate their production facilities where relative comparative endowments most closely match technical requirements (factor inputs, infrastructure, physical facilities, and the like) in order to minimize production and transaction cost per unit of output. The need to minimize cost per unit of output has been the primary explanation behind the widespread relocation of labor-intensive industries and sub-assemblies to low labor-cost countries.

The investor targeting methodology examines this critical relationship by comparing Jordan's industries' comparative advantages (as quantified in the location audit) with the requirements of the sectors chosen for consideration. This process serves as the first hurdle that sectors must pass in order to remain candidates for overseas investment promotion.

Competitive Screen

The fundamental structure of national economies and underlying trends in local and regional markets (1) provide firms with competitive advantages in terms of market positioning, and (2) motivate the investment-location decisions of certain types of industries. For example, a firm evaluating the possibility of making an export-oriented investment generally tends to consider such factors as the growth of the industry or segment, production costs, transportation infrastructure and costs, and the capacity of the domestic and regional markets to absorb large volumes of production.

In contrast, a firm considering making an investment to serve a protected local market tends to be motivated by different considerations such as the number of players in the market, growth of the industry or segment, and potential gaps between market demand and supply.

The investor targeting methodology's competitive analysis addresses these relationships by determining Jordan's industries' attractiveness as an export- platform for the examined sectors relative to their global competitive environment and market trends.

Weighing Outcomes

A major factor that has significant explanatory value as a predictor of the direction and pattern of direct investment is the end-user market to be served by the investment. The degree of the investment's export orientation greatly influences the relative importance of comparative versus competitive advantages as a determinant of direct investment types and patterns. As potential investors in IPC are export-oriented, these investors tend to be driven primarily by cost and comparative advantage considerations. All things being equal, export-oriented investors locate their plants in areas that reduce their total cost per unit of production. In contrast, enterprises seeking to sell production to the domestic market tend to be motivated principally by competitive issues such as market growth, demographic trends, sector characteristics, and other localized advantages.

The TSG methodology accounts for the difference in the relative importance of comparative and competitive factors by ranking advantages in both screens, rather than by employing a "knock-out" system that eliminates sectors in each screen. Sectors that do not compare favorably in the comparative screen are still examined for competitive advantages that may outweigh criteria such as factor cost disadvantages. As export-oriented investors are particularly interested in reducing their production costs, in the comprehensive analysis, the prospective sectors' cost and comparative advantages were given greater weight than their competitive factors.

Policy Screen

The methodology's third screen (represented by step 3 in Figure 2.1) compares sector structures and characteristics with a set of policy objectives formulated at the outset of the Investor Targeting Strategy. This step allows policymakers to rank sectors that are good candidates for promotion abroad in a way that ensures consistency with government objectives that go beyond attracting FDI. In discussions with IPC, it was decided that this screen should select those sectors that contribute significantly to:

- Increasing foreign exchange earnings;
- Attracting high-value added manufacturing processes;
- Diversifying the economy; and,
- Increasing employment.

Marketing Plan

The methodology's final step classifies the sectors as high priority first-tier or second tier candidates. The following promotional considerations were used to analyze and categorize the final list of sectors into first or second tier targets:

- What is the time horizon over which the sector can reasonably be promoted? Is there immediate potential or does promotion hinge on other events (policy decision, supporting infrastructure, etc.)?

- What is the expected investment project scale and size? Is the likely investment volume significant enough to warrant full-fledged investment promotion abroad?

- Will promotion of a sector provide potential investors with real added value, or will investment occur without additional promotion? Can promotion inform and attract investors, or are investment opportunities already well known within the sector?

These factors coupled with the sector screening process were the basis for developing the marketing plan. The marketing plan provides a comprehensive strategy, which encompasses selling themes, advertising programs, and promotional tools in addition to an operational plan and budget.

3: Industry Screening Process

Introduction

The ITS methodology presented in chapter 2 is designed specifically to identify only those industries in which foreign direct investments into Jordan can be motivated through promotion at the national level. The methodology then ranks industries with high FDI potential to maximize the impact of scarce promotional resources. The methodology neither identifies all industries that may be economically viable in the country, nor does it identify all industries whose location in the Jordan would be desirable. The ITS thus is not a general economic planning document, but rather a focused, realistic, and candid implementation strategy that emphasizes results-oriented promotional activities.

This chapter presents an overview of the evaluation criteria used to select industries and uses those criteria to rank each industry according to its comparative, competitive, and policy attributes. A narrative description of this process is summarized in a series of tables at the end that illustrate and formalize the ranking and selection process.

Evaluation Criteria

The comparative, competitive, and policy-screening processes are based on the industry information detailed in Annex A. In each discrete screen, industry scores are based on the following qualitative scoring categories:

Table 3.1: Industry Scoring Categories

Score	Industry Attributes
A	Jordan has distinct advantages over competitor countries in examined industry criterion
B	Jordan has no advantage or disadvantage over competitor countries in examined industry criterion
C	Jordan is at a distinct disadvantage relative to competitor countries in examined industry criterion

Given the qualitative nature of these scores, they describe only the relative positioning of an industry to a screening criterion. Because the scores do not express absolute positioning on a quantitative scale, different scores for different criteria may or may not offset each other in determining the final ranking for promotion of that industry. In many cases, the comparative advantage screen represents the most fundamental criterion; serious cost or raw material disadvantages are often difficult to offset, even by favorable competitive trends.

Summary Results of the Analytical Screens

Downstream Potash and Phosphate Sector

There are few sectors in which Jordan possesses a higher degree of comparative advantage screen, which matches Jordan's resource endowments, local market characteristics, and factor costs and availability against the requirements of foreign direct investors in given industries as it does in potash and phosphate fertilizers. The proximity to both European and the growing Asian markets, the large reserves of potash and phosphate, and the continuing presence of world class companies meet the fundamental supply and demand criteria. The monopolistic supply condition in Jordan is not unlike scenarios experienced elsewhere and this condition may be mitigated through the appropriate agreements between foreign and local partner. Overall, Jordan ranks very favorably as a location option for the fertilizer industry, assuming that market trends continue to operate in the favor of the local industry.

In the competitive advantage screen, which analyses mega trends that may impact Jordan's attractiveness as location option, the effects of Asia and structure of investment patterns are analyzed in detail in the sector analysis. According to industry experts within Jordan and elsewhere, the Asian economic crisis is unlikely to affect the regional market growth for fertilizers, the principal downstream input. Furthermore, an analysis of investment trends revealed that the majority of investments in potash and phosphate fertilizers involve the participation of advanced economy producers - such as the United States, Europe, and Japanese. This reflects the desire by some to increase profit margins through lower production costs and by others to access local or regional markets. Jordan, as a low-cost producer in geographic proximity to the growing markets of Asia, Africa and the Middle East. It therefore has the opportunity to capitalize on both trends, attracting both those interested in the regional market and those seeking a low-cost production base for export outside the region.

Finally, in the consistency with policy objectives screen, Investment levels in the potash and phosphate fertilizer industry, which tend to be of a mega project scale (investments over US$50 million) could greatly strengthen Jordan's position as a major producer in the world market. Most importantly, value added processes in this industry will partially ameliorate the high levels of exports in primary commodity form. While the government could realize benefits through tax revenues and increased foreign exchange earning, it cannot expect much in terms of employment levels, owing to the nature of the projects.

Overall, the industry scores highly in the three screens.

Apparel and Textiles Sector

The comparative advantage of apparel as a manufacturing option for foreign investors seems very strong owing to the QIZ, despite traditional factors costs such as labor costs, etc. that would otherwise mitigate against such advantage. The qualifying industrial estate (QIZ) preferential status, which allows for duty free access into the United States for goods produced in a designated estate, was scheduled to extend from Israel to Palestine and Jordan at the time of this writing (June 1998). This status is as advantageous as it is unprecedented in United States-Jordan trade relations.

In analyzing the competitive advantage, it was noted that this benefit will only be available in the short-term, as under the WTO agreement, the duties are legislated to be phased out by the 2005. This factor will adversely effect Jordan's ability to attract FDI in the apparel industry as the nation does not possess a low wage advantage, and is presently capitalizing on bilateral preferential status.

Under the consistency with policy objectives, while employment per project is significantly greater than most of the sectors examined in this study, the apparel and textiles industry provides few other benefits. Foreign exchange earnings remain low in most apparel projects despite high export orientation, owing to the significant levels of imported inputs. Skill enhancement is low since only short- term (60 days usually) training required for the vast majority of tasks within the production process.

Overall the industry appears well positioned to attract investment in the sector of apparel and textiles, but only due to a favorable policy regime. Else, Jordan neither has an inherent comparative advantage for apparel and textiles nor does the sector provide significant benefits to the local economy.

Dead Sea Cosmetics Sector

From the perspective of comparative advantage, the low cost of minerals and labor relative to Israel, the main competitor, suggests that there is tremendous potential to serve the growing Western markets. Trade agreements such as with the EU and the recently established QIZ status with the United States further the need to leverage these advantages.

In analyzing the competitive advantage, the organic cosmetics industry is poised to expand significantly as the Green Revolution reaches the mainstream, the Dead Sea sector is not, according to manufacturers, expected to ever go mainstream itself. As the continued introduction of new Dead Sea product lines indicates, its share of the cosmetics market, with its small niche status, is likely to remain fairly stable. Once again, as one of only two sources of Dead Sea salts and mud, as well as a low cost producer, Jordan has the opportunity to grab its fair share of this "niche" market by attracting existing manufacturers to produce, not just source, locally.

In the consistency with policy objectives screen, while Dead Sea cosmetics is not a major employer of technical labor, the sector could provide a tremendous boost to exports. The indicators suggest that the industry ranks favorably in most other development criteria.

Information Technology Sector

In the area of information technology, Jordan has a strong comparative advantage in context of regional location options. The fundamentals of the computer programming staff - the strong emphasis on analytical skills in education allows for adaptability for a wide range of applications. At an average of US$640 per month, it rivals rates from leading Indian software developers (considered highly cost competitive) and is at least one-sixth the rate of neighboring Israel. This advantage is however also shared by Egypt, an emerging growing supplier of software programming skills in the Middle East. Still, the small size of the domestic market which does not allow for extensive exposure to new project applications, and the lack of native English, a medium of instruction in India and Israel, as well as most of the emerging software developers such as South Africa is one disadvantage.

The dynamics of the industry reveals that the competitive advantage could well be a disadvantage. The dynamism of the industry has led to a quantum leap in development in some countries, and brain drain in many others, as discussed at length ion the sector analyses. Jordan’s future in the industry will be a direct result of the successful linkages that local businesses create with foreign counterparts, as in the case of Jordan and India. In other words, the trends could either work in the favor of Jordan or directly against it.

The information technology industry gets fares average in ranking overall in the consistency with policy objectives. Ranking is high in virtually all aspects except the levels of investment, since investment in the case of information technology often takes the form of strategic alliances for accessing markets, and knowledge/ resource- sharing arrangements.

Tourism Sector

The investor targeting methodology applied in other sectors has been adapted in the case of the tourism sector. The first screen, comparative advantage does not apply in the case of tourism investment. Instead of benchmarking, tourism locations are evaluated from the perspective of expected traffic. The second screen, competitive advantage - which identifies those mega trends in the local or international markets that could impact the tourism based investment - does make a significant impact, however. From the perspective of its consistency with policy objectives, tourism is without a doubt the main sector for inward investment promotion, since it provides large employment, among the highest investment values per projects and maximum use of natural resources with limited foreign exchange drain.

Pharmaceuticals Sector

Pharmaceuticals has a low comparative advantage grading mainly due to the asymmetrical nature of Jordanian intellectual property laws with internationally accepted intellectual property laws. According to Jordanian laws, it is the process (formula) but not the final product that is protected. Under this law, companies can develop variations of existing patents to provide similar results. On a brighter note, Jordan recently concluded agreement with the European Union to realign its laws to reflect international practices with a period of four years. While this could be damaging to some local companies, especially the many smaller ones whose core product lines are patent-derivatives, Jordan will earn significant recognition in the international investment marketplace. This issue will likely be resolved in late 1999. Following this, Jordan will be considered a leading destination for investment.

From the competitive advantage standpoint, the international market for pharmaceuticals suggests that there are tremendous prospects for growth in Jordan as companies expand in emerging markets and increasingly outsource research and development of select activities. The most significant impact will be the proposed legislation that seeks to align the current laws governing intellectual property with the international laws. This will become on the strongest signals to the international investor community, thereby strengthening Jordan's position as a location.

The development indicators suggest that the industry ranks favorably in its consistency with policy objectives. The pharmaceutical industry maximizes the use of the country's abundant scientific labor, among the best trained in the world. Large investments characterize the industry in general, leading to production levels large enough to merit a buoyant export market, which already exists in the region. The value addition in pharmaceuticals is among the highest of all the industries analyzed. With the exception of low levels of resource usage and low employment levels, the pharmaceutical industry has the characteristics attractive for economic development.

Prioritized List of Industries

Prospects	Sectors	Comparative Advantage	Comparative Advantage	Consistency with Policy Objectives
First Tier	Tourism	A	B	A
Second Tier	Potash & Phosphate	A	A	B
	Dead Sea Cosmetics	A	B	B
	Pharmaceuticals	C	A	B
Third Tier	Information Technology	B	B	B
	Apparel & Textiles	B	A	C

The prioritized list of industries presents a picture of the sectors that should be accorded priority in terms of the Corporation's overseas marketing efforts. First tier suggests that Jordan has a highest likelihood of attracting investments in this area coupled with the fact that this industry spells the highest level of accrued benefits from an economic development standpoint. The specific industries that must be promoted within each sector is discussed in the following chapter, with complete details provided in Annex A.

4: Marketing Action Plan

Introduction

The marketing plan forms the second component of the investor targeting strategy. The purpose of the plan is to provide IPC management with a strategy to achieve the desired goals of increased investment and employment.

The marketing plan extracts the top line results from the first component - the identification of investment targets and markets - to develop an operational program to achieve the objectives of the Corporation. The marketing plan presents a combination of programs, from image building to targeted campaigning, as part of the inward investment strategy, using international best practice standards for investment promotion. The plan also details the linkages that must be made within and outside of the agency in fulfilling the task of investment promotion.

Objectives

The objectives of the Corporation with respect to investment promotion are as follows:

- To maximize fixed investment inflows in Jordan from local and international investment sources. A target of US$50 million in incremental investment, directly stemming from the Corporation's efforts, is set for each annual year for the planned period 1999 to 2002.

- To generate sustainable employment in the country's industrial and tourism base. A target of 8,000 workers in incremental employment, direct employment stemming from the Corporation's efforts, is set for each annual year for the planned period 1999 to 2002.

- To effectively broadcast Jordan's investment opportunities in the international market and impact perceptions of Jordan as a favorable location for doing business.

The plan underscores the belief that a sustained campaign in the key markets promoting the highest potential investment projects will lead to the desired objectives of the Corporation. The plan for achieving these objectives is discussed in this report.

Supply Conditions: Target Industries

Following a screening of the various industries in Jordan from the perspective of their investment potential the industries ranked as most appropriate for inward investment promotion were as follows:

- Within downstream potash and phosphate products, focus on high value fertilizer for the Asian market
- Within textiles and textile products, focus on high end apparel in the classic garments category - men's suits and women's lingerie

- Within Dead Sea products, focus on hair cleaners and conditioners and face creams and masks.
- Within software engineering projects, focus on Arabization of specific professional software applications
- Within tourism projects, focus on promoting existing proposals in the hospitality industry

The basis for selection is presented in Annex A. Cement was excluded mainly due to the small size of the domestic market, which does not serve as a viable economic scale to merit the large projects that characterizes foreign investment in the country.

Demand Conditions: Target Markets

The target markets for inward investment, in their order of ranking, are Italy; Saudi Arabia; United States; Germany; United Kingdom; Kuwait and Netherlands. These are discussed below.

- For downstream potash and phosphate related products, companies that are considered non-traditional investors in competing producing nations such as Israel. From the research, investor groups are thus likely to be from Denmark, India, United States and Germany.

Table 4.2: Target Countries for Overseas Promotion

		Potash/ Phosphate Fertilizer	Apparel	Textiles	Dead Sea Cosmetics	Tourism
Middle East	United Arab Emirates		A			
	Saudi Arabia				A	
	Bahrain				A	
	Egypt					
	Israel	A	A	A	A	
Europe	Germany	A			A	
	United Kingdom		C			
	Spain		B			
	France					
	Holland					

	Italy					
	Norway	C				
	Finland	C				
North America	United States	A			A	
	Canada					
Asia	China		A			
	Hong Kong		A			
	India	C	A		B	
	Malaysia				B	
	Thailand					
	Japan	B			A	
Africa	South Africa				C	

Legend: A –merits sustained and direct promotion; B –promotion as part of regional program only; C – investigate select companies

- For textiles and textile products (apparel), companies from UAE (Dubai's Jebel Ali Free Zone), India, Egypt and China/Hong Kong. These are companies that are presently exporting to the United States in the specific categories mentioned and would find it beneficial to get the duty free access.

- For Dead Sea products, companies from Israel, United Kingdom, Germany, and United States. These are typically large companies, either presently manufacturing or large distributors of the product in the major markets.

- For software engineering projects, companies from United Kingdom and United States. The focus should be on large companies that are seeking to enter the Middle East market in a particular application (say, medical software) and would require Arabization of the product.

- For pharmaceuticals, major companies from Switzerland, Germany and United States.

- For tourism, companies from Dubai, Saudi Arabia and Bahrain. The target companies should be financiers, owners, and construction entities both from the traditional markets as well as major hotel chains in India, Malaysia and South Africa tend to double as service providers and equity investors.

The basis for selection of the above is presented in Annex A.

Strategy for Achieving Results

In order for IPC to be most effective, it must take on the role of broadcasting investment opportunities, and not researching them. Expertise on what to promote (supply side) is more difficult than determining where and how to promote it (demand side). Once such supply side conditions are provided by the relevant agency or line ministry, the IPC staff can investigate demand-side opportunities.

Under the proposed strategy, the direct marketing function is formalized with the Executive Office. This approach acknowledges a wide practice among investment agencies worldwide -- the role of the senior agency executive as lead person in public forums and the counterpart to senior executives in the targeted (usually large) companies.

The marketing and promotion department should focus on four elements:

- Industry Research, with emphasis on the target industries in the target markets
- Company and Event Research, materials that support direct promotion efforts undertaken by the Executive Office
- Image Building program, that focuses on managing the image building activities undertaken by the organization
- Investor Facilitation

The last task is the only re-active task of the department, although its role is as critical as the preceding tasks. The first three tasks form the basis of the subsequent discussion.

The workflow is described from the perspective of each of the aforementioned tasks:

- In the area of industry research, the department must publish on an annual basis a that spells out to a high level of detail the operating conditions for investment in Jordan for a particular industry, for example an "Industry Research Series: The Jordanian Pharmaceuticals Industry". The department must co-ordinate with all the relevant resources that collect, analyze and produce information on specific industries for promotion. The report will be a synthesis of existing work by experts, not original work by the organization.

  The output must be a <u>text report</u> as well as a <u>visual presentation</u> that is readily accessible through various communication medium (hard copy, electronic storage, internet, etc.). A summary may be presented in the newsletter or as press releases.

- In the area of company and event research, the department must provide two documents on an annual basis to the executive office. The first document will be a report on companies, for example, "Company Research Series: Potential Investors In The Pharmaceutical Industry" which will list no less than ten appropriate companies in each of target markets, complete with a page-length background on the company. Owing to the number of industries to be promoted, this is best undertaken throughout the year, with each Company Research Series taking about a month.

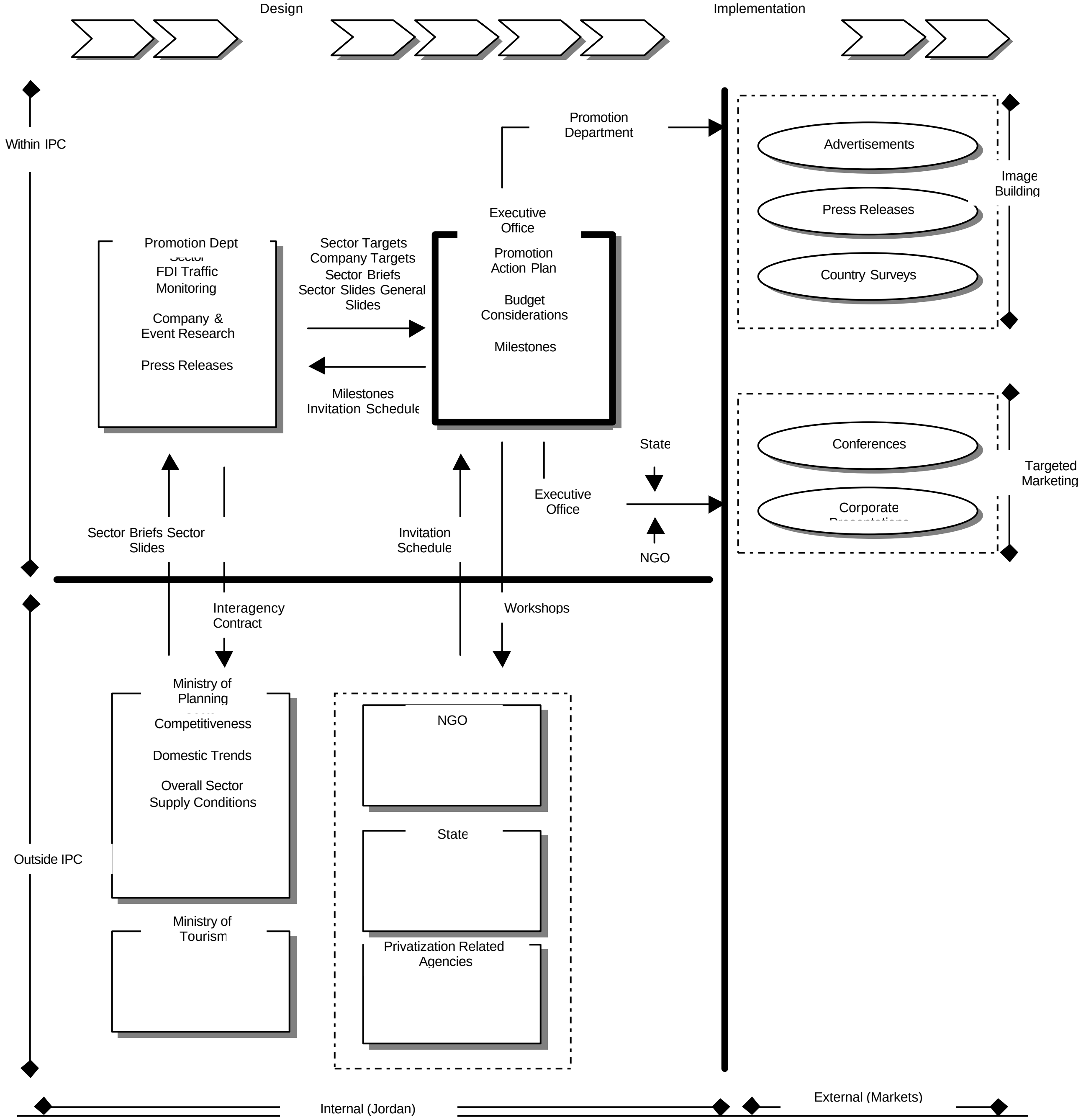
  In event research, the department must maintain a roster of major events taking place in the international marketplace with respect to trade fairs and exhibitions in the major markets, as these may act as an appropriate arena to meet with prospective companies in a market. A document should be developed on an annual basis, for example, "Event Research Series: Trade Fairs and Exhibitions of the Pharmaceutical Industry"

  Both the Company Research and Event Research Series are internal documents for the executive office to make an action decision. Upon the notice from the Executive Office of an upcoming event in a major market, the promotion department can mobilize invitations to targeted, researched companies with limited last minute effort.

- With respect to the Image Building program, a suggested program should be put in place for the annual year that includes the number of advertisements, the nature of the coverage (i.e. press releases, advertisements, etc.) and the type of publication. The coordination should then be undertaken by the department under the aegis of the executive office.

The executive office must develop the numerical targets of site visits that must be developed as a result of the various activities, for example, investors conferences in the major markets and in Jordan, direct presentations that may be made to select high level executives in target companies and the establishment of overseas antennae offices. The numerical targets allow the agency head with a barometer to gauge progress along the time continuum.

Proposed Workflow Between IPC and External Agencies



Next Steps

- Action One: Develop and Implement an Eighteen-Month Qualifying Industrial Zone (QIZ) Promotion Program

The QIZ status, which allows Jordan to duty free access to the United States on manufacturers produced in designated areas using certain levels of regional input, is an unprecedented opportunity to attract investment in the country. Firms exporting high tariff items to the United States can reduce costs by up to 40 percent from the savings in tariff by locating in the QIZ areas. Still, knowledge of the QIZ is admittedly low, even among local companies, according to analysts at the Ministry of Planning. Few companies outside the regional triad - Israel, Jordan and Palestine - are thus expected to be familiar with this policy. Unless efforts are made without delay, Jordan stands to lose an opportunity that could catalyze a quantum leap in inward investment levels.

The Corporation should put in place an eighteen-month broadcasting program that aggressively advertises and informs the appropriate companies about the benefits of locating in the QIZ. A blitz of press releases, advertisements, and information seminars is recommended in the major markets. The 'first wave' of investment is likely to originate from the apparel industry, since apparel exporters are levied among the highest tariffs when shipping to the United States. To that end, the QIZ program should be advertised in the major apparel exporting locations in the region, such as Dubai, and high end producers elsewhere such as Mauritius, China and Hong Kong.

A comprehensive work plan for the QIZ promotion program is provided in Annex D.

- Action Two: Provide Annual Investment Promotion Training Program on Industry, Company and Event Database Development and Promotion Techniques

The investment promotion and research sessions should be designed to have a focused agenda dealing with core investment promotion techniques and strategies. The emphasis should be on practical, problem solving rather than on theoretical methods, and may be broken into three sessions.

The first sessions should address issues such as increasing the management and interpersonal capabilities of officials responsible for investment promotion, analyzing the country "product;" identifying competitive and comparative advantages and constraints.

In addition to the agency level issues, a second session should expose participants to macro issues such as building competitive advantage and positioning the country in the global marketplace; and the policy, legal, and physical prerequisites for success. The training should also address basic categories of services (image building, investment generation, and investor services); evaluating various delivery method options (e.g., public relations, advertising, telemarketing, trade shows, promotion materials, etc.); developing an optimal marketing and promotion mix; and planning and conducting a successful promotion campaign.

The third training session should teach officials how to target potential investors. The topics to be covered will include comparative and competitive advantage approaches to targeting; the importance of end-user market orientation; and the effectiveness of sector, geographic, and company size-oriented targeting approaches. In addition to teaching general techniques, this session should draw upon the results of this recently, in order to provide concrete and direct targeting skills training in the sectors determined to be the most pertinent for Jordan.

A comprehensive work plan for the training program is provided in Annex D.

- Action Three: Develop and Implement a Six Month Industry Pilot Promotion Program

The Corporation should establish a series of outward missions for a six-month period that focuses on promoting investment opportunities in the major markets. As a test, the Corporation should program an investment mission in the Middle East, Europe/North America and East Asia regions. Each mission should use a combination of direct presentations and small workshops designed to gauge the level of interest in each market. The results of the pilot missions will subsequently allow for the Corporation to plan for both large-scale missions in major markets as possibly antennae offices. Furthermore, the pilot missions will allow for the promotion department to test its skills in company research and event preparation.

A comprehensive work plan for the industry pilot promotion program is provided in Annex D.

- Action Four: Plan Overseas Antennae Offices in Major Markets

The Corporation should investigate the potential for locating antennae offices in its major markets. The results of the six-month industry pilot program will directly feed into the location decision of the antennae office. Antennae offices have historically provided the agency with a relatively high success level, as measured in site visits, and are standard extensions of several promotion agencies around the world.

A.1: Potash & Phosphate

Introduction

Industry Definition

The downstream potash and phosphate industries are defined as those that are derived primarily used potassium chloride and phosphate as inputs. While the products that use these intensively are too numerous to mention, fertilizers remain the principal downstream industry, accounting for over 90% of the downstream use of potassium chloride.

The primary downstream industry for potash and phosphate is the manufacture of fertilizer. Potassium chloride (potash) and phosphate are two of the three primary sources of crop nutrients - the third being nitrogen. A number of fertilizer types or grades can be manufactured from each of the two nutrients, including both low- and high-value added products.

Initial List of Industries for Consideration

The analysis focuses on the fertilizer industry, which accounts for 90 percent of the downstream industry for both potash and phosphates. All major fertilizer products will be analyzed for consideration in the final list of products that must be promoted for inward investment.

Analysis of Comparative Advantage

Industry Requirements vs. Location Attributes

What are the principal location requirements for in establishing a fertilizer project, and how does Jordan compare in this respect? These questions are answered in this section.

Size and Access to Market: The size and access to market is a perhaps the most important factor of all. Jordan's significant advantage is its proximity and continuing trade relations with Asia - the largest and fastest growing region for fertilizer exports. Asia is poised to be the largest growth center for fertilizer consumption. In 1996, the developing economies of South and East Asia accounted for 48 percent of world fertilizer consumption, the largest regional share, with India and China as the largest consumers in each of their respective regional markets. Asia, as a whole, is expected to account for approximately 56 percent of annual growth in worldwide fertilizer demand.

Table A1.1: Summary of Comparative Advantage Rankings
(Scale 1-4, 4-significant advantage; weights and ratings through private sector interviews)

Factor	Weight	Ratings	Score	
Size and Access to Market	35.0%	3	26.25%	Main advantage is proximity Asia - the largest and fastest growing region for fertilizer exports. Shipment costs are higher than competing ports.
Availability of Raw Materials/Inputs	35.0%	4	35.00%	Sixth in the world for phosphate production, considered a competent location to source fertilizer input.
Availability of Land	0.0%	0	0.00%	
Availability and Cost of Trainable Labor	10.0%	4	10.00%	Engineers and skilled technicians widely. Salaries fraction of industrialized country counterparts. But labor is concentrated in Amman.
Quality/ Availability of Infrastructure	10.0%	4	10.00%	Reasonable in comparison with competing countries.
Intellectual Property	10.0%	4	10.00%	Limited problem because of few players.
Total	100.0%		91.30%	Grade A

Despite slowdown in the economic situation in East Asia, analysts believe that the situation is merely short term and does not merit investor concerns. Further, growth will remain strong owing to the continued demand in India and China, which together account for over 70% of Asian demand and who have remained largely unaffected by the economic crisis, according to the US based Fertilizer Institute.

There are certain factors that limiting optimal growth of the industry. First, shipment costs from Aqaba are higher than competing ports such as Haifa, which has already been cause for concern by Jordanian companies. The development of Aqaba port, presently underway, is critical to the continued success of the industry as storage and handling facilities are reportedly rather weak. Second, weak transportation infrastructure has been considered a partially limiting factor.

Raw Materials: With respect to raw materials, Israel offers higher amounts of granular potash for higher value fertilizer, but Jordan is the largest producer of potash in the Arab world and the sixth in the world for phosphate production, and is therefore considered a competent location to source the inputs for fertilizers. However, the presence of some of the world's leading fertilizer, Norsk Hydro, BASF and NPK in Jordan in one form or another provide strong investor signals.

A potential problem to the entry of a new investor is the monopoly of the raw materials. Both Arab Potash Company (APC) and Jordan Phosphate Mines Company (JPMC) are the single source of potash and phosphate respectively and this could cause a potential loss in bargaining power on part of the foreign investor. Still, both companies are seeking to aggressively internationalize their distribution of value-added output and the presence of NPK sends strong investor signals that the companies are not closed to a symbiotic arrangement. In sum, the issue of monopoly should figure in a limited manner.

The notable absence in the local market of a key ingredient in fertilizer production - di-ammonium phosphate (DAP) - is a clear drawback. World market prices of fertilizer are partially influenced by the movements costs of the DAP, which must be imported in Jordan. Fortunately, the shortage of sulfuric acid is being met with the proposed phosphoric acid complex that will produce 1.5 million tons per year (tpy) of the input along with 500,000 tpy of phosphoric acid.

Availability and Cost of Trainable Labor: With respect to the availability and cost of trainable labor, Jordan rates very well in this area. Engineers and skilled technicians are widely available, and salaries are a fraction of industrialized country counterparts. However, given that the location is likely to be the port area, it could pose a problem since labor is not as widely available as, say in Amman. Also, the issue of quality and availability of infrastructure could influence the decision somewhat although its importance vis-a-vis other factors is also admittedly less. Again, the quality of services in Aqaba is not as well developed as in Amman.

Intellectual Property Protection: Intellectual property violation will not pose a threat to incoming companies given the virtual non-existence of competing local counterparts, other than the current JPMC/APC -allied companies.

Results of Comparative Advantage

There are few sectors in which Jordan possesses a higher degree of comparative advantage as it does in potash and phosphate fertilizers. The proximity to both European and the growing Asian markets, the large reserves of potash and phosphate, and the continuing presence of world class companies meet the fundamental supply and demand criteria. The monopolistic supply condition in Jordan is not unlike scenarios experienced elsewhere (discussed at length in the following section) and this condition may be mitigated through the appropriate agreements between foreign and local partner. Overall, Jordan ranks very favorably as a location option for the fertilizer industry, assuming that market trends continue to operate in the favor of the local industry. These trends are discussed in the following section - competitive advantage.

Analysis of Competitive Advantage

Local Mega Trends

Establishment of Mega-projects: A series of mega-projects in the Jordanian fertilizer industry is likely to stimulate the continued confidence of the overseas investors. Leading projects include the following:

- The 50-50 joint venture project between Arab Potash Company of Jordan and Kemira Agro Ventures of Finland for the development of potassium nitrate and di-calcium phosphate, announced in June 1998

- The joint venture between Arab Potash Company, Jordan Phosphate Mining Company and Norsk Hydro of Norway to develop complex fertilizers, announced in August 1997

- The joint venture between APC and Israel's Haifa Chemicals for the production of liquid fertilizer, announced in January 1997

JPMC has also signed joint venture projects with several international companies. These include an agreement signed with SPIC of India that led to the set up of the Indo-Jordan Chemicals Company to produce phosphoric acid. According to its 1998 annual report, JMPC also contributed, along with Arab Potash and a number of Japanese companies in the establishment of the Nippon-Jordan Fertilizer Company to produce (NPK) compound fertilizer, and with Fawji (FFC), a Pakistani company, in the establishment of FFC-Jordan Fertilizers, a company based in Pakistan to produce di-ammonium phosphate, urea and ammonia. The company also has a number of other ventures that are currently under consideration.

Overall, the buoyancy of the fertilizer industry suggests a high level of confidence in the sector, and analysts still point to the continued potential for Jordan to develop its fertilizer industry[1].

Lowered Cost of Electricity: While Jordan's rates are competitive with the rest of the region, rising demand, which is expected to grow about nine percent per year, is likely to put pressure on

[1] Discussion with potash/phosphate analyst, Ministry of Planning, Amman.

supply. According to the Jordan National Power Corporation, this will require an annual investment in expanded capacity of US$ 170 million per annum. The government's decision to privatize and de-monopolize the sector by 1999 should go a long way in ensuring that the required targets are met. Already, the Ministry of Energy's recently issued tender to build and operate private power plants was generated proposals from eleven international power providers, an impressive figure by global standards.

International Mega Trends

Strengthening of North American Oligopoly: three North American corporations largely control both the potash and phosphate fertilizer sectors. These corporations, which include the Potash Corporation of Saskatchewan (PCS) of Canada, and IMC Global and Freeport McMoran of the United States, comprise an oligopoly in the global mining of raw potash and phosphate. A series of mergers and acquisitions within the North American market, beginning in 1995, fortified this oligopoly. The remainder of the market is more geographically dispersed and remains fairly fragmented, with output destined to domestic or regional markets.

However, the production decisions of the North American oligopoly have a strong supply-side influence on worldwide fertilizer prices. As production elsewhere has little impact on world prices, production cost is the principal determinant in the size of manufacturers' profit margins, margins that tend to be rather low when compared to nitrogen-based fertilizers. Recent investments by advanced economy-based fertilizer producers into developing economy markets with cheap raw materials and labor point to this drive to expand profit margins.

Jordan, with its local supply of raw potash and phosphate, combined with relatively low production costs, has the potential to reap favorable profit margins on the manufacture of fertilizers, a potential that would prove attractive to investors.

Developing Economies as Consumption Growth Centers: Since 1974, there has been a steady rise in fertilizer consumption (including nitrogen-based) in the developing and emerging economies due to an increase in cereal production (cereal production accounts for 58 percent of world fertilizer consumption) as well as the economic recovery in Central and Eastern Europe and the former Soviet Union. The overall upward consumption trend can be expected to continue - fertilizer consumption is expected to grow at a rate of 3 percent per annum through 2002. While nitrogen-based fertilizers currently account for the largest share of developing country fertilizer consumption, the need to strike a balance between crop nutrients will stimulate an increased consumption of high grade potash and phosphate fertilizers, as well.

Following Asia, North and Latin America together form the second largest consumption group, with 24 percent of the world consumption total. Europe and the states of the former Soviet Union comprise the third largest group, consuming 20 percent of world fertilizer production. The Middle East accounts for 4 percent while Africa and Oceania each account for two percent of world fertilizer consumption.

While consumption is growing in these markets, domestic-based production of fertilizers is unable to keep up with demand, requiring large imports of fertilizers. The following table of PCS's potash and phosphate fertilizer exports provide a glimpse at recent fertilizer trade patterns outside the U.S. and Canada:

As seen from the table, China is the leading export market for both potassic and phosphate fertilizers. While domestic production has been stepped up, output continues to fall far short of the growing demand by agricultural producers. In 1996, more than four million tons of phosphate fertilizers were imported to meet 40 percent of China's domestic consumption requirements. Local potash fertilizer production also fell short of domestic demand, of which 49 percent was met by imports. It is projected that it will take 15 years before China reaches self-sufficiency in phosphate fertilizers while self-sufficiency in unlikely to be achieved in potassic fertilizers due to inadequate raw material resources.

The growing import demand for potash and phosphate fertilizers, particularly in the developing world, presents Jordan with an opportunity to expand its export base of both low- and high-grade products. The Middle East market, though only accounting for 2 percent of current world consumption, is a growing market, with demand increasing an average of 5 percent per annum. At present, sales to the regional market total US$82.0 million, the majority of which is imported. Jordan's relatively cheap supply of raw materials, low production costs, and proximity to the Asian, Middle Eastern, and African markets, make it a promising investment site.

East Asia Crisis Unlikely to Unsettle Industry Growth: The East Asian financial crisis has sent shock waves through a number of industries worldwide. However, according to the Fertilizer Institute, an industry association in the U.S., the potash and phosphate sectors are unlikely to be among those seriously affected. While potash and phosphate producers in North America derive 20 to 25 percent of their earnings from sales to Asia, the bulk of these sales are to China, India and Japan. Thailand, Malaysia, Indonesia and South Korea are not significant buyers of fertilizer. As long as China, the region's largest consumer of fertilizers, remains unscathed by the crisis, producers should feel little negative impact on their demand.

Recent Investments Worldwide

Joint Ventures in Developing Economies: While the North American market continues its process of consolidation through a series of mergers and acquisitions, investment activity is speeding up in the developing economies, primarily in the form of joint ventures. The majority of these investments involve the participation of advanced economy producers - such as the United States, Europe, and Japanese - reflecting the desire by some to increase profit margins through lower production costs and by others to access local or regional markets. Examples of the former include those new production is destined to home markets, such as the recent investments by Haifa and Nippon in Jordan. Recent investments exemplifying the latter include Albright & Wilson's (UK) joint venture in Brazil and Japan's investment in Vietnam.

Its should be noted that the majority of these joint ventures involve advanced economy producers though none involve the North

American oligopoly members, indicating that it is the second- and third-tier, advanced economy producers that are the most promising targets for joint ventures in the developing world.

Table A1.2: Recent Investments in Potash- and Phosphate-Based Fertilizers

Source Country	Source Company	Destination Country	Destination Company	Method Of Entry	Products	Date Of Article	Value Of Investment (Us$)
Finland	Kemira Agro Ventures	Jordan	Arab Potash Co.	50:50 Joint Venture	potassium nitrate & dicalcium phosphate	6/1/98	75 mil.
Spain	Fertiberia	Algeria	Sonatrach	60:40 Joint Venture	phosphatic fertilizer	4/1/98	533 mil.
India	Southern Petrochemical Industries Corp.	India	Tuticorin Alkalies & Chemicals	Merger	phosphatic fertilzer	3/31/98	n/a
India	Rama Phosphates Ltd.	India	____	Plant expansion	single super phosphate fertilzer	3/25/98	Rs. 12 crore
US	IMC Global	Canada	Freeport Mc Moran	Acquisition	potash and phosphatic fertilzers	12/27/97	748 mil.
Norway	Norsk Hydro,	Jordan	APC/ JPMC/ Social Security Corp.	Joint Venture	complex fertilizers	8/29/97	540.5 mil.
US	Mississippi Chemical	US	____	Plant expansion	DAP fertilizer	7/28/97	10.5 mil.

Source Country	Source Company	Destination Country	Destination Company	Method Of Entry	Products	Date Of Article	Value Of Investment (Us$)
	Corp.						
US	Jacobs Engineering Group, Inc.	India	Oswal Chemicals & Fertilizers Ltd.	Joint Venture	DAP fertilizer	6/16/97	150 mil.
India	Rama Petrochemicals	India	Rama Fertilizers	Merger	single super phosphate fertilizer	2/6/97	n/a
Israel	Haifa Chemicals	Jordan	Arab Potash Co.	Joint Venture	liquid fertilizer	1/1/97	60 mil.
Japan	Tomen Corp.	Vietnam	Vietnam National Chemical Corp.	Joint Venture	phosphatic fertilizer	1/1/97	180 mil.
US	Mississippi Chemical Corp.	US	First Mississippi Corp.'s fertilizer operations	Acquisition	DAP	12/24/96	314 mil.

Source: Various reports from IAC-Insite Database

Jordan, as a low-cost producer in geographic proximity to the growing markets of Asia, Africa and the Middle East, has the opportunity to capitalize on both trends, attracting both those interested in the regional market and those seeking a low-cost production base for export outside the region.

Results of Competitive Advantage

The majority of current investments analyzed in potash and phosphate fertilizers involve the participation of advanced economy producers - such as the United States, Europe, and Japanese - reflecting the desire by some to increase profit margins through lower production costs and by others to access local or regional markets. Jordan, as a low-cost producer in geographic proximity to the growing markets of Asia, Africa and the Middle East, has the opportunity to capitalize on both trends, attracting both those interested in the regional market and those seeking a low-cost production base for export outside the region. The sector is ranked A.

Consistency with Policy Objectives

Table A1.3: Summary of Consistency with Policy Objectives
(Scale 1-4, 4-high consistency; ratings through private sector interviews)

Development Indicators	Weight	Ratings	Score
Labor Intensive	16.7%	2	8.3%
Smart-Industry	16.7%	2	8.3%
Export-Orientation	16.7%	4	16.7%
Investment Levels	16.7%	4	16.7%
Natural Resource Usage	16.7%	4	16.7%
Value Added	16.7%	4	16.7%
	100.0%		83.4%
Consistency With Policy Objectives Ranking			B

Investment levels in the potash and phosphate fertilizer industry, which tend to be of a mega project scale (investments over US$50 million) could greatly strengthen Jordan's position as a major producer in the world market. Most importantly, beneficiation processes in this industry will partially ameliorate the high levels of exports in primary commodity form. While the government could realize benefits through tax revenues and increased foreign exchange earning, it cannot expect much in terms of employment levels, owing to the nature of the projects. Overall, the industry scores reasonably with its consistency with policy objectives and is ranked as a B.

Final List of Target Industries

Within downstream potash and phosphate products, the focus is on high value fertilizer for the Asian market.

Target Investors / Countries

Potash and phosphate-based fertilizer manufacturers tend to be large specialized companies or subsidiaries of major multinationals, with sales ranging from US$ 100 to US$ 500 million. The substantial fixed investment required in fertilizer plants in their countries suggests that target companies may undertake projects in Jordan only as part of a market expansion or joint venture program, not as a relocation. Investments, therefore, are only for those companies that have assured buyers in existing, high growth markets. Given their recent activity in developing economy markets, the most likely candidates for investment into Jordan include German and North American producers. There are also select companies in Japan and Spain that should be investigated on a case-by-case basis. A sample of the type of companies that are very active overseas at present is shown in Table A1.2.

A.2: Textiles and Apparel Sector

Introduction

Industry Definition

Textiles manufacture is defined as the process wherein the primary product, yarn or filament yarn undergoes various processes to be convert into fabric form. In the case of natural textiles, the process may be broadly divided into three parts:

- Spinning, where yarn is converted (spun) into fibers;
- Weaving, where the fibber is woven into primary fabric, called gray fabric and;
- Finishing, where the primary fabric is treated through dyeing or printing or related processes to arrive at a marketable form of fabric.

The apparel sector refers to companies engaged in the manufacturing of women’s, men’s and children’s clothing. The sector is also referred to as the textile products sector.

Structural Overview of Local Conditions

Jordan's apparel industry is highly underdeveloped. Only two companies are considered large scale - which together employ 1,450 workers. At the next level, 39 medium sized companies are registered which employ approximately 2,128 workers. At the lowest level, the number of enterprises is even greater, although these employ between one and five workers.

Initial List of Industries for Consideration

The list of industries for analysis in apparel is as follows:

- Women's casual wear

- Women's lingerie
- Women's formal
- Men's/Boy's casuals wear
- Men's/Boy's underwear
- Juniors' casual wear
- Baby/Infant Clothing

Analysis of Comparative Advantage

Local Attributes vs. Industry Requirements

Jordan's principal advantages with respect to the apparel industry are as follows:

- Low cost, particularly Asian, apparel manufacturers tend to base their investment decision on a location's ability to provide unmet quotas. Jordan's status as a quota free manufacturing location will be attractive to potential investors. Furthermore, the qualifying industrial zone (QIZ) status given to the region (Israel, Jordan and the Palestine National Authority) will spiral Jordan's advantage over the others.

- Labor intensive, apparel manufacturers require significant quantities of low wage unskilled workers. Jordan wage rates, higher than many apparel producing countries, are still lower than Israel and the QIZ and quota status mitigate against the high wage rates. This should represent an incentive to potential investors.

Jordan's principal disadvantages are as follows:

- Textiles represent apparel manufacturers' major raw material input. Jordan currently does not have a viable textile industry. Consequently, firms choosing to locate in Jordan would need to incur the cost of transporting their textiles; as such, this factor could act as a disincentive.

Table A2.1: Summary of Comparative Advantage Rankings
(Scale 1-4, 4-significant advantage; weights and ratings through private sector interviews)

Factor	Weight	Rating	Score	Notes
Size and Access to Market	45.0%	4	45.0%	Quota free status and the qualifying industrial zone (QIZ) status will spiral Jordan's advantage over the others
Availability of Raw Materials/Inputs	10.0%	3	7.5%	Firms choosing to locate in Jordan would need to incur the cost of transporting their textiles
Availability of Land	10.0%	3	7.5%	Irbid's Hasan Industrial Estate is presently the only one with QIZ status and is fully occupied
Availability and Cost of Trainable Labor	25.0%	3	18.8%	Jordan wage rates, higher than many apparel producing countries, are still lower than Israel
Quality/ Availability of Infrastructure	10.0%	4	10.0%	infrastructure conditions in Jordan are higher than many apparel industry manufacturing locations world wide
Intellectual Property	0.0%	0	0.0%	- Not Applicable -
	100.0%		88.8%	Grade B+

- A reliable supply of electricity represents a necessary input for apparel manufacturers. Since infrastructure conditions in Jordan are higher than many apparel industry manufacturing locations world wide, this would be a non-issue.

- By nature labor-intensive apparel manufacturers are export-oriented and require competitive airfreight and sea freight rates. As high transportation rates represent one of Jordan's comparative disadvantages, this would partially impede Jordan's potential to attract FDI.

Results of Comparative Advantage

The comparative analysis of apparel as a manufacturing option for foreign investors seems very strong owing to the QIZ, despite traditional factors costs such as labor costs, etc. that would otherwise mitigate against such advantage. The apparel industry gets a B+ ranking on the comparative advantage scale.

Analysis of Competitive Advantage

Local Mega Trends

QIZ Status Could Catalyze US Market Access*:* The qualifying industrial estate (QIZ) preferential status, which allows for duty free access into the United States for goods produced in a designated estate, was scheduled to extend from Israel to Palestine and Jordan at the time of this writing (June 1998). This status is as advantageous as it is unprecedented in United States-Jordan trade relations. Under the agreement, the QIZ-based exporter may choose from a combination of input options, provided appropriate regional content can be demonstrated[2], to waive duties that are otherwise applicable. This will be especially advantageous to companies that export in categories that are generally levied higher duties, such as the sown goods industry - textiles, apparel, sporting goods, luggage, etc. There is reportedly significant momentum by prospective investors, most of whom are at the inquiry stages.

Congestion In QIZ Designated Locations May Diminish Market Access Advantage*: According* to discussion with the competitive analysis team at the Ministry of Planning, the benefits of the QIZ status may not be fully realized in Jordan owing to the lack of space in the presently designated QIZ areas, namely Hassan Industrial Park in Irbid and the Sabah Industrial Park. The need for land is critical since the likely investor group, the sown goods industry, has a reputation for rapid decision-making, owing to small profit margins and low fixed investment levels in the industry. The lack of land will potentially lead companies to abandon their relocation plans to in Jordan.

2 According to discussions with the textiles competitiveness unit analyst, Ministry of Planning, Amman, the exporter may demonstrate (a) 35% regional content of direct costs, with a minimum of 11.6% of Israel, 11.6% of Jordan and 11.6% of Palestine input. (b) 40% of regional content in either direct or indirect costs, with a minimum of 20 % from Israel and 20% from Jordan (April 25 1998)

International Mega Trends

Apparel: a Segmented Market: The apparel industry is generally sub-divided into two segments - mass-market products and high value-added products - each with a different overall factor input mix and pricing structure, as well as different consumer markets. As a result, the location decisions tend to differ between manufacturers in the two segments.

The location decisions of mass-market apparel manufacturers have generally been based on two factors: access to extremely low-cost, low skilled labor - as the wage bill is a significant component in the products' pricing structure - and the availability of quotas. Given the low cost of capital installations, factory relocation is relatively easy and cost-effective for mass-market producers should more favorable opportunities arise. Asian garment manufacturers, in particular, have gained a reputation as being "foot-loose" "quota-hoppers". As wages rise and quotas are exhausted in Asia, Asian apparel manufacturers have been establishing facilities in the Mahgreb region and Sub-Saharan Africa as a means of obtaining more competitive wage rates and unmet quotas. At the same time, U.S. mass-market producers are shifting their garment assembly operations to Mexico and the Caribbean - who benefit from preferential access tot he U.S. market - in order to access low-wage labor.

The location decisions of manufacturers of high value-added apparel - such as men's suits, women's lingerie, and more fashion-sensitive items - is, instead, governed by a different set of criteria. Unlike mass-market products, labor costs comprise only a small proportion of the product price in this market segment. While labor costs may have some influence on location decisions, other factors tend to outweigh the wage bill. Other factors include proximity to destination markets (for just-in-time sourcing), access to more skilled labor, production quality and access to preferential trade terms. Value-added apparel manufacturers are generally located in the advanced economies as well as a number of middle-income emerging economies.

Jordan's attributes are unlikely to attract mass-market producers due to the availability of cheaper labor in South Asia, Africa, Latin

America and the Caribbean except, perhaps, some quota-hoppers in the short-term. On the other hand, with a well-trained labor force with relatively low wages when compared to advanced economy markets, Jordan has the potential of attracting manufacturers of higher value-added apparel. Jordan's proximity to the European market would prove an additional attraction to Europe-based producers while QIZ status in the U.S. would prove attractive to other investors interested in accessing the U.S. market.

Shifts in Textile Production: Like the two apparel industry segments, the textile industry has its own set of investment criteria. As the industry is generally more capital- and skills-intensive than the apparel industry, a low wage bill is less important to producers than availability of semi-skilled labor, proximity to apparel manufacturers (for fast turn-around times), and competitive overall production costs.

In response to these investment criteria, the production of textiles is, according to Textile World magazine, currently undergoing a geographic shift from the Far East - where high production costs and slow response times impede competitiveness - to the emerging economies of the Middle East and South America. The key factors driving this shift are speed of production, proximity to end-user markets, and competitive production costs.

At the same time, West European, as well as some Asian, producers are moving into the Central and Eastern European markets, particularly the Czech Republic and Poland in response to comparatively lower production costs, availability of semi-skilled labor, and proximity to the West European apparel market.

Jordan, with its reputation of well-qualified labor, comparatively low production costs and geographic proximity to the West European market, has a strong potential in attracting investment into the high value-added segments of the textile industry, particularly knitting and finishing.

Textile and Apparel Quotas to be Phased Out by 2004: Much of the international trade in textiles and garments, some 75 percent of the total, is currently governed by the Multi-Fiber Agreement (MFA) under the WTO (formerly GATT), a quota-based system designed to protect, primarily, the domestic industries of the United States and Western Europe. As mentioned above, "foot-loose" investors are known to quota-hop, relocating to take advantage of unmet quotas in other exporting countries.

During the Uruguay Round of GATT negotiations, agreement was finally reached to begin the phase-out of the MFA which is scheduled to be completed by the end of 2004. While tariffs by importing countries will remain in effect past 2004, the elimination of the quota system will bring the highest degree of "free trade" to the industry seen in more than 30 years.

As a result, any attraction to Jordan's unmet quotas would prove short-lived as other factors dominate investment decisions. However, a free-trade regime can benefit Jordan. While Jordan cannot compete with lower-wage countries for mass-market apparel manufacturing, Jordan possesses a number of assets that could prove attractive to high value-added textile and apparel manufacturers. Once again, these attributes include Jordan's preferential access to the U.S. market, its geographic proximity to the European market, and relatively low-cost, high-skilled labor.

European Manufacturers' Investment Trends: Recent investments by Western European manufacturers points to Jordan's potential in attracting investment into this sector. Western European manufactures of high value-added products are experiencing difficulty competing with the lower wage nations. The apparel manufacturers in the Far East, North Africa and East European nations not only have comparatively lower production costs, but also have improved quality levels moving beyond low-cost apparel niches and have supplanted Western European producers in the international markets.

Some recent examples of this trend include the following:

- Many Italian products are made in the Far East and Eastern Europe and shipped to Italy for the 'Made in Italy" label, with only a marginal added value in the producer countries.[3]

- Western European, particularly French and Italian companies, are increasingly installing production facilities in Eastern Europe, Portugal, Morocco, Tunisia, and Turkey in order to profit from their comparatively lower production and transportation costs[4]. Following are some such investments:

- The French company Ozona anticipates relocating 60 percent of its manufacturing operations to countries in the regions of the Maghreb and southeastern Asia.

- The Italian firms Belfe, Benetton, and Marzotto are subcontracting the assembly aspect of their production processes to North African nations.[5]

This emerging trend for European textile and apparel manufacturers operating in the high value-added sectors points to Jordan's potential in attracting such investments as it possesses the three primary criteria driving such investments: comparatively low wages, skilled labor, and geographic proximity.

Recent Investments World-wide

As indicated above, the cost of labor currently represents a strong factor when mass-market manufacturers are deciding to expand or establish a facility. The higher wage rate Asian nations have long been relocating their facilities in the their lower-wage Asian counterparts and are now looking at quota-free countries in the

[3] US Department of Commerce, Market Research Report: Italy, Children's apparel, November 1994.

[4] US: Market Research Report: France: Jeans wear, January 1995.

[5] "International Manufacturing Strategies: Experiences from the Clothing Industry", International Journal of Operations and Production Management, November, 1996.

Maghreb region as well as Sub-Saharan Africa. European and US companies are also attracted to these nations' lower wage rates.

Higher value-added textile and apparel producers - from Western Europe, as well as some from Asia - on the other hand, are moving into the emerging markets of Central and Eastern Europe, North Africa and the Middle East to access higher skilled, comparatively low-cost labor and to ensure quick turn-around times through strategic geographic locations. Recent investment activity in these regions has covered most categories, including greenfield investments, acquisitions, mergers, and joint ventures.

It is in this second grouping, once again, that Jordan has the most potential in attracting investment given its ability to match industry requirements.

Recent Investments Worldwide

The cost of labor currently represents a strong factor when companies are deciding to expand or establish a facility. The higher wage rate Asian nations have long been relocating their facilities in the their lower-wage Asian counterparts and are now looking at quota free countries in the Maghreb region as well as Sub Saharan Africa. European and US companies are also attracted to these nations' lower wage rates.

As Table A2.2 indicates, there has been a flurry of cross regional acquisitions and joint-ventures, as was the rationale behind the Belgian Sioen's acquisition of some Indonesian counterparts, and the Italian Zucchi's joint-venture with the Indian Welspun.

In addition, European nations are also undertaking greenfield investments in Eastern Europe, North Africa and Asian nations. UK's Dewhirst considering Morocco and Indonesia as possible sites for relocation indicates such activity. It should be noted that Western European nations tend to prefer Eastern European or North African locations over Asian sites due to the resulting decrease in transportation time and costs to the European market.

Table A2.2 Recent Investments in Apparel Sector

Date	Source Company	Source Country	Target Company	Target Country	Method of Entry	Ownership	Value US$ Mn	Product
Sep-97	Dewhirst	UK	-	Morocco Indonesia	Expansion	100%	$20.3	apparel & related products
Sep-97	Ramatex	Malaysia	Tai Wah Garments	Malaysia	Acquisition	N/A	$7.95	apparel & related products
Aug-97	Manifatura Di Valle Brembana	USA	Morarjee Mills	India	Joint Venture	N/A	$19.2	garments
Jul-97	EBRD	Russia	Gloria Jeans	Russia	Equity Sales	20%	$3	jeans
May-97	Zucchi	Italy	Welspun	India	Joint Venture	N/A	$2	robes/dressing gowns
May-97	Rouleau Guichard	France	Daniel France	France	Acquisition	N/A	N/A	undergarments
Feb-97	Modibel Texim	Belgium	-	France	Greenfield	100%	$5	t-shirts, pullovers, automation
Jan-97	Malerba	Italy	-	Italy	Greenfield	N/A	$29.4	children's clothing, socks

1997–est	Ozona	French	-	Maghreb	Expansion	N/A	N/A	Children’s clothing

Table A2.2 Recent Investments in Apparel Sector (Continued)

Date	Source Company	Source Country	Target Company	Target Country	Method of Entry	Ownership	Value US$ Mn	Product
Jan-97	Designer Textiles	New Zealand	-	Australia	Greenfield	N/A	N/A	-
1996-est	Gunz	Japan	GRI	Indonesia	Joint Venture	70%	N/A	stocks, stockings
Dec-96	Great River Intnl.	Indonesia	-	Indonesia	Greenfield	N/A	$15.8	stocks, stockings, shirts
Oct-96	Sioen	Belgium	-	Indonesia	Acquisition	N/A	N/A	apparel and related products
Sep-96	Pancaidi Enterprise	Malaysia	-	Malaysia	Greenfield	N/A	N/A	N/A
1996-est	Marks & Spencer	UK	White House	India	Joint Venture	N/A	N/A	Undergarments
May-96	Kurt Kellerman	Sweden	P. Zarya Co.	Russia	Acquisition	50.6%	N/A	women's apparel

May-96	Galey & Lord	USA	-	Mexico	Acquisition (6 plants)	N/A	$22.5 (total)	men's pants and shorts

Source: 1997 F&S Index, 1997 IAC Insite

For that matter, it is the East and South Asian companies that are major suppliers to the United States that are likely to be target investors in Jordan.

Results of Competitive Advantage

As noted above, foreign direct investments in apparel are quite mobile, with manufacturers choosing locations to capitalize on low labor costs and country quotas, and leaving again when either is exhausted or becomes unavailable. This factor bodes well for Jordan and the surrounding regions as their Lome Convention provides them with preferential market access to the European Union. This element combined with Jordan's relatively low wage and transportation rates has the potential to make Jordan an attractive FDI location. However, it should be noted that this benefit will only be available in the short-term, as under the WTO agreement, these quotas are legislated to be phased out by the 2005. This factor will adversely effect Jordan's ability to attract FDI in the apparel industry as the nation does not possess a low wage advantage, and is presently capitalizing on bilateral preferential status.

Consistency with Policy Objectives

Table A2.3: Summary of Consistency with Policy Objectives
(Scale 1-4, 4-high consistency; ratings through private sector interviews)

Development Indicators	Weight	Rank	Total
Labor Intensive	16.7%	1.00	16.7%
Smart-Industry	16.7%	0.25	4.2%
Export-Orientation	16.7%	1.00	16.7%
Investment Levels	16.7%	0.30	5.0%
Natural Resource Usage	16.7%	0.00	0.0%
Value Added	16.7%	0.50	8.3%
	100.0%		50.8%
Consistency With Policy Objectives Ranking			C -

While employment per project is significantly greater than most of the sectors examined in this study, the apparel industry provides few other benefits. Foreign exchange earnings remain low in most apparel projects despite high export orientation, owing to the significant levels of imported inputs. Skill enhancement is low since only short- term (60 days usually) training required for the vast majority of tasks within the production process. Overall the industry gets a C in its consistency with policy objectives.

Final List of Target Industries

Within textiles and textile products, focus on high-end apparel in the classic garments category - men's suits and women's lingerie. The cost of labor forms a relatively small share of the overall cost of production, offsetting the wage-based advantage that other African and South Asian countries may offer. Furthermore, products such as men's suits and women's lingerie are not seasonal, thus diminishing the importance of the quick-response system, which has allowed many high-cost labor economies to continue apparel production. Finally these categories represent high priced clothing, and therefore high absolute value of tariff, which are offset owing to the QIZ advantage.

Target Investors/Countries

For textiles and textile products (apparel), companies from UAE (Dubai's Jebel Ali Free Zone), India, Egypt and China/Hong Kong. These are companies that are presently exporting to the United States in the specific categories mentioned and would find it beneficial to get the duty free access.

A.3: Dead Sea Cosmetics Sector

Introduction

Industry Definition

The industry encompasses products classified as beauty products that are made of the Dead Sea salts (Carnelite) and Dead Sea mud.

Structural Overview of Local Conditions

The Dead Sea cosmetics industry in Jordan derives its existence through a natural resource endowment - the Dead Sea - shared only by Israel. The Dead Sea cosmetics, however, remain relatively underdeveloped, having started only in 1986 (Israel's industry was established in 1968, in contrast). Despite an entirely export-oriented industry, over 90% of Dead Sea cosmetics are shipped in unprocessed form. In 1996, Jordan's total industry revenues, according to statistics from the Ministry of Planning, amounted to US$4.7 million - half of the output of a single leading Israeli firm. Furthermore, less than US$ 0.5 million of the products were shipped in processed form, amounting to less than one percent of the estimated US$50.0 million global dead sea cosmetics market.

The raw material source at present, Numeira, is a monopoly that could potentially lead to tensions. These issues of monopoly are presently being address, and an investor would need assurance of consistent input prices.

Initial List of Industries for Consideration

The initial list of industries for consideration is products that are intensive users of Dead Sea salts. These encompass face creams and masks and hair cleansers and conditioners.

Analysis of Comparative Advantage

Local Attributes vs. Industry Requirements

This section discusses project requirements of the industry, and not broad investor expectations of political risk and economic certainty, which take precedence over project specific requirements. Comparative advantage is analyzed using the following factor conditions: size and access to market, availability of raw material inputs, availability and cost of trainable labor, availability of land, and quality/availability of infrastructure.

Table A3.1: Summary of Comparative Advantage Rankings
(Scale 1-4, 4-significant advantage; weights and ratings through private sector interviews)

Factor	Weight	Rank	Total	Notes
Size and Access to Market	30.0%	3	22.5%	Jordan's free trade agreement with the EU and the bilateral QIZ status with the United States provide it with a special status , Transport is twice as high.
Availability of Raw Materials/Inputs	30.0%	4	30.0%	Carnelite is fully one-third the price of Israeli and boasts a higher content of magnesium, Mud from Jordan is fully one-fifth the cost of Israeli mud
Availability of Land	5.0%	4	5.0%	Industrial land is generally cheaper than Israel and is rather easily available in Amman as well as other industrial areas
Availability and Cost of Trainable Labor	25.0%	4	25.0%	Jordanian labor is fully one-sixth the cost of Israeli labor, although their experience with Dead Sea cosmetics is admittedly less.
Quality/ Availability of Infrastructure	10.0%	3	7.5%	Infrastructure in Amman is very good and reliable. Electricity higher cost than most
Intellectual Property	0.0%	0	0.0%	
	100.0%		90.0%	Grade A

<u>Size and Access to Market</u>: Despite a small but relatively untapped market with high growth potential, Dead Sea cosmetics production will have to necessarily be export oriented to warrant production economies of scale. The Middle Eastern market, while untested, is small in comparison to Europe and the United States, where supply cannot keep up with demand. Jordan's free trade

agreement with the EU and the bilateral QIZ status with the United States provide it with a special status, although Israel also enjoys the latter. The drawback here is the transportation cost, with Israel's cost per container fully half that of Jordan. Still, Jordan's high shipment costs are offset by the its lower cost of labor and raw materials, as discussed later.

Availability of Raw Materials/Inputs: Jordan's advantages in inputs are tremendous. Carnelite is fully one-third the price of Israeli and boasts a higher content of magnesium, thereby requiring less synthetic interventions in production. Mud from Jordan is fully one-fifth the cost of Israeli mud. Overall, Jordan is well positioned to attract investors on this factor.

The lack of quality packaging is likely to be a negative factor, but this could easily be imported from Israel, from the region or elsewhere. Problems with importation have been reported, although could be ameliorated through establishing the appropriate pre-clearance documents.

Availability of Land: This is not an issue since industrial land is generally cheaper than Israel and is rather easily available in Amman as well as other industrial areas. The investor who is presently considering exports to the United States will face problems acquiring land in Hassan Industrial Park, currently the only location where production qualifies for tariff waiver in the United States.

Availability and Cost of Trainable Labor: Jordanian labor is fully one-sixth the cost of Israeli labor, although their experience with Dead Sea cosmetics is admittedly less. However, this is not a principal impediment; labor can be easily trained. It should be note that Jordanian labor is still not as cheap as elsewhere in the region; it may be cheaper for example to produce in Egypt using processed forms of Dead Sea cosmetics. In this case, the processor cannot boast that this was made in the "Holy Land", which is a big draw for customers.

Quality/Availability of Infrastructure: The quality of infrastructure, while not as sophisticated as Israel's is quite adequate for production. Electricity is consistent, although water may be a problem.

Results of Comparative Advantage

Jordan's comparative advantages in raw material inputs and cost of labor versus Israel, in addition to the special access to growing markets of Europe and the United States place its in an excellent position to attract inward investment for countries that are targeting those markets.

The results of this screen is an A, suggesting a high level of comparative advantage for Jordan.

Analysis of Competitive Advantage

Local Mega Trends

One of leading trends at present is the ongoing discussions internally with the industry and Numeira, which is likely to lead Numeira to into a single pricing scheme (allegation of dual pricing for its subsidiary cosmetics company, Isal, have lead to several complaints by the industry).

Another development in the local industry is the QIZ status granted to Israel-Palestine and Jordan whereby Jordan can export duty free to the United States. This is likely to contribute to a growth on the industry as the United States continues to a grow as a market for organic cosmetics.

International Mega Trends

<u>A Green Revolution in Consumer Tastes</u>: While nature-based beauty care products are nothing new, the beauty products industry has seen consumer interest in such products grow tremendously over the past decade. Consumer tastes have undergone a "Green Revolution", with consumers becoming increasingly aware of the therapeutic effects of natural ingredients as well as environmental and health concerns. The trend has

been strongest in the United States and Europe - a "trend" that industry analysts predict is here to stay. The popularity of such companies as Aveda, The Body Shop and Bath & Body Works -- who manufacture and retail nature-based beauty products -- points to the potential of this "niche" market. Beauty care product manufacturers are eager to exploit this trend. Jordan, as one of the only two sources of Dead Sea salts and mud, can, in turn, exploit this Green Revolution to its own advantage.

A "Niche" Within a "Niche": The Dead Sea cosmetics sector is but a small "niche" within the "niche" organic cosmetics sector, accounting for only US$50.0 million in sales annually. While the organic cosmetics industry is poised to expand significantly as the Green Revolution reaches the mainstream, the Dead Sea sector is not, according to manufacturers, expected to ever go mainstream itself.

Table A.3.1 Recent Dead Sea Product Launches
(excluding those of Israel-based manufacturers)

Company Name	Country	Product Introduced	Date of Article
Molton Brown	UK	Bath Treatment	2/23/98
Dead Sea Products	US	Bath Treatment; Face Mask	12/8/97
Bath & Body Works	US	Bath Treatment	6/23/97
Pureline, Inc.	US	Bath Treatment	5/26/97
Masada Marketing Company	US	Bath Treatment	1/13/97
Crabtree & Evelyn	US	Bath Treatment	12/9/96
Montagne Jeunesse	US	Bath Treatment	8/26/96
Bath & Body Works	US	Bath Treatment	4/8/96
Cabot Industries, Inc.	US	Bath Treatment	9/11/95
Aveda	US	Bath Treatment	8/21/95
Mavala	UK	Bath Treatment	3/15/95
Finders International	UK	Hair Treatment; Skin Treatment	3/1/95
Freeman	US	Hair Treatment	1/23/95

Source: "Product Alert", publication by IAC-Insite, Marketing Intelligence Service Ltd.

Therefore, while industry growth can be expected - as the continued introduction of new Dead Sea product lines indicates - its share of the cosmetics market, with its small niche status, is likely to remain fairly stable. Once again, as one of only two sources of Dead Sea salts and mud, as well as a low cost producer, Jordan has the opportunity to grab its fair share of this "niche" market by attracting existing manufacturers to produce, not just source, locally.

Recent Investments Worldwide

Mergers and Acquisitions Across Market Segments: In recent years, the organic beauty care industry has witnessed a number of investments across market segments. The beauty care industry is traditionally sub-divided into two segments: mass market and the premium-brand/salon market. In the past, the organically-based "niche" products were primarily marketed by premium-brand manufacturers. With growing consumer interest in organically-based cosmetics, a number of mass-market, multi-product producers, in addition to introducing new organically-based product lines, have acquired existing premium-brand nature-based product lines (some of which include Dead Sea products), eager to tap this growing niche market.

Few of these product lines, though, are 100 percent natural. The majority of 100 percent organic products - which include aromatherapy-, vitamin-, and essential oil-based products, as well as Dead Sea products - are not from mass market producers, but specialty/premium market producers, such as The Body Shop, Aveda, and Bath & Body Works. As mass market products are not likely to contain high quantities of natural products, due to their expense (and effect on final product prices, which for Dead Sea cosmetics range, on average, from US$10 to US$20 per unit), it is the wholly-organic "specialty" cosmetic manufacturers that are the most promising targets for Jordan's Dead Sea cosmetics sector.

Investments in Developing Markets: A number of multinationals - producing a combination of both organic and non-organic products - have set up joint ventures with local manufacturers, to access both local markets and locally-sourced natural ingredients. Japan and Germany have both been active in developing markets, including China and India.

Source Country	Source Company	Destination Country	Destination Company	Method Of Entry	Products	Date Of Article	Value Of Investment (Us$)
US	Bristol-Myers Squibb	US	Redmond Products	Acquisition	Hair care products	4/20/98	$275 million
Germany	Henkel Group	Germany	Schwarzkopf Group	Acquisition	Hair and skin care products	3/31/98	Remaining 23% of shares
Japan	Shiseido	Thailand	Saha	Joint Venture	Skin care products	3/1/98	n/a
France	Thalgo Cosmetics	China	2 Chinese partners	Joint Venture	Skin care products	2/25/98	n/a
US	Estee Lauder	US	Aveda	Acquisition	Aromatherapy-based hair, skin and body products	12/9/97	$300 million
US	Chesebrough Ponds, Helene Curtis and Lever Brothers	US	Unilever Home and Personal Care USA	Merger	Hair and skin care products	11/3/97	n/a
US	Sara Lee Corp.	Australia	Nutri-Metics International	Acquisition	Skin care and beauty products	9/1/97	Undisclosed
India	Dabur India	Spain	Antonio Puig SA and Perfumeria Gal	Joint Venture in India or Nepal	Hair and skin care products	8/2/97	n/a
Japan	Shiseido Company	France	______	New Factory	Skin care and make-up products	8/1/97	n/a
Japan& China	Shiseido Liyuan Company	China		Plant expansion	Skin care products	8/1/97	$30.5 million

Source Country	Source Company	Destination Country	Destination Company	Method Of Entry	Products	Date Of Article	Value Of Investment (Us$)
Japan	Shiseido	Japan	Unilever's Helene Curtis Industries Inc.	Acquisition	Hair care products	7/28/97	$185 million (undisclosed)
US	Styling Technology Corporation	US	U.K. ABBA Products, Inc.	Acquisition	Aromatherapy-based hair care products	6/26/97	$20 million
Japan	Shiseido	US		New plant	Skin care products	6/25/97	n/a
US	L'Oreal	Chile	Gillette's Unisa	Acquisition	Hair care products	12/1/96	n/a
US	Shiseido International Corp.	US	Helene Curtis Inc.	Acquisition	Salon hair care products	12/1/96	$89.3 million
Germany	Henkel	China	Liyuan Group	Joint Venture	Hair care products	10/9/96	60% stake
US and Hungary	Unilever and Caola	Hungary	Biogal Gyogyszergyar's Helia-D line	Acquisition	Skin care products	9/10/96	n/a
US	Unilever	US	Helene Curtis	Acquisition	Hair care products	3/31/96	$770 million + $145 million in debt
France	L'Oreal SA	Israel	Interbeauty Cosmetics	Acquisition	Skin and hair care products	1/26/96	Increased stake by 35% to 65.5%total
Germany	Henkel Group	Germany	Schwarzkopf Group	Acquisition	Hair and body care products	10/31/95	77% of shares

Source: "Product Alert", publication by IAC-Insite, Marketing Intelligence Service Ltd.

Results of Competitive Advantage

The small but steadily growing market for this "niche within a niche" industry, increasingly favored by the larger specialty stores in the major markets suggests that overall conditions for dead seas products are only good as long as the raw material issue is settled. The relationship that the local supplier of Dead Sea salts and mud has with downstream processors will shape the decisions of prospective investors. Dead Seas salts and mud get a B ranking in competitive advantage, since there are no major trends favoring its growth or mitigating against it.

Consistency with Policy Objectives

The indicators suggest that the industry ranks favorably in most development criteria, therefore qualifying as a B ranking on the consistency with policy objectives ranking.

Table A3.3: Summary of Consistency with Policy Objectives
(Scale 1-4, 4-high consistency; ratings through private sector interviews)

Development Indicators	Weight	Ratings	Score
Labor Intensive	16.7%	4	16.7%
Smart-Industry	16.7%	1	4.2%
Export-Orientation	16.7%	4	16.7%
Investment Levels	16.7%	2	8.3%
Natural Resource Usage	16.7%	4	16.7%
Value Added	16.7%	4	16.7%
	100.0%		79.2%
Consistency with Policy Objectives Ranking			B

Final List of Target Industries

No products have been excluded. The Corporation should promoted all products classified as beauty products that are made of Carnelite and, to a lesser extent, Dead Sea mud since the latter has a very small overseas market.

Target Investors/Countries

Target Investors are likely to be the following

- Large organic cosmetic companies in Germany that are considered the leaders in industry for their products. Once again, these may be companies that wish to enter into a contractual agreement with a local company to produce and export under license..

- Large manufacturers of organic products located in Japan and the United States. These may include manufacturers that presently source Dead Sea salts (Carnelite) from Israel and Jordan and are vendors to retailers in Japan. These may also be companies that wish to enter into a contractual agreement with a local company to produce and export under license.

A.4: Information Technology Sector

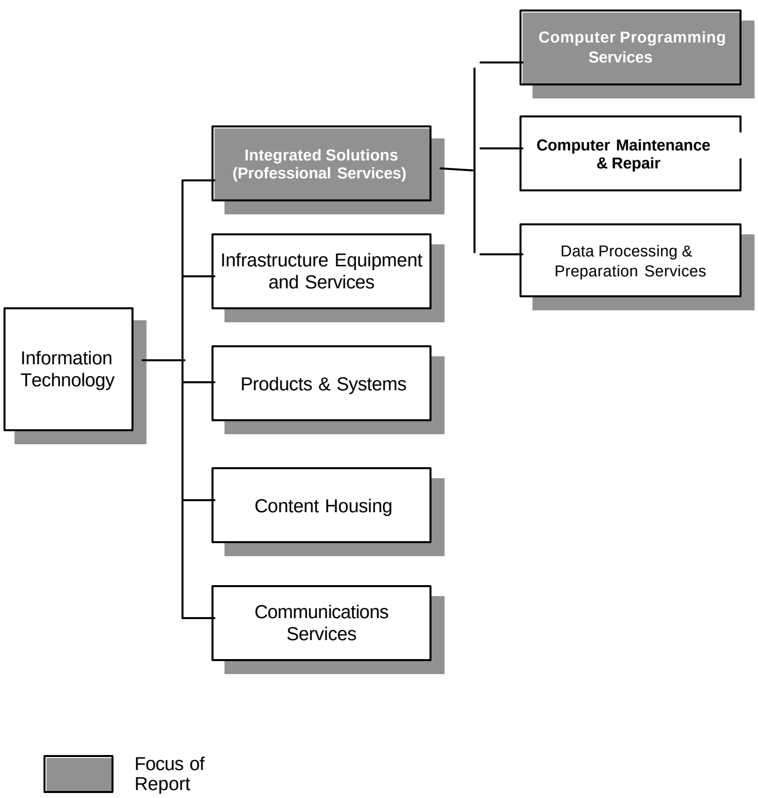
Introduction

Industry Definition

In general, information technology encompasses all aspects of hardware, software and related professional services. Specific product groups are particularly difficult to define in this industry as rapidly evolving technologies increasingly blur the distinction between data, voice and image mediums. Figure A.4.1 illustrates the overall framework of the industry as it exists today. With the IT industry, integrated solutions is especially relevant to Jordan. Integrated solutions pertains to the provision of IT services in different spheres of a business organisation, such as database development and network management. With the integrated solutions sub-sector, data processing was excluded as an industry given the since the industry is exclusively driven by low-wage considerations. Jordan cannot compete with countries such as Caribbean island states, whose labour costs are far lower for batch data entry jobs. This chapter examines the potential for investment in the areas of computer programming services.

Structural Overview of Local Conditions

The computer programming or integrated solutions industry is difficult to measure owing to a plethora of firms that are aggregated under "computer firms". The Computer Science Society has about 200 listed member firms, but a significant number of these are either distributors of computer hardware or "hardware-software" firms, suggesting a cross-section of activities. According to informal estimates by the Society, only about a dozen companies may be considered major players i.e. employing between 100 and 150 professionals and continually developing alliances in overseas markets. Still, competition at the local level is fierce owing to the small size of the domestic market for services. The largest clients, Banks and government ministries, tend to staff information technology projects from within. Meanwhile, barriers to entry in the industry are low, since capital requirements are relatively small (usually a few workstations and standard office automation, or about US$10,000). The medium sized companies tend to need minimal customization, and are decisions in these firms tend to be mainly cost-driven. Despite saturation of an already small domestic market, exports of software service remain dismally weak; according to an unofficial estimate, possibly as low as US$5.0 million a year for the industry.



Integrated Solutions

Computer Programming Services
(or Custom Programming Services)

Providing programming services on a contract or fee basis. Establishments of this industry perform a variety of additional services, such as computer software design and analysis, modification of custom software, and training in the use of custom software

Figure A.4.1: The Information Technology Industry, Products and Services

Initial List of Industries for Consideration

The focus is on computer programming services, the sector of the information technology industry that is the fastest growing, most profitable and which has the highest value added.

Analysis of Comparative Advantage

Local Attributes vs. Industry Requirements

Jordan's principal advantages with respect to the software development industry are as follows:

- The fundamentals of the computer programming staff - the strong emphasis on analytical skills in education allows for adaptability for a wide range of applications.

Table A4.1: Summary of Comparative Advantage Rankings
(Scale 1-4, 4-significant advantage; weights and ratings through private sector interviews)

Factor	Weight	Ratings	Score	
Size and Access to Market	10.0%	2	5.00%	Less relevant since information can be transmitted without difficulty.
Availability of Raw Materials/Inputs	0.0%	0	0.00%	- Not Relevant -
Availability of Land	0.0%	0	0.00%	- Not Relevant -
Availability and Cost of Trainable Labor	60.0%	3.5	52.50%	The quality of workmanship, the level of project experience in the various tools are most critical
Quality/ Availability of Infrastructure	10.0%	4	10.00%	The quality of telecommunications, reliable electricity are important factors
Intellectual Property	20.0%	3	15.00%	The assurance of propriety of technology is appropriate. Few problems here, with the exception of packages software,
	100.0%		82.5%	Grade B

- The cost of labor in context of the quality. At an average of US$640 per month, it rivals rates from leading Indian software developers (considered highly cost competitive) and is at least one-sixth the rate of neighboring Israel. This advantage is however also shared by Egypt, an emerging growing supplier of software programming skills in the Middle East.

Jordan's principal disadvantages are:

- The small size of the domestic market which does not allow for extensive exposure to new project applications; the changing nature of technology requires technical labor to stay abreast with new technologies in context of their applications.
- The lack of native English, a medium of instruction in India and Israel, as well as most of the emerging software developers such as South Africa. English is the medium in the major markets of the United States and the United Kingdom.
- The nascent size of software developers skills are lost increasingly to Middle East markets, and this 'brain drain' of software skills cannot be as rapidly replenished.

The above disadvantages are partially ameliorated by the fact that Jordan remains the leading supplier of quality software skills in the Arab-speaking world.

Results of Comparative Advantage

The results of the comparative advantage is that Jordan's advantages are fully realized if placed in context of the Arab speaking world which, will much smaller in comparison to the West, will continue to be "computerized" in the coming years. Jordan is given a B comparative advantage overall.

Analysis of Competitive Advantage

Local Mega Trends

There are no significant mega trends in the local market that influence, either negatively or positively, the current attributes of the Jordan information technology industry.

International Mega Trends

Growing Demand for Multi-Lingual Applications: While English remains the global lingua franca of the IT industry, demand for bi- and multi-lingual applications is growing, including both foreign language interfaces and multi-lingual translation programs. The widespread use of the Internet has provided an additional boost to the latter. While Western-language interfaces are widely available, non Western- language interfaces, such as Arabic, continue to be in relatively short supply despite efforts in recent years to satisfy this growing market. Over the past few years, a number of software houses have introduced Arabic language-based applications to supply the 186 million strong market of native Arabic speakers. One company, in particular, Sakhr Software of Egypt, has been very successful in marketing its Arabic-based applications, including web browsers and English-Arabic e-mail readers. Other companies - including multinationals such as Borland International, Oracle, Apple, and Digital Equipment Corporation - have introduced Arabic versions for their latest software products. Jordan, as a leading software supplier in the Arabic-speaking world, would be an attractive base from which software developers could access this growing "niche" market.

Shortage of Programmers in Developed Markets: The leading markets for software development are currently facing extremely tight labor markets for trained programmers. In the U.S., computer programming is one of the fastest growing industries. It is estimated that approximately 137,000 new software workers will be required annually to meet projected growth in the industry over the next decade. While labor demand is growing, labor supply cannot keep up and, in absolute terms, is actually in decline: the number of computer science graduates in the US declined from about 42,000 in 1986 to below 24,500 in 1995. Canada's Ottawa-Carleton region, which has been coined "Silicon Valley North" and is the nation's IT headquarters, is also undergoing a labor shortage. It is estimated that by 1999, the industry will have a shortage of 20,000 programmers as labor supply fails to keep up with demand. The UK, another leading supplier of software development, is facing similar shortages in trained computer programmers. Even less developed, but growing, markets, such as Singapore and Thailand, are also experiencing labor shortages in their software development industries. Not only have these labor shortages already led to skyrocketing salaries in these markets, but may also lead to a potential loss of competitiveness in these markets as key positions go unfilled. Consequently, software developers are increasingly looking to overseas markets to meet their growing demand for lower cost, but highly qualified labor (see table on recent investments below). Jordan, with its reputation for high quality programmers and competitive labor costs, can exploit the growing labor shortage in the more developed markets.

<u>Strategic Alliances in Developing Markets</u>: In recent years, software developers from more advanced countries - who remain at the frontier of technological change - have come to recognize the growing expertise of their counterparts in developing economies. As a result, a number of strategic alliances have been forged, enabling software developers from both sides to benefit.

Strategic alliances have enabled software developers in advanced economies to benefit from the expertise of their developing economy counterparts without the taking on the costs associated with joint ventures. Such alliances are also more flexible arrangements, enabling deals on a project-specific basis. At the same time, developing economy enterprises - who are relatively small players in a global industry - gain the opportunity in strategic partnerships to work hand-in-hand with industry leaders.

Following are just a few examples of such alliances with developing economy-based enterprises over the past year:

- Informix International Inc. of the United States has joined forces with NIIT Ltd. in India to collaborate on data warehousing software.

- Japan's Oki Electric Industry Company has partnered with India's DSQ Software Ltd. to develop software for the telecommunications industry.

- Microsoft entered into a cooperative partnership with Israel's Black Web Technologies to enhance delivery and broadcast features on Microsoft's Internet Explorer 4.0.

- Visionics Corporation of the United States has entered into an agreement with TL Technology Research of Malaysia to develop an airline passenger security system based on face recognition technology.

Once again, Jordan's reputation for high quality programmers and as a leader in the region, make its local industry well-positioned to join forces with overseas software developers if appropriate opportunities can be identified based on local specialization. While such partnerships would bring nothing, directly, in the way of FDI to Jordan, Jordan's software industry could benefit from exposure to new technologies which, in turn, would act as a springboard for the advancement of local industry.

Recent investments Worldwide

A Flurry of Investment Activity: The software industry, given its high-technology character, is exceptionally dynamic. This dynamism is reflected in the industry's investment scene, as software enterprises struggle to remain on the forefront of technological- and market-driven change. The result is a seemingly never-ending wave of mergers, acquisitions and joint ventures as developers seek ways of gaining market share within their "niche" categories or expand into complementary "niche" markets. A large number of these investments have taken place within and between software developers based in advanced economies.

At the same time, though, as programmers in developing markets have successfully nurtured their own industries - industries that are now gaining in international reputation - developers from advanced markets are now turning in large numbers to these new

Table A.4.2: Recent Investments in the Information Technology Industry Worldwide

Source Country	Source Company	Destination Country	Destination Company	Method Of Entry	Products	Date Of Article	Value Of Investment (Us$)
US	Deltek Systems, Inc.	US	Sales Kit Software Corp.	Acquisition	Project-oriented Business Software	May 5 98	n/a
US	Autodesk, Inc.	Germany	Genius CAD-Software GmbH	Acquisition	Mechanical Applications	May 4 98	$68 million
Canada	SLM Software, Inc.	Canada	Milkyway Networks Corp.	Acquisition	Internet Security Software	May 4 98	100% of issued and common shares
Japan	Japan Associated Finance	Israel	RADGuard	Majority Investment	IT Security Software	April 30 98	Majority investment
US	Metamor Worldwide, Inc.	US	Micorcrafts, Inc.	Acquisition		April 29 98	Undisclosed
US	Parametric Technology Corp.	Germany	Control Data System's ICEM Technologies	Acquisition	Automotive and Aerospace Software	April 28 98	$45 million
US and UK	Mizar, Inc. and Loughborough Sound Images, Ltd.		Blue Wavs Systems, Inc.	Merger	DSP Software	April 28 98	n/a
US	Preview Software and Portland Software	____	____	Merger	ESD Commerce Application	April 27 98	n/a
	Aspen Technology				Manufactuirng		

Source Country	Source Company	Destination Country	Destination Company	Method Of Entry	Products	Date Of Article	Value Of Investment (Us$)
US	Inc.	UK	Zyqad Limited	Acquisition	Software	April 23 98	n/a
Israel	Sagantec	Israel	Micro CAD	Acquisition	Physical Design Software	April 20 98	n/a
US	TECSTAR, Inc.	US	Demo Systems Inc.	Acquisition	Avionics Software	April 20 98	Undisclosed
UK	Siebe Plc.	US	Simulation Sciences Inc.	Acquisition	Process Control Software	April 16 98	$147 million
Canada	Architel Systems Corp.	Canada	Accugraph Corp.	Acquisition	OSS Telecom Software	April 15 98	C$37 million
US	Engineering Animation Inc.	US	Sense8 Corp.	Acquisition	Virtual Rerality Software	April 14 98	$8.5 million
US	OAO Technology Solutions, Inc.	US	DHR Technologies, Inc.	Acquisition	Object-Oriented Software	April 3 98	n/a
US	Federal Data Corp.	US	Technical and Management Assistance, Inc.	Acquisition	Air Traffic Management Software	March 23 98	Undisclosed

Source: Various articles from IAC-Insite, Market Intelligence Services, Ltd.

emerging software markets. The aim is generally not to tap domestic markets, but, similar to the trend toward strategic alliances, to tap low-cost, local expertise for software products destined to a regional or global marketplace.

Both India and Israel have had great success in attracting foreign investment in software development owing to the reputation of their programmers, relatively low labor costs, and growing expertise of their domestic industries. Although Jordan does not yet possess the worldwide reputation of India or Israel, given its small export-oriented market, nor their English language skills, it is considered a leader in programming skills within the Arabic-speaking region. With its highly qualified, cost-competitive pool of computer programmers, Jordan has the opportunity to attract software developers seeking to gain a share in the regional market.

Results of Competitive Advantage

The global dynamics in the direct investment suggests that the dynamism of the industry has led to a quantum leap in development in some countries, and brain drain in many others. Jordan's future in the industry will be a direct result of the successful linkages that local businesses create with foreign counterparts, as in the case of Jordan and India. In other words, the trends could either work in the favor of Jordan or directly against it. The information technology industry gets a B ranking- suggesting both an advantage and a disadvantage - in such a case.

Consistency with Policy Objectives

The information technology industry gets a B ranking overall in the consistency with policy objectives. Ranking is high in virtually all aspects except the levels of investment, since investment in the case of information technology often takes the form of strategic alliances for accessing markets, and knowledge/ resource-sharing arrangements.

Table A4.3: Summary of Consistency with Policy Objectives
(Scale 1-4, 4-high consistency; ratings through private sector interviews)

Development Indicators	Weight	Ratings	Score
Labor Intensive	16.7%	3	12.5%
Smart-Industry	16.7%	4	16.7%
Export-Orientation	16.7%	4	16.7%
Investment Levels	16.7%	1	4.2%
Natural Resource Usage	16.7%	4	16.7%
Value Added	16.7%	4	16.7%
	100.0%		83.4%
	Consistency with Policy Objectives		B

Final List of Target Industries

The final list of industries are software products with specific applications for industry, and which require customization for adaption in the Arab world. These may include general applications, such as building Arabic based email, or more specific, such as hospital software in Arabic. The list is too extensive and can never be inclusive given the dynamic nature of information technology.

Target Investors/Countries

Many multinationals with headquarters in the United States, Canada and, to a lesser extent, the United Kingdom have introduced Arabic versions for their latest software products (examples include Borland International, Oracle, Apple, and Digital Equipment Corporation). Jordan, as a leading software supplier in the Arabic-speaking world, would be an attractive base from which software developers could access this growing "niche" market. The focus should be on large companies that are seeking to enter the Middle East market in a particular application (say, medical software) and would require Arabization of the product.

A.5: Tourism Sector

Introduction

This chapter reviews the proposed projects for public and private investment as presented by the relevant government authorities in national and international forums; determines which projects that could be further promoted by the Investment Promotion Corporation, based on their attractiveness to the private sector and their contribution to economic development and, for those identified projects, determines the likely investor groups that could be targeted for inward investment.

Background

A literature review of the last three years' reports by the Ministry of Tourism and various bilateral / multilateral - funded agencies revealed the significant levels of analysis of Jordan's tourism industry. The annual Middle East & North Africa Economic Summit has been one of the principal catalysts for organising and subsequent presenting such analyses, in the form of proposals seeking either private and public sector funding. In addition, a tourism study by JICA in February 1996 provides the most comprehensive overview of Jordan's tourism industry in addition to presenting several model large-scale tourism projects. Still, with the exception of the summits, there is a limited level of broadcasting of opportunities. While proposals have developed in many cases, the effectiveness of the distribution channels remains uncertain. Even large forums such as the Middle East Economic Summits attract mainly draw the public sector, thus having little impact on private sponsored projects. In sum, the shortcoming is in the promotion, and not the identification, of investment opportunities.

Initial List of Projects

The initial list of projects for active promotion consideration is shown in Table A.5.1. The list is a compilation of various proposals made in the last three years by the Jordan Rift Valley Steering Committee (1997), Ministry of Tourism and Antiquities (1995), Japan International Co-operation Agency (1996), proposals made at the Middle East and North Africa Economic Conferences (1995-1997). Several private sector sponsored projects have also used one or more of the above sources to broadcast their interest in foreign or local participation. The list encompasses a diverse range of projects - infrastructure projects, integrated tourism development plans, accommodation/leisure projects and specific tourist attractions (e.g. sand skiing, desert ballooning, theme park, etc.) Overall, 50 projects have been selected in the initial list.

Methodology in Screening Initial List of Projects

The investor targeting methodology explained in Chapter 2 has been adapted in the case of the tourism sector. The first screen, comparative advantage - which benchmarks a particular area against competing areas from the perspective of matching a project's location requirements - does not apply in the case of tourism investment. Instead of benchmarking, tourism locations are evaluated from the perspective of expected traffic. The second screen, competitive advantage - which identifies those mega trends in the local or international markets that could impact the tourism based investment - does apply, however. This is also true of the third screen - consistency with policy objectives.

In identifying the projects for promotion consideration, a number of screens were used in project identification. The screens were created to answer a number of questions. First, given the Corporation's limited resources, which are the projects that should be promoted?. Second, how can the Corporation provide highest value in its services to the project sponsors and the beneficiaries?

Recognising that tourism investments must be defined and finite by nature (for example, there is a critical mass of hotels that can be accommodated in a zone), the Corporation should only undertake the promotion of pre-determined investment projects. Within the list of pre-determined projects, the guidelines for selecting projects for promotion are as follows:

- First, the project must be past the conceptual stage of the project development cycle. The greater the degree of preparation, the fewer the number of queries that remain to be answered to prospective partners. The Corporation can therefore focus on broadcasting the project proposal to overseas investors, thereby capitalising on its overseas linkages, and not developing project proposals, for which it has little in-house expertise. In fact, limitation with the Ministry of Tourism and Antiquities has been pointed out by a recent Tourism study which mentioned that the "... good studies on the tourism by the MoTA are not implemented due to limited resources" (Partners in Development, Iss.5. October 1997, Ministry of Planning). The Corporation can therefore add value through its promotion resources.

- Second, the project must be deemed relevant and attractive to private sponsors either in private projects or private-public projects. Public-sector sponsored projects (for example, large infrastructure projects) are presented to the government or the international donor community directly by the appropriate line ministry. In such a case, "promotion" to the financiers by the Corporation is not required. Private sector projects are therefore those that have demonstrated an attractive rate of return or a prima facie case of investor attraction (through a demand survey, for example) or have been deemed as attractive only to the public sector owing to the low levels of tourism influx at this point.

- Third, the project must be of a significant scale of investment and employment to merit promotion. Projects such as sand skiing and tour operators are often too small to merit participation from overseas investors.

The screening process is undertaken in context of the mega trends on the local and regional and to some extent the global level that could impact prospects for selection of the project.

Screening the Initial List of Projects

Using the first screen, screening for post-conceptual stage development, the following projects were eliminated from immediate promotion consideration:

- Rift Valley Accommodation
- Hijaz Railway
- Lookout and Rest Facilities
- Dead Sea Coast Resort Town
- Jordan Valley Green Village
- Amman International Tourism Center
- Dead Sea Cruise
- Desert Ballooning and Sand Skiing
- Ma'in- Dead Sea Cable Car
- Soft Adventure Tour Operation
- Introduction of Excursion Boats in Jordan River

As the Corporation learns of project feasibility of these projects, it should analyse these projects using the subsequent filters.

Using the second filter, relevance and attractiveness to the private sector, the pure public-sector projects were excluded from consideration

- Infrastructure Investment Project at Petra
- Dead Sea: Infrastructure - Roads/ Power/ Phone at Dead Sea
- National Museum in Amman
- Infrastructure for Dead Sea Tourism Project
- Lowest Park on Earth
- Joint Dead Sea Tourism School
- Infrastructure for the Aqaba Tourism Project

- Development at the Baptism Site of Jesus at South Jordan Valley
- Amman Downtown Tourist Zone
- Madaba-Dead Sea Parkway
- Dead Sea Panoramic Complex
- Historic Old Salt

Final List of Projects

The final list identifies twenty seven projects, eleven of which are private-public partnership initiatives - projects which typically suggest an integrated tourism development zone program initiated by government with a specific role of the private sector. This role tends to be in the area of accommodation and leisure/resorts, the domain of private participation in tourism-based investment. Furthermore, pure private projects also appear to be heavily in the accommodation and leisure/resorts category.

The emphasis of the private sector on tourism hospitality - hotels and resorts - is quite apparent. Much of this development has been spurred by the peace process initiated in 1994, and the projected atmospheric growth in tourism arrivals as a result of multi-faith pilgrimages to Jerusalem at the turn of the century. The improved regional political climate has also spurred public sector proposals, which focus on integrated regional development and provision of infrastructure to accelerate growth in tourism arrivals.

The final list of projects is shown in A.5.2.

List of Prospective Investors

The Global Context

In determining the investor groups, a quick primer on the hotel industry is provided below.

- The hotel and resort industry is divided into a number of functions, including real estate acquisition and finance, design and construction, franchising, operations management, human resources management, reservations and referrals, administrative control, and guest services, with large firms operating across a number of these areas. Only financiers, owners, and construction entities actually take on an equity stake in a hotel project, while the other functions are service providers. Typical investments in the industry range from US$18.0 - 30.0 million and employ between 200 and 800 workers.

- Multinational corporations have assumed the industry's dominant role, particularly since integrated information technology systems and access to capital markets combine with media and long-haul travel trends to concentrate the industry. Political stability and high economic growth rates in their target markets are the primary attraction for these investors.

Many of the countries of the Middle East and North Africa are making new efforts to broaden their appeal as tourist destinations, moving beyond their traditional dependency on their cultural, religious and historical attractions. Resort complexes, family-oriented theme parks and golf courses are among the many new investments in tourism infrastructure in recent years throughout the Middle East.

The majority of these new investments are of domestic origin, financed both privately and publicly. Recent examples include the Dreamland theme park developed by a private entrepreneur in Egypt, a tourist complex developed by an Egyptian consortium, the expansion of Kuwait Entertainment City, and a thermo-mineral spa and tourism complex developed by the Negev Tourism Development Authority in Israel. A snapshot of tourism investment world-wide is shown in Table A5.1

Investment in Jordan

While the majority of investments have been of local origin, foreign investors have begun to take an interest in developing the Middle Eastern tourism industry. A number of investments, some greenfield and some joint ventures, have taken place in recent years by American and European leisure-industry developers. Recent investments include Magic World Development's (USA) joint venture for a theme park in Aqaba, France's Bouygues' joint venture in Tunisia, and Bechtel's (USA) Magic World theme park in Dubai.

Foreign investors in Jordan's hospitality industry - those defined as financiers, owners, and construction entities - tend to originate from the Middle East region, mainly Dubai, Saudi Arabia and Bahrain. The service providers, management entities such as Le Meridien and the Intercontinental Group tend to be West European or North American.

Target Investors

As a first step, the target companies should be financiers, owners, and construction entities from the traditional markets. In additions, major hotel chains in India, Malaysia and South Africa tend to double as service providers and equity investors. These are worth investigating as many have been successful in aligning with multinationals companies in third markets for investments.

Table A5.2: Recent Investments in Tourism Infrastructure in the Middle East

Source Country	Source Company	Destination Country	Destination Company	Method Of Entry	Type Of Site	Date
Jordan	Business Tourism Company	Jordan	____	Greenfield	Leisure complex	Janu
Oman	Dhofar Tourism Company	Oman	____	Greenfield	Tourist resort complex	Dece 1997
United Arab Emirates	Jumeriah Beach Hotel	United Arab Emirates	____	Greenfield	Water park	Nove 1997
Morocco	Hyperion	Morocco	____	Greenfield	Theme park	Octo
Saudi Arabia	Faqeeh Group for Tourism	Saudi Arabia	____	Greenfield	Four Tourist Complexes	Augu
USA	Bechtel	United Arab Emirates	____	Greenfield	Theme park	Febr
France	Bouygues	Tunisia	Tunisia-Saudi Investment & Development Company	Joint venture	Tourist resort complex	Nove 1996
Egypt	Dr. Ahmed Bahgat Fatouh (Private Entrepreneur)	Egypt	____	Greenfield	Theme park	Octo
Italy	Siviaggi SPA	Israel	____	Greenfield	Vacation village	April

Source Country	Source Company	Destination Country	Destination Company	Method Of Entry	Type Of Site	Date
USA	Magic World Development	Jordan	Aqaba Regional Authority	Joint venture	Theme park	Dece 1995
Egypt	Egyptian Company for Tourist Resorts (consortium)	Egypt	____	Greenfield	Tourist complex	Dece 1995
Kuwait	Touristoc Enterprises	Kuwait	____	Expansion & renovation	Theme park	Febr

Source: Various sources extracted from IAC-Insite Database

A.6: Pharmaceuticals Sector

Introduction

Industry Definition

The pharmaceuticals industry is comprised of firms primarily engaged in manufacturing, fabricating or processing drugs for human or veterinary use. Products of this industry consist of two important lines. Pharmaceuticals preparations promoted primarily to the dental medical or veterinary professions are often known as “ethical drugs” or patent drugs and pharmaceuticals preparations promoted primarily to the public are known as “over the counter drugs” or generic drugs.

Structural Overview of Local Conditions

The pharmaceutical industry in Jordan was estimated at US$168 million (JD120 million) in 1997, a rise from US$56 million (JD40 million) in 1990. The industry is considered small by international standards - South Africa' s industry, for example, was valued at US$3.5 Billion in 1996, about 20 times the Jordanian industry size although South Africa's population is only eight times as much. Statistics on combined employment throughout the value chain was estimated at 2500 or about 3.8 percent of the working population; the industry is this not a significant employment generator. Growth in the industry has been healthy, at a compounded annual growth rate of 12 percent. The industry is dominated by four companies - Hikma (30%), Arab (25%), Dar al Dawa (18%) and the Jordanian (6%), although six additional companies have entered in the last few years. Foreign companies have a limited representation in the country.

Initial List of Industries for Consideration

The initial list of industries for consideration includes both ethicals and over the counter drugs.

Analysis of Comparative Advantage

Local Attributes vs. Industry Requirements

This section discusses project requirements of the industry, and not broad investor expectations of political risk and economic certainty, which take precedence over project specific requirements. Comparative advantage is analyzed using the following factor conditions: size and access to market, availability of raw material inputs, availability and cost of trainable labor, availability of land, and quality/availability of infrastructure.

Jordan scores high in two of the three leading factors in corporate location decisions -- availability/cost of labor and size and access to market.

Jordan boasts a strong medical industry -- 3870 pharmacists, 5109 doctors and many chemists. Culturally, the sciences (especially medical) are given high priority in the education system, and Jordan is already considered among the best value for money in medicine. Wages, which average from US$600/month, are around one-eighth of prevailing wages for counterparts in the OECD countries (especially United States, Switzerland and Canada). Many of the professionals are trained in these countries, returning to Jordan mostly for cultural reasons.

With respect to size and access to market, Jordan's demonstrated exporting prowess in the MENA region, with a joint population of 200 million compensates for the five million inhabitants in the country itself. Jordan has established links in Saudi Arabia, Algeria and Iraq as well as parts of Eastern Europe.

Jordan's main drawback is the asymmetrical nature of Jordanian intellectual property laws with internationally accepted intellectual property laws. According to Jordanian laws, it is the process (formula) but not the final product that is protected. Under this law, companies can develop variations of existing patents to provide similar results. On a brighter note, Jordan recently concluded agreement with the European Union to realign its laws to reflect international practices with a period of four years. While this could be damaging to some local companies, especially the many smaller ones whose core product lines are patent-derivatives, Jordan will earn significant recognition in the international investment marketplace.

Table A6.1: Summary of Comparative Advantage Rankings
(Scale 1-4, 4-significant advantage; weights and ratings through private sector interviews)

Factor	Weight	Rank	Total	Notes
Size and Access to Market	20.0%	3	15.0%	80% of Jordan's production is exported, most to the Middle East. Shipping costs are highest in the region however
Availability of Raw Materials/Inputs	5.0%	1	1.3%	With few exceptions, chemicals have to be imported
Availability of Land	5.0%	3	3.8%	Available in Amman. Rates are higher than surrounding region.
Availability and Cost of Trainable Labor	30.0%	4	30.0%	Among the best trained labor and among the least expensive in the world
Quality/ Availability of Infrastructure	10.0%	4	10.0%	Infrastructure in Amman is very good and reliable. Electricity higher cost than most
Intellectual Property	30.0%	3	7.5%	Rating is consistent with the MENA region. EU agreements and USTR discussions may lead to solution
	100.0%		67.5%	Grade C

Results of Comparative Advantage

The above analysis leads to a comparative advantage grading of C at present, owing mainly to the incongruent intellectual property laws. Should this issue be resolved, Jordan will be considered a leading destination for investment (certainly a grade A comparative advantage at that point).

Analysis of Competitive Advantage

Local Mega Trends

Perhaps the only local trend of any significance that could impact the pharmaceutical industry in Jordan as an investment location is the proposed legislation that seeks to align the current laws governing intellectual property with the international laws. While this would spell disaster for many local companies whose production techniques will be considered in violation of revised laws, it will certainly send very strong signals to the international investor community of pharmaceutical manufacturers.

International Mega Trends

A Fragmented Market: In the early 1990s, the world market pharmaceuticals industry topped US$250 billion (Jordan accounted for less than one percent of the world market). Despite a flurry of mergers and acquisitions, the world pharmaceuticals industry remained fragmented. The 10 largest companies - three American, three Swiss, one each from Great Britain, France and Germany and one Anglo-American - represented only one fourth of the world market. In addition, while some mergers and acquisitions have been carried out by this top tier of companies, it is the multitude of smaller, but highly lucrative, corporations that are most active on the world investment scene (see *recent investments* below). While some opportunities for investment may exist among the top tier, it is these smaller corporations that present the most promising investment opportunities for Jordan.

Downward Pressure on Prices: Historically, the pharmaceuticals industry has been characterized by fast growth and rising profitability. In the past, the industry, which was relatively protected from free market forces through government regulations, operated in a "cost-plus" mode, passing on all costs to the consumer (government or insurance agencies). During the 1990s, the pharmaceutical companies have seen their profit margins being squeezed as prices have been pushed downwards. Three new trends are the cause of this downward pressure:

- Government regulations that formerly prevented free trade in pharmaceuticals are currently being reformed across the globe, forcing producers to face the normal economic laws of supply and demand.

- Governments, health maintenance organizations, and managed care organizations have targeted the pharmaceuticals industry as a means of reigning in the fast-rising costs of healthcare (though the cost of pharmaceuticals generally accounts for only 10 to 15 percent of total healthcare expenditures).

- The rise of generic drugs, due to a wave of patent expirations this past decade, has increased price competition for "ethical drug" producers.

  Consequently, pharmaceutical manufacturers are seeking new ways to reduce the costs of drug development and production. Jordan, as a low cost production site, can capitalize on the industry's growing need to contain escalating manufacturing costs.

Shift from Vertical Integration to Outsourcing: Until recently, pharmaceutical companies have been completely vertically integrated, controlling "in-house" all aspects of drug production - from initial research and pre-clinical development to clinical testing to manufacturing the final product. New technologies and shrinking profit margins in the 1990s have induced companies to restructure, forcing the loosening of "in-house" control. Pharmaceutical companies have begun to outsource different aspects of drug development. Though R&D and clinical testing were the first to be farmed out to third party suppliers, pharmaceutical companies are now looking to outsource manufacturing as well, both for pharmaceutical ingredients and the final product. As a result, new investment opportunities are opening up in the industry -such as licensing and other contractual agreements - outside the traditional, vertically-integrated corporations. As a low cost production site with established know-how, Jordan can capitalize on such new investment opportunities.

Shift from Global Sourcing to Regional Sourcing: As mentioned above, in the past, heavy government regulation of pharmaceuticals production created barriers to free trade. In addition to effects on profitability, the existence of government regulations also resulted in the scattering of production worldwide in order to access local markets. The end result was a plethora of manufacturing units, each operating far below capacity (sometimes as low as 40 percent) and leading to the duplication of resources. With the loosening of government restrictions, as well as the need to reduce operating costs, pharmaceutical companies are divesting from non-strategic plants and moving toward regional production and away from local production. With its strong export record to the MENA region, Jordan is well positioned to exploit this trend towards the regionalization of pharmaceuticals production.

<u>United States Differences With Jordan</u>: The United States pharmaceuticals industry, which leads the world in the development of important medicines (of 152 major global drugs developed between 1975 and 1994, almost half were of U.S. origin, has lodged complaints of intellectual property violation with its Trade Representative Office (USTR). In the short term, until adequate IPR provisions are in place, U.S. manufacturers, particularly of patented drugs, may be hesitant to invest in Jordan.

The United States is a leading market for Jordan in areas related to pharmaceuticals as well. In the emerging field of biotechnology, the U.S. has a commanding lead. Of the 150 genetic engineering health care patents issued by the U.S. Patent and Trademark Office in 1995, 122 went to U.S. applicants. Once again, with the absence of internationally accepted IPR provisions, Jordan may be hindered from attracting leading U.S. manufacturers.

<u>Joint Ventures as Key Method of Entry into Developing Economies</u>: Mergers and Acquisitions tend to dominate the pharmaceuticals investment scenario within and between the industrialized economies, reflecting the maturity of the industry in these markets as well as the need to consolidate a highly fragmented market. However, multinationals are turning more frequently to Joint Ventures as the key method of entry into developing economy markets, both in order to comply with local requirements, in some cases, and to capitalize on the experience of local producers. The United States, Germany, and Japan are

the most frequent sources of outward investment in pharmaceuticals to developing economies, particularly to the emerging Indian and Chinese markets.

Table A6.4: Recent Investments in the Pharmaceuticals Industry Worldwide (Continued)

Date	Source Company	Source Country	Target Company	Destination Country	Method Of Entry	Ownership	Value (US$ Mn)	Product
Nov-96	Fresnius AG	Germany	PIC Pharmaceutical	Germany	Acquisition	100%	-	Pharmaceuticals, Medical Technology, Project and Service Business
Nov-96	Hindustan Ceba Geigy (Swiss TNC)	India	Sandoz India	India	Merger (forming Novartis AG)	-	-	
Oct-96	Boehringer Manheim India (German TNC)	India	Nicholas Piramal	India	Merger	-	-	
Oct-96	Ranbaxy Labs (US TNC)	India	Ohm Laboratories	India	Acquisition	100%	-	Ethicals
Oct-96	Ranbaxy Labs (US TNC)	USA	-	India	Greenfield	-	$ 45.00	
Nov-96	China Pharmaceutical and Enterprise Corp.	China	Hebei Zhongkang	China	Equity Stake Increase	99%	-	Penicillin

Date	Source Company	Source Country	Target Company	Destination Country	Method Of Entry	Owners hip	Value (US$ Mn)	Product
Oct-96	PSM Holdings	New Zealand	Merck Sharp Dohme	New Zealand	Acquisition	100%	NZ 3.00	Creams, Liquids and Capsules
Oct-96	Block Drug	UK	Glaxo Wellcome's Priton Drug Group	UK	Acquisition	100%	-	Priton Drug
Oct-96	Gehe	Germany	Lloyd Chemist	UK	Acquisition	100%	-	-
Oct-96	Sandoz	UK	Azupharma (s/o Gehe)	Germany	Acquisition & Merger (with Novatris)	100%	$ 420.00	Generics
Oct-96	Knoll	UK	GNR Pharma (s/o Gehe)	France/Germa ny	Acquisition	100%	-	Generics
Oct-96	Stadias	Germany	Alid Pharma (s/o Gehe)	Germany	Acquisition	100%	-	Generics
Oct-96	Proctor and Gamble	USA	-	India	Expansion	-	$ 50.00	OTCs

Date	Source Company	Source Country	Target Company	Destination Country	Method Of Entry	Ownership	Value (US$ Mn)	Product
Oct-96	Kopran & Industrial Promotion Services	India & Kenya	Kampala Pharmaceuticals	Uganda	Acquisition	50-50%	-	Generics
Oct-96	ICN Pharmaceuticals	USA	Alkaloida Chemical Co.	Hungary	Acquisition (Privatization)	50%	-	Cardiovascular, anti-allergic, anti-malarial, CNS products, anti-asthmatics
Oct-96	Elan	Ireland	Adv. Therapeutic Systems	Bahamas	Acquisition	100%	$ 141.00	Drug Delivery Technologies
Oct-96	Izasa	Spain	Chromogenix	Sweden	Acquisition	100%	-	Medical Technology
Oct-96	Izasa	Spain	Mallickrodt	USA	Acquisition	100%	-	Medical Technology
Oct-96	Quintiles Transnational Corporation	USA	Innovex	UK	Acquisition	100%	$ 788.00	Contract Research
Oct-96	Adcock Ingram	South Africa	Premier Pharmaceuticals	South Africa	Acquisition	100%	$ 650.00	OTCs, Ethicals and Generics

Date	Source Company	Source Country	Target Company	Destination Country	Method Of Entry	Owners hip	Value (US$ Mn)	Product
Oct-96	Pharma Vision	Switzerland	Tularik	USA	Equity Stake	10%	-	Gene Expression Medicine
Oct-96	Synth Labo	France	Henning Berlin Gmbh	Germany	Acquisition	-	-	Thyroid Treatment Medicine
Oct-96	American Home Products	AHP	Cyanamid Agro India (s/o HP) and Wyeth Cos. (S/o AHP)	India	Merger	-	-	
Oct-96	Unichema Laboratories	India	Unisearch and Uncihem Exports (s/o Unichema)	India	Merger	-	-	
Aug-96	Baxter International	USA	Immuno International AG	Austria	Acquisition	100%	$ 715.00	

Source: F&S Index International

The Growth of India's Pharmaceuticals Industry: India has emerged as an important player in pharmaceuticals, particularly in the area of generic bulk drug manufacturing. In only four years, the Indian market more than doubled, from US$1.4 billion in 1991 to US$3.4 billion in 1995. By 1995, locally based producers met 70 percent of India's bulk drug requirement and accounted for 85 percent of its bulk drug exports. Six of the top ten companies are Indian-owned. India's success in pharmaceuticals is based on the strength of their chemical skills, a low-cost operational base and the availability of process technology. With a new patent regime, Indian companies are aiming to acquire world stature in generic bulk drugs. Over the past two years, Indian companies have expanded their reach beyond their borders, investing in other developing economies. In turn, the reduction of government regulations and the signing of GATT have increased the interest of pharmaceutical multinationals, who have entered into a number of joint ventures with local companies, eager to capitalize on India's generic production know-how.

Results of Competitive Advantage

The international market for pharmaceuticals suggests that there are tremendous prospects for growth in Jordan as companies expand in emerging markets and increasingly outsource research and development of select activities. The most significant impact will be the proposed legislation that seeks to align the current laws governing intellectual property with the international laws. This will become on the strongest signals to the international investor community, thereby strengthening Jordan’s position as a location. Pharmaceuticals gets an A ranking in this context.

Consistency with Policy Objectives

The development indicators suggest that the industry ranks favorably in its consistency with policy objectives, thereby qualifying as a B ranking on the consistency with policy objectives ranking.

Table A6.3: Summary of Consistency with Policy Objectives
(Scale 1-4, 4-high consistency; ratings through private sector interviews)

Development Indicators	Weight	Ratings	Score
Labor Intensive	16.7%	2	8.3%
Smart-Industry	16.7%	4	16.7%
Export-Orientation	16.7%	4	16.7%
Investment Levels	16.7%	4	16.7%
Natural Resource Usage	16.7%	1	4.2%
Value Added	16.7%	4	16.7%
	100.0%		79.2%
Consistency with Policy Objectives			Grade B

Final List of Target Industries

Target industries are drugs that are among the most popular in the Middle East exports. The nature of the drug will vary by each company. It is therefore important that promotion be undertaken to all the leading manufacturers in the United States and major pharmaceutical producing countries.

Target Investors/Countries

Immediate-term targets are likely to be the following:

- Small- to medium-size companies specializing in bulk generic drugs in Germany and Japan. These may be companies that wish either to enter into joint ventures with local manufacturers or to enter into a contractual agreement with a local company to produce and export under license.

- Small- to medium-size companies specializing in bulk generic drugs in India. Once again, these may be companies that wish either to enter into joint ventures with local manufacturers or to enter into a contractual agreement with a local company to produce and export under license.

B.1: Location Audit

Introduction

This chapter examines, from a site-seeker's perspective, the basic competitiveness of Jordan as an investment location vis-a-vis its regional competitors in the Middle East and North Africa. Companies tend to place their production facilities in locations that can offer a macroeconomic policy framework conducive to private enterprise and whose comparative resource endowments most closely match their own technical requirements, thus enabling them to minimize production and transaction costs per unit of output. While the specific factors required by an individual company vary from industry to industry, international companies often conduct a broad benchmark evaluation in the early stages of their site selection process.

The competitive benchmarking exercise is designed to assess a location's relative assets and liabilities from an investor's point of view. The process includes a series of general comparisons to regional competitor countries in areas most likely to shape the corporate location decisions of potential investors. The outcome is a clear picture of Jordan's comparative advantages and disadvantages. The areas chosen for analysis include the following:

- General Economic Environment
- Political Risk
- Access to Trade
- Investment Environment
- Financial Sector
- Labor Regime
- Transportation Regime
- Infrastructure

Jordan, when benchmarked marked against its regional competitors for investment - Egypt, Israel, Cyprus, Bahrain, Tunisia, Morocco, and Lebanon - offers a business4riendly, including a strong commitment to market liberalization, an attractive package of incentives, and an educated work force operating under a flexible labor regime.

General Environment

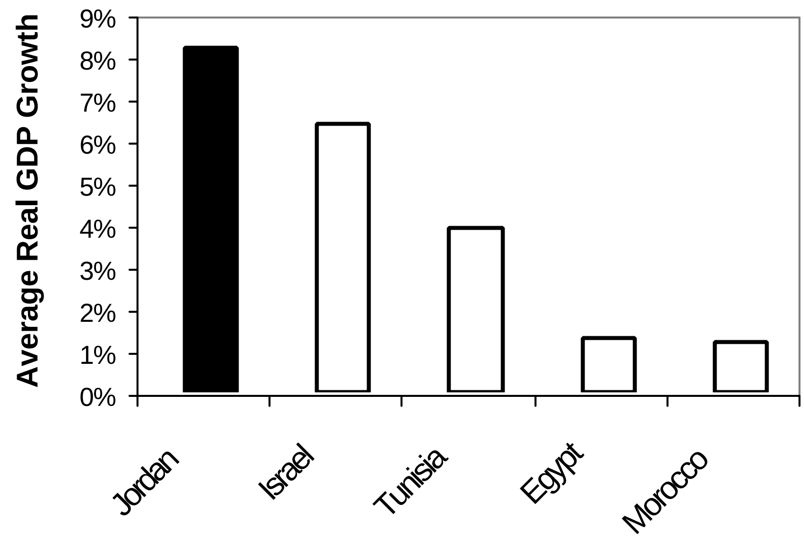
Foreign investors tend to seek a location where the government is committed to the development of private enterprise and market-friendly policies through the promotion of a stable macroeconomic framework -- an important element for a company's future growth prospects.

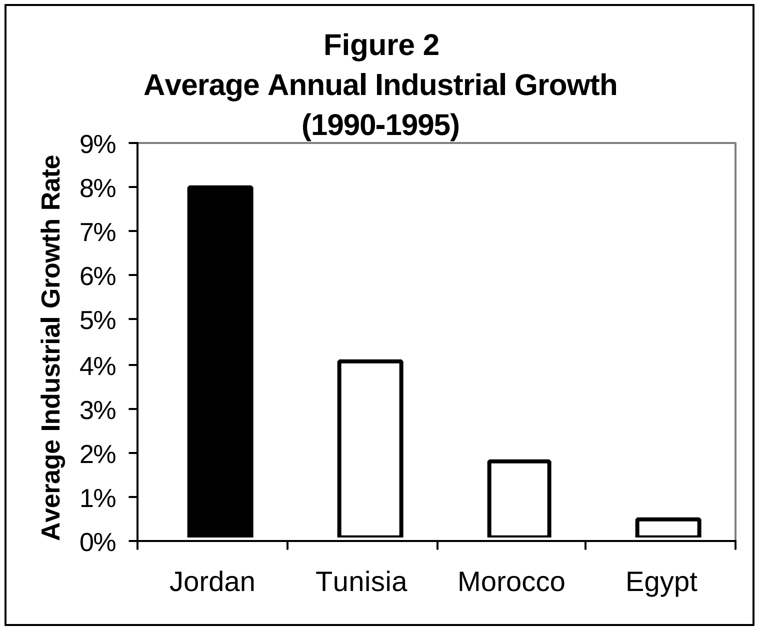
In 1989, Jordan embarked on a process of market liberalization and structural reform, transforming itself from a protectionist and statist economy into a market friendly, pro-private enterprise environment. Its efforts have earned Jordan praise from the International Monetary Fund. The economy moved from a decade of economic crisis in the 1980s to high growth in the early 1990s.

Though most economic indicators in 1996 deteriorated slightly when compared to the previous period (1990 to 1995), the economy, continued to perform relatively well. Real GDP climbed 5.2 percent, though this was significantly slower than its average growth rate for the previous five years which topped 8 percent. Inflation was maintained below 7 percent. By 1995, per capita GNP, as measured by Purchasing Power Parity, reached US$4,000.

During the early 1 990s, Jordan's economy, overall, outperformed those of its regional competitors (see Figures 1 through 4). Between 1990 and 1995, Jordan had one of the highest rates of economic growth at 8.2 percent - almost two percentage points ahead of its closest competitor, Israel. Morocco and Egypt had the slowest rate of growth, registering just above one percent for both.

Figure 1
Average Annual Real GDP Growth
(1990-1995)





Jordan's economic expansion was driven, primarily, by a rapid industrial growth rate, 7.9 percent - again, one of the highest in the region. Tunisia, Morocco, and Egypt lagged behind with industrial growth rates of four percent, 1.7 percent, and 0.4 percent, respectively.

In terms of annual export growth, Jordan performed well compared to its competitors. Between 1990 and 1995, Jordan's average annual export growth rate reached 9.5 percent, somewhat behind Lebanon's 13.7 percent (the highest recorded rate), though significantly ahead of both Morocco and Egypt.

Figure 3
Average Annual Export Growth
(1990-1995)

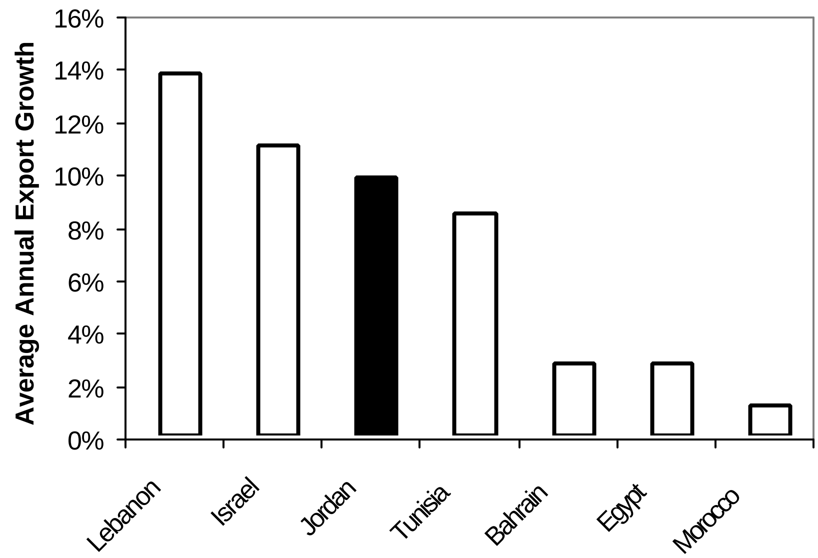
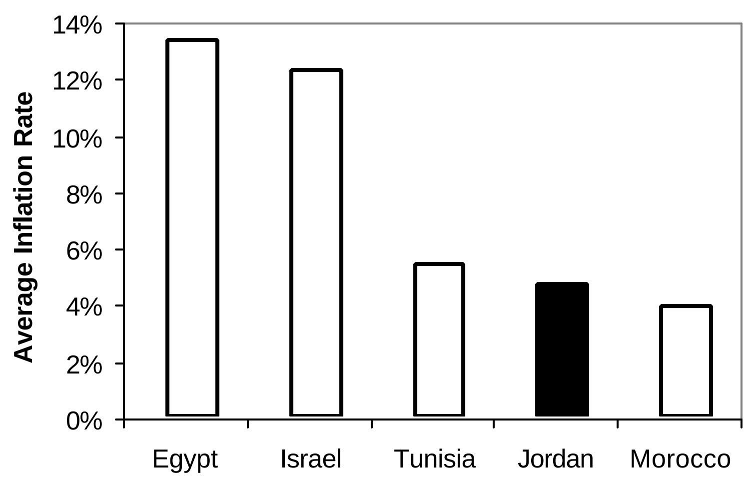


Figure 4
Average Annual Inflation
(1990-1995)



Despite a fast growing economy, Jordan maintained one of the lowest inflation rates over the period, at 4.7 percent. Egypt's slow growth, instead, was coupled with the highest inflation rate, 13.3 percent.

Jordan, with its renewed commitment to continued reform, possesses a favorable macroeconomic policy framework. Its economic performance throughout the 1990s - the best overall - provides Jordan with a strong advantage over its neighboring competitors.

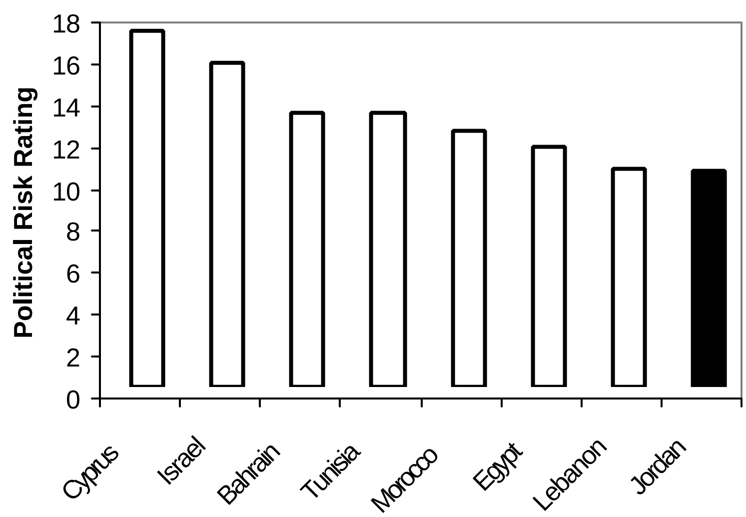
Political Risk

In addition to economic stability, companies look for a degree of political stability when selecting a site for investment. Investors must be reasonably assured that future governments will not reverse the commercial and investment policies that attracted them in the first place. In addition, companies must be assured that their investment will be safe, physically, from political or civil unrest.

Despite Jordan's promising economic performance, commitment to reform, and efforts to maintain internal political stability, Jordan is perceived by the international community as a high risk environment, politically, for investors.

Euromoney magazine conducts political risk ratings on a regular basis. The political risk rating represents a poll of risk analysts, risk insurance brokers, and bank credit officers. The 1997 *Euromoney* ranking of political risk places Jordan below all of its regional competitors, scoring 10.3 out of a possible 25 points. Cyprus, with 17 points, has the highest degree of perceived political stability in the region. Figure 5 displays the rankings of the competitor country sample.

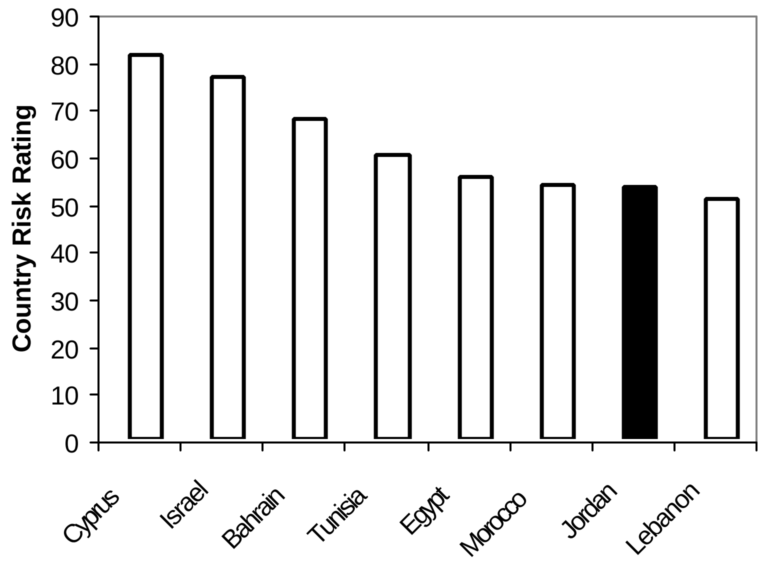
Figure 5
***Euromoney* Political Risk Rating (1997)**
(Total Possible=100, 100=Not Risky, 0=Very Risky)



While regional instability, an external factor, can certainly be blamed for part Jordan's "riskiness", it cannot be considered the over-riding factor since countries such as Israel and Lebanon, who are more directly involved in the regional turmoil, are perceived to be of less political risk than Jordan

Euromoney magazine also conducts overall country risk ratings which is based on a combination of economic data, political risk rankings, debt indicators and debt default / rescheduling information, credit ratings, and access to financial markets. The overall ranking is based on a weighted average, with political risk accounting for 25 percent of the overall score. In the 1997 survey, Jordan ranks relatively low, second to last among the selected regional competitors, scoring marginally better than Lebanon. Once again, Cyprus ranks the highest (see Figure 6).

Figure 6
***Euromoney* Country Risk Rating (1997)**
(Total Posssible=100, 100=Not Risky, 0=Very Risky)



Political and financial stability are prerequisites to sustained economic development. The relatively high degree of risk associated with investment in Jordan, one of the "riskiest" among the selected comparator countries, represents a disincentive to investment in Jordan.

Access to Trade

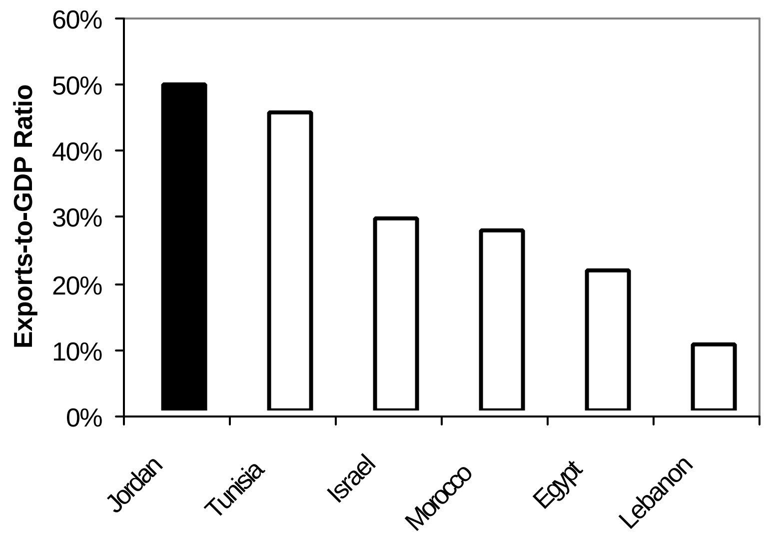
With the proliferation of regional trade blocs and the trend toward regional sourcing - as well as the large economies of scale required in some industries - access to free or preferential trade opportunities can provide a strong incentive to investors.

As a relatively small country with few natural resources and limited agricultural production, Jordan is strongly dependent on international trade for its livelihood. Jordan is, in fact, one of the most "open" economies when compared to the competitor countries, with exports equivalent to 49 percent of GDP in 1995.

Only Tunisia comes close to this degree of "openness", with

exports totalling 45 percent of GDP. The export-to-GDP ratios of Israel, Morocco, Egypt, and Lebanon all come under 30 percent (see Figure 7).

Figure 7
Exports as Percentage of GDP (1995)



Since 1989, the Government of Jordan has actively endorsed access to free trade and is committed to continued liberalization. Unilaterally, Jordan reduced its mean trade-weighted tariff, in 1996, to 13.7 percent, down from 16.8 percent in 1987. Jordan has applied for admission to the World Trade Organization and discussions are currently underway.

Jordan has also entered into a number of trade agreements, giving Jordanian exports preferential access to the United States and European Union. This past year, the United States extended its Qualified Industrial Zone (QIZ) status to Jordan. Under this arrangement, enterprises located in specified industrial estates are qualified for duty-free exports to the United States. Only Israel, among the competitor countries, shares this preferential status.

Jordan has also signed a Partnership Agreement with the European Union. Under this arrangement, Jordan will gain duty-free access to the EU market by 2010. In the meantime, tariff and non-Tariff barriers to the EU will be gradually reduced for Jordanian exports, beginning in 1999. Both Egypt and Lebanon have signed similar partnership agreements with the European Union. While these three countries will enjoy increased access to the European Union, they must compete with the signatories to the Lome Convention - more than 70 developing countries in Africa, the Caribbean, and the Pacific - who currently receive duty-free access to the European Union.

In addition to these agreements, Jordan also benefits from a number of inter-regional trade agreements. In the past, trade was hindered in the region by a web of bilateral trade protocols that served to restrict regional trade. These barriers, however, are being reduced by new trade agreements:

- A free trade agreement was concluded with Bahrain in 1995.
- Jordan and Israel, as part of their 1994 Peace Treaty, signed a Trade and Transport Agreement in 1996 (revised in early 1997), providing for reduced customs on Jordanian exports to Israel and streamlined processing and clearance procedures at the northern and southern border crossings.
- Jordan is expected to negotiate bilateral free trade agreements with Tunisia and Morocco this year.
- Jordan and Egypt have initialed a free trade agreement which has been ratified by the Jordanian House of Parliament, though Egypt has yet to ratify.
- Jordan and other Arab countries have proposed a greater Arab free trade area for which they hope to finalize procedures, leading to a formal Arab free trade area by

2007.

Jordan's ongoing process of trade liberalization, both unilateral and with its trading partners, provides a strong incentive to investors interested in accessing global or regional markets for exports as well as sourcing opportunities. However, as a number of the trade agreements are still in the "pipeline"-stage, Jordan should not expect to harvest the fruits of these arrangements until they are closer to implementation.

Investment Environment

Issues such as taxation, investment restrictions, import / export policies, and the foreign exchange regime all form part of the "rules of the game" - the regulatory framework in which businesses operate. A "business4riendly" environment boosts business confidence and attracts investment. In addition, investment incentives such as access to free zones, duty exemptions, and tax holidays provide an additional inducement to investors.

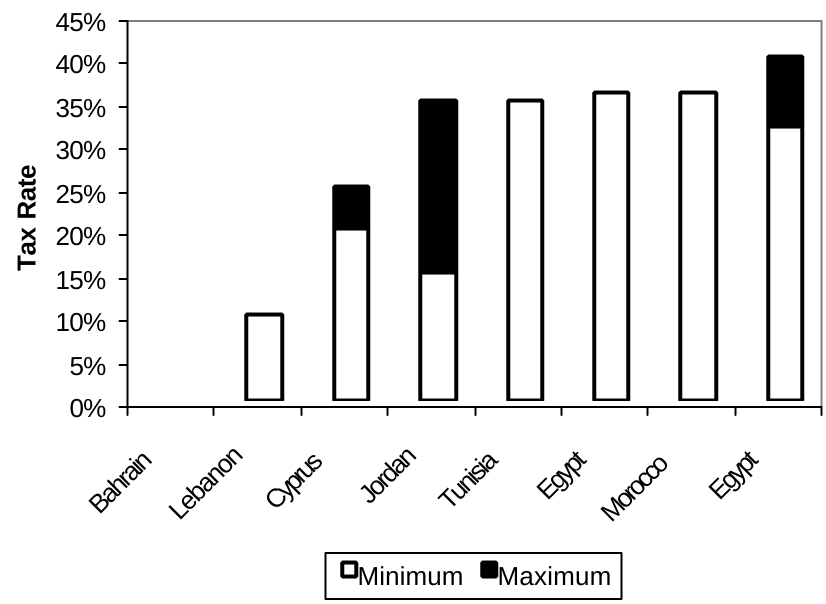
Profit Tax: Jordan's Income Tax Law was amended in 1995 to lower the general tax rates for both corporations and individuals. A three-tier flat-tax structure was defined for corporate taxation, with the rate determined by enterprise type:

Table B. 1: Corporate Profit Taxation

Mining, manufacturing, hotels, hospitals, transportation, construction projects (with paid-up capital above US $700,000)	15%
Banks, financial companies, insurance companies, exchange companies, and brokerage companies	25%
All other businesses, including trading and services companies	35%

Jordan's corporate tax rates are competitive with others in the region where rates are typically set close to 35 percent (see Figure 8), with Lebanon and Bahrain as the exceptions. Lebanon offers a low corporate tax rate of 10 percent while Bahrain offers investors a tax-free haven.

Figure 8
Corporate Tax Rates



Tax Incentives: In addition to competitive tax rates, Jordan offers many of its investors an attractive package of tax incentives. The Investment Promotion Law of 1995 encourages investment in targeted sectors into lesser developed areas of the country, with tax holidays of 25 to 75 percent granted for a period of 10 years, depending on sector and geographic location. In addition, all corporate profits gained through export earnings are 100 percent tax-exempt.

Jordan's package of tax holidays compares favorably with those of its regional competitors. Only Egypt and Israel offer a comparable package of investment incentives. While the remainder - except Bahrain which has no need to offer tax holidays - offer incentives to export-oriented enterprises, few provide tax holidays for other enterprises. Cyprus offers no tax incentives (see Table B.2).

Table B2: A Comparison of Investment Environments

	Jordan	Egypt	Israel	Lebanon	Tunisia	Morocco	Bahrain
Profit Tax	15-35%	32-40%	36%	10%	35%	36%	0%
Tax Holidays (excl. Free Zones)	- 25 to 75% tax holiday for a period of 10 yrs on new investments, depending on sector and geographic location - 100% exemption on export earnings	- 5 yr. tax holiday for new investments plus possible 5-yr. extension - 5 yr. tax holiday on expansions	- on undistributed profits only - 2-10 yr. tax holidays, depending on geographic location	none	none	none	not applicable
Duty Exemptions (excl. Free Zones)	duty-free imports of capital goods	none	n/a	n/a	10% flat rate on capital goods	5% flat rate on capital goods	n/a
Free Zone Policies	- 12 yr. tax holiday - duty-free imports - free repatriation of profits	- duty-free imports - exemptions from sales tax	- duty-free imports	- 10 yr tax holiday - duty-free imports	- 10 yr. tax holiday - duty-free imports	- duty-free imports - offshore banking	- duty-free imports
Foreign Exchange	- fully convertible - free repatriation of profits	- repatriation of profits upon approval	- controls on capital movements maintained	- free repatriation of profits	- free repatriation of profits	- free repatriation of profits	- free repatriation of profits

Restricted Sectors: While Jordan has made progress towards removing barriers to foreign investors, with the majority of industries open to 100 percent foreign ownership, the current Investment Law maintains several restrictions that may hinder inflows of foreign investment. Foreigners may not own more than 50 percent of companies operating in the following sectors:

- Construction contracting;
- Land and air transport (excluding railways);
- Wholesale and retail trade and commercial services;
- Banking and insurance;
- Telecommunications;
- Mining;
- Agricultural crops; and
- Information/media (maximum 25 percent foreign ownership).

Most of the other countries under consideration have comparable restrictions on foreign ownership. While Jordan remains "competitive" with the countries selected for comparison, such restrictive practices are not to Jordan's advantage as they remain more restrictive, in general, than standard rules against investing in "strategic" sectors found in other countries.

While an amendment to the Investment Law which would reduce the number of sectors subjected to ownership restrictions, until such time investment will continue to be hindered in a number of potentially attractive sectors.

Free Zone Policies: Jordan's Free Zone Corporation currently has two established free zones - at Aqaba and Zarka - that have been designed to promote export-oriented industries and transit trade. Enterprises operating within the two Jordanian zones, both foreign and local - enjoy a competitive package of incentives and exemptions, including:

- Exemptions of profits from income and social services tax for a period of i2 years from commencement of operations;

- Exemptions on income tax and social service tax for salaries of non-Jordanian employees working in the free zone;

- Exemptions from customs duties, import fees, and sales taxes on goods imported to or exported from the free zones;
- Exemptions from customs duties on the market consumption of goods manufactured in the free zone provided they contain local components;
- Exemptions on licensing fees and real estate taxes on buildings constructed within the zones
- Free repatriation of invested capital and profits earned;
- Free transfer of currency; and
- Concessionary rental rates for land and buildings in the free zone.

Both the Aqaba and Zarka Free Zones have proven successful in attracting investment into a number of sectors. There are more than 700 commercial trading and industrial projects based in the operating free zone areas. They comprise storing, repackaging, mixing, blending, and manufacturing operations, including apparel manufacturing, food processing, printing and publishing, electrical and electronic assembly, automotive parts, construction equipment, and furniture manufacturing.

The current plan to extend the Aqaba Free Zone, creating a 2.5 million square meter facility, as well as plans for two additional zones in Sahab and Queen Alia International Airport, will provide an extra boost to investment in export-oriented manufacturing as well as entrepot activities.

Jordan's free zone policies and incentives compare favorably with those of its regional competitors. While a number of these countries provide free zone/EPZ facilities to export-oriented manufacturers, few offer such a comprehensive package of incentives. Both Lebanon and Tunisia do offer similar tax holidays in addition to duty-free imports and other exemptions while Morocco and Egypt, on the other hand, offer additional tax holidays for zone enterprises.

Duty Exemptions: In addition to the duty4ree imports granted to enterprises located in the established free zones, Jordan offers duty4ree status to a number of targeted industries, regardless of geographical location. At present, targeted sectors include Industry, Agriculture, Hotels, Hospitals, and Maritime Transport and Railways. Duty exemptions are granted on certain fixed assets, spare parts, and furniture and other supplies. Jordan's duty exemption program is competitive with others in the region - most of which offer similar incentives.

Foreign Exchange Regime: Jordan has a comparatively liberal foreign exchange regime. Recent reforms have brought equal treatment between foreign and domestic deposits for current payments, the removal of ceilings on resident accounts in foreign currencies, and the introduction of swap operations. The Jordanian dinar is fully convertible into major currencies.

The Central Bank's efforts to remove all significant restrictions have been rewarded with increasing capital inflows into the Jordanian banking system - a strong confirmation in business confidence in Jordan's commitment to reform.

Since reform, Jordan's foreign exchange regime has proven to be on par with its regional competitors, all of which maintain more or less standard policies on foreign exchange.

Overall, Jordan's investment environment is competitive with the selected comparator countries. With its competitive rates of taxation, generous tax holidays, access to free trade zones, duty-free imports, and a fairly liberal foreign exchange regime, Jordan provides a favorable environment to foreign investors.

Financial Sector

A market-driven, well-developed financial sector is an important factor for investors. As recent events in East Asia have revealed, investor confidence is strongly tied to the health of the financial sector. Foreign investors are particularly interested in access to and cost of trade financing as most of their enterprises tend to be export-oriented.

While Jordan has enacted a number of market friendly policies, adequate reform has yet to be introduced in the financial sector, particularly with regard to credit facilities.

Specialized Export Credit Guarantee Programs: The Central Bank of Jordan exercises direct control over credit in the country, with bank financing dependent on prevailing Central Bank policy. In 1994, the Central Bank authorized the establishment of the Export and Finance Bank.

The Export and Finance Bank, a partially public-owned (20 percent) institution, is presently the only domestic-based source for trade financing. With a registered capital of US$ 14 million, the bank provides credit for export financing to both foreign- and domestic-owned enterprises, including letters of credit and letters of guarantee.

Export Credit Interest Rates: While domestic firms obtain credits at market-driven rates, credit facilities for foreign firms are determined on a case-by-case basis.

Constraints on Trade Finance: In addition to the absence of market-determined interest rates, foreign firms must receive the approval of the Central Bank before applying for credit locally, including export financing through the Export and Financing Bank..

Other Means of Accessing Finance: The United States EXIMBANK and the Central Bank of Jordan signed an agreement in 1996 allowing the private sector to import U.S. goods up to US$ 200 million using EXIMBANK short- or medium-term credit guarantees.

In addition, once new regulations are put into effect, private commercial borrowing will be permitted to cover all types of business activities, including trade financing - however Central Bank approval will still be required for foreign investors.

While access does exist in Jordan for export financing, its limited nature and the absence of free market forces provide a strong disincentive to foreign investment.

Labor Regime

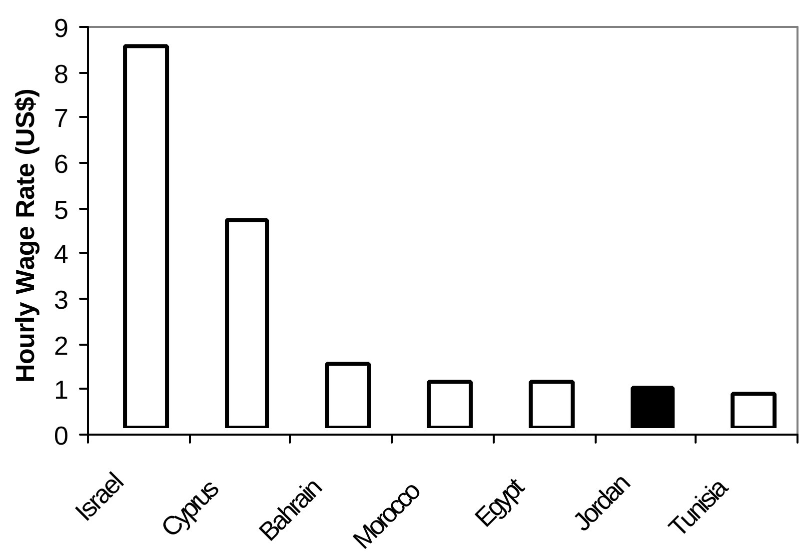
The majority of investments made by foreign investors in developing economies are in labor-intensive industries. Thus, a flexible labor market and the availability of low-cost labor, at all required skill levels, are prime factors in the site selection process.

Jordan's labor regime provides a significant asset to investors. A well-educated, comparatively low-cost work force is complemented by a relatively flexible labor market, making Jordan an attractive site for investors, particularly those operating in labor-intensive industries.

Worker Skills: The Jordanian work force is among the most educated in the region. Literacy rates average 85 percent, one of the highest in the region, and more than 17 percent of the labor force has obtained a higher education, with more than 19,000 having obtained post-graduate degrees. Jordan boasts almost 33,000 engineers - covering the full range of disciplines - and more PhD graduates per year than Israel. While much remains to do in terms of vocational training, Jordan's skill base continues to both deepen and widen, providing the economy with skills that had once been in short supply, such as computer programming, managerial skills, and marketing skills. In recent years, the return of Jordanian ex-patriate workers from the Gulf Region has further augmented Jordan's skills base. As a result, Jordan has become a major supplier of brainpower throughout the MENA region.

Wage Rates: Jordan's wage rates are among the lowest in the region. Average manufacturing costs range from US$ 90 to US$ 230 per month, comparable to Tunisia, Morocco and Egypt and only a fraction of manufacturing wages elsewhere. In Bahrain, manufacturing wages are, on average, 55 percent higher than in Jordan while Cyprus and Israel are considerably higher. Average manufacturing wages are more than five times higher than in Jordan and in Israel, average wages are almost 10 times higher (see Figure 9).

Figure 9
Manufacturing Wage Rates



In addition, the Jordanian government imposes no national minimum wage or wage controls on either Jordanian or expatriate workers. However, the government does retain the prerogative to set minimum wages either by occupation or geographic location. Lebanon is the only other country among the selected sample that likewise does not currently impose any legislated wage regulations. The remaining six countries all impose minimum wages though few have wage controls.

<u>Hiring / Firing Requirements</u>: Jordan has one of the most flexible labor markets in the region, with few controls on hiring or firing, regarding both Jordanian and ex-patriate workers. The new Labor Law that came into effect in 1996 stipulates that employees may be let go for any justifiable reason without compensation (unless agreed upon contractually). In addition, wages can be reduced by employers when necessary. However, cultural norms generally protect employees against lay-offs.

The hiring of ex-patriate workers is under the control of the Ministry of labor. Foreign and domestic firms may hire ex-patriate workers if justified (e.g. technical labor); however, in practice, some companies have complained about difficulties in obtaining the required permits. Furthermore, the Ministry stipulates several occupational categories in which the hiring of foreigners is prohibited.

Despite these difficulties in hiring ex-patriate workers, Jordan remains more flexible than many of its neighbors. Bahrain has arguably the most restrictive hiring policies. An active policy of "Bahrainization" has led to the introduction of limits on the number of foreigners that may be hired in a given enterprise and some incentives are dependent on Bahrainization.

Overall, Jordan's labor regime is one of the most attractive compared with those of its regional competitors. A comparatively low-cost, well-educated work force, combined with relatively flexible hiring/firing requirements, enhances Jordan's attractiveness as an investment location.

Transportation Regime

As most foreign enterprises in developing economies are export-oriented and are also dependent on the import of capital equipment and raw materials, access to cheap and reliable transportation services can make or break a business.

While Jordan's transportation infrastructure is on par with those of its competitors, relatively high costs for both air and sea freight represent a comparative disadvantage to Jordan.

Air Transportation: Jordan has three airports, including two international airports at Aqaba and Queen Alia. Both possess relatively modern infrastructure for cargo handling and are comparable to other international airports in the region.

Airfreight costs, though, tend to be relatively high in Jordan when compared to its competitors. While rates are only slightly higher than in Egypt and Cyprus, they are considerably higher than in Tunisia, Lebanon and Morocco. Jordan's airfreight rates to London are, on average, 46 percent higher than Lebanon, 105 percent higher than Morocco and almost 250 percent higher than Tunisia.

Sea Transportation: The Port of Aqaba is Jordan's only sea port, operated by The Ports Corporation. The Gulf of Aqaba's strategic location between four countries and two continents provides the port with the opportunity to capitalize on growing trade with the Far East and Indian sub-continent.

The Aqaba port, in general, possesses modern facilities, adequate for handling current traffic flows. In 1996, the port handled over 12 million tons of cargo and has the potential to expand its handling capacity to 30 million tons - just enough to meet the projected growth in traffic expected by 2010. Plans are already underway to expand the industrial port, thereby enabling Jordan to meet the expected growth in demand.

While Aqaba's expanded infrastructure will prove attractive, in terms of costs, Jordan is at a disadvantage when compared with some of its regional competitors. Both Morocco and Cyprus, given their relative proximity to Europe, can offer cheaper freight rates to Western Europe. For instance, the transport of a 2O4oot container to London costs 250 percent more from Jordan than from Cyprus.

Land Transportation: Jordan's road network covering 6,800 kilometers is considered to be in good condition and is adequate for current transport flows. However, an upcoming surge in transport activity that is expected in the coming years will require significant upgrades and expansions, in terms of quality, capacity and efficiency. Road transport, however, remains a cheap mode of transport in Jordan due to low fuel prices, averaging US$ 0.154 per liter of gasoline and US$ 0.074 per liter of diesel fuel. Despite low fuel costs, Jordan does not possess a comparative advantage in land transport. At US$ 0.20 per kilogram, land transport in Jordan is twice as high as in Cyprus.

Railway transport is a less attractive mode of ground transportation. The railway network is jointly managed by the Hijaz Railway and Aqaba Railway Corporation. Despite a 676 kilometer network, Jordan's railways are not considered an effective mode of transport. Nevertheless plans to expand the system, with the aim of improving its integration with the regional network.

Table B.3: Cost of Transportation

	Jordan	Lebanon	Egypt	Morocco	Tunisia	Cyprus
Air Freight US$/kg To London	3.28	2.25	3.05	1.60	.95	3.15
Sea Freight US$/ 20' Container To London	1000	N/A	N/A	N/A	1600	400

Infrastructure

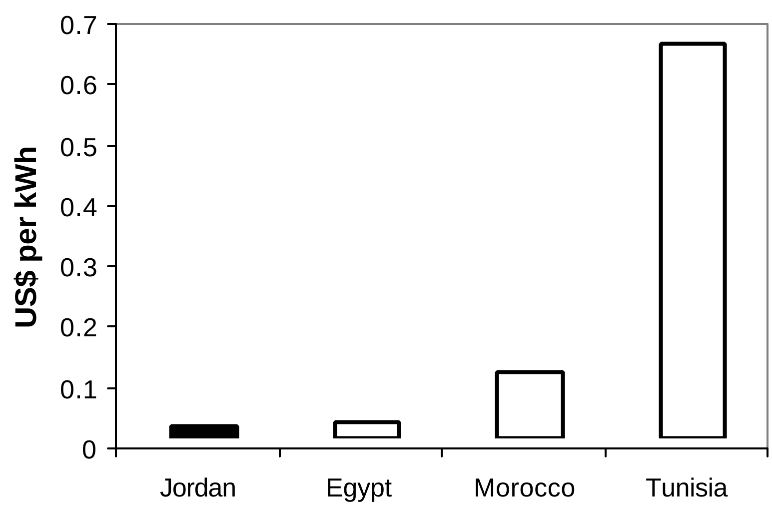
Most enterprises, both manufacturing- and service-oriented, are dependent on the availability of cheap and reliable utilities - including water, electricity, and telecommunications. Frequent breakdowns and "pre-modern" services can hamper production and, thus, profitability.

Jordan expects a rapid increase in the demand for utilities over the next ten years. While current supplies of water and power are already stretched to the limit, Jordan must undertake massive investment in infrastructure in order to meet this growing demand.

Electricity: Jordan, as a developing country, has an impressive electrification record - approximately 99 percent of the country is electrified to international standards. However, rising demand, which is expected to grow about nine percent per year, will require an annual investment in expanded capacity of US$ 170 million per annum. The government's decision to privatize and de-monopolize the sector by 1999 should go a long way in ensuring that the required targets are met.

Tariff rates for electricity are very competitive by both world and regional standards and are considerably lower than most middle-income developing economies. While commercial enterprises pay US$ 0.0322 per kilowatt hour (kWh), manufacturing enterprises pay substantially less, ranging from US$ 0.009 to US$ 0.013 per kWh, comparable to Egypt's rates. Both Jordan and Egypt have a distinct cost advantage over Morocco and Tunisia where average tariff rates are 80 percent higher and 3,000 percent higher, respectively. (See Figure 10)

Figure 10
Average Electricity Tariff Rates

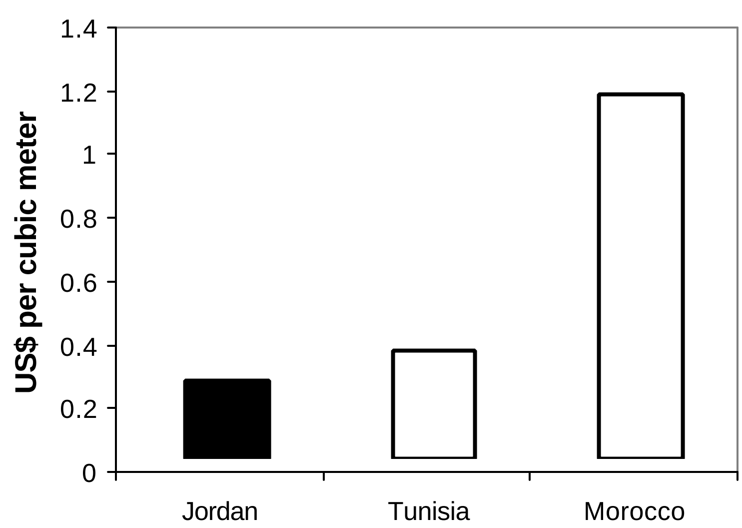


Jordan's good quality power infrastructure, combined with its competitive tariff rates, would prove to be an attractive incentive to investors interested in the region.

<u>Water</u>: Like many countries in the Middle East and North Africa, Jordan's water supply situation is inadequate to meet current demand. Shortages are common. Expected growth in demand for water is expected to worsen the situation. By 2010, demand is expected to total more than three times current available resources. Massive investment in desalination, water treatment and dams will be required to meet the nation's needs in the coming years.

Despite the shortage of water, tariff rates remain relatively low in Jordan and are competitive even with those countries with more abundant water supplies. Tariff rates range from US$ 0.07 to US$ 0.42 per cubic meter, depending on usage. Jordan's water tariff rates compare favorably with those of its regional competitors (see Figure 11). In Tunisia, tariff rates are slightly higher, ranging from US$ 0.13 to US$ 0.55 per cubic meter. In Morocco, tariff rates are considerably higher, ranging from a low of US$ 0.16 per cubic meter outside Casablanca and Rabat to an exorbitant US$ 2.14 per cubic meter within the two main cities.

Figure 11
Average Water Tariff Rates

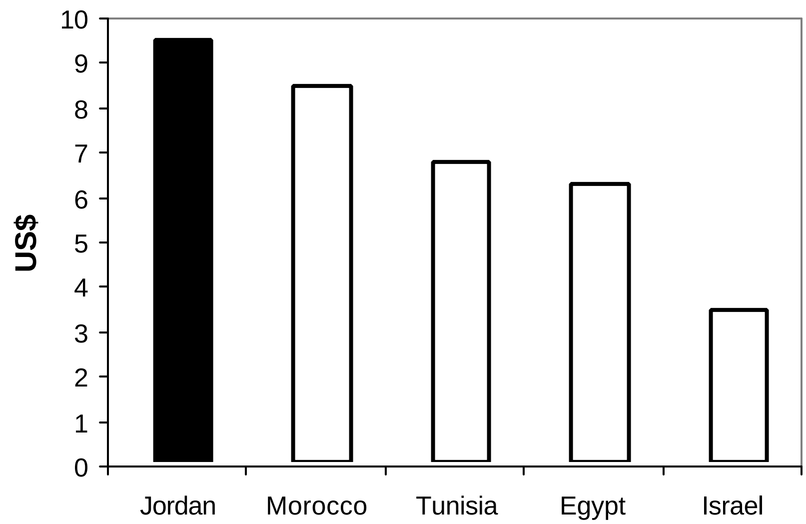


Telecommunications: Jordan possesses an increasingly modern telecommunications infrastructure, with one satellite station, 3 earth stations (two linked to INTELSAT and one linked to ARABSAT), as well as mobile and internet services - similar to the infrastructure available in the competing counties However, while international direct dialing (IDD) is available throughout the country to most countries, the lack of such service to the United States is a distinct disadvantage.

In addition, Jordan's current capacity, as with other utilities, falls short of current demand. Often a 60 day wait is required for telephone connections. Efforts are being made to remedy this situation as the telephone line network capacity has been scheduled to be expanded from 335,000 to 615,000 lines. Bahrain has a comparative advantage over Jordan in terms telephone services with one of the highest penetration rates in the Arab world.

Jordan also possesses a disadvantage in terms of telecommunication costs which are relatively higher than in the comparator economies. In Jordan, a three-minute international telephone call costs, on average US$ 0.094 - 12 percent higher than in Morocco, 40 to 52 percent higher than in Tunisia or Egypt, and more than 175 percent higher than in Israel (see Figure 12).

Figure 12
Average Price of Three Minute International Telephone Call



Summary

This section, through a comparative analysis, has focused on a number of factors that generally shape the location-selection decisions of investors. The result is a clear picture of Jordan's advantages and disadvantages as an investment center.

<u>Principal Location Advantages</u>: Jordan possesses several characteristics that make it an attractive site for investors, including:

- a promising macroeconomic environment backed by a commitment to continued reform;
- a number of trade agreements providing Jordan-based enterprises with preferential access to the U.S. and

European markets;

- an attractive investment environment, with competitive tax rates, attractive incentives packages, and a fairly liberal foreign exchange regime;

- highly qualified, relatively cheap labor;

- good electrical power infrastructure with tariff rates among the lowest in the region as well as beyond; and

- a comparatively cheap supply of water despite ongoing shortages.

Principal Location Disadvantages: A number of factors, however, in which Jordan is at a comparative disadvantage, may prove to be deterrents to investment. These factors include:

- a poor perception of Jordan's political stability, with the lowest score among its competitors in *Euromoney's* political risk ratings;

- the high cost of transportation - including air-, sea- and land- freight;

- lack of free-market access to trade financing; and

- comparatively high telecommunication costs.

C.1: Investor Service Guidelines

Introduction

A promotion organization is a marketing entity, which possesses in its kit the traditional tools of communication: advertising and personal sales. Advertising is not a subject to be dealt with in this paper, except to say that it is a method used by varying degrees of effectiveness by promotion organizations for image building, and for investor generation.

Media advertising, sustained over a period of time, can be very useful in the process of image building. It can also be a very expensive endeavour, and many investment promotion agencies fail to achieve the long-term financial support necessary to carry it out. Results obtained in investment generation from a media advertising campaign are very difficult to measure, and any production would be long term at best.

Creation of brochures, flyers, etc. are forms of advertising essential to the investment generation efforts of a promotion agency, as they are used to present the competitive and comparative advantages of the product, in this case, Jordan. Today's investor more and more requires that this presentation be tailored to his particular needs, and that it focus on his particular investment project.

It is for this reason that investment promotion agencies today use electronic databases to retrieve the information pertinent to a particular investment project, and tailor the printed information as closely as possible to the issues at hand. Comprehensive, non-specific brochures and presentations are passing from the scene. Brochures used in direct mailings, etc., highlight the advantages for particular sectors of industry, for example, or emphasize a particular competitive advantage such as Jordan's QIZ.

The rendering of service to the investor is the utilization of that other method of communication: personal sales. Unlike advertising – a one way communication – personal sales establishes that essential dialogue between the promotion agency and the investor which allows the agency to quickly determine the investor's requirements, and to go to work to meet them.

The Case Officer Approach

The Project Officer (Case Officer) approach is the acknowledged best system of project and prospect management as it is designed to ensure the development of the personal relationship between individuals which is the key to good customer service. It is strongly recommended that the IPC adopt this approach by selecting 4 or 5 of its most qualified staff for these positions. The Project Officers would be supervised by a Director or Mangaer, such as a Director of Business Development, named by the Director General.

These Project Officers would ideally possess a variety of language and technical skills, and they would be grouped together to form a team of expertise in evaluating the needs of an investment project. The Project Officer will create a file in the appropriate electronic database for the investment project, and will keep a hard file as necessary. The Director of Business Development will have access to all project files, as will the Direction and the other Project Officers. Questions concerning confidentiality will be addressed and handled by the Director of Business Development.

Essential from the foregoing is the concept of having one person responsible for each project from inception to conclusion. The Business Director assigns projects to the Project Officers and meets with them on a regular basis in order to determine the status of the various investment projects. The Business Director, in her discretion, and because of the particular needs of a project, assigns a project according to the talents of a particular individual or group best suited to handle the task.

The Project Officers play a critical role in the success of the IPC because they have the day to day responsibility for the investment projects. The PO is charged with providing a quality of assistance to the investor that will make the IPC indispensable to all who would invest in Jordan.

The Investment Decision It is the task of the IPC to make it <u>easy</u> for investors to place their
and the Sales Process investments in Jordan. It is in the process of personal sales and

service, figuratively taking an investor by the hand and helping him through the process of investing his money in Jordan, that the IPC can outperform all the competition, and can establish a standard of excellence of service unseen in this part of the world.

Investment promotion is to a great extent an information gathering and sales process because the project officer is usually dealing with an investor who is making the investment decisions himself, or she is assisting a representative of a company who has been trained to make a comparative search of potential investment sites. In both cases the project officer is faced with a person who thinks he knows what he is looking for, and that person has usually prepared himself well in advance to find the information that he needs.

One could say that one is dealing with a rather sophisticated buyer who will go through his investment site selection process in a businesslike manner and that by and large his need will be for information. The foreign investor usually knows what information he needs in order to arrive at a decision, and he usually knows when he has received the information that he needs in order to make a decision.

The Project Officer can provide the information by either supplying it from the resources of his own office, or by seeking the information from competent sources outside in either the public or private sector. This is a rather straightforward process, which the PO must accomplish with speed and accuracy, and is one that mainly requires the perseverance to see the task through. The key here is conscientious and prompt attention to the prospect's information needs. The Project Officer would use his good judgement in knowing where to place emphasis on the facts he is gathering, and where to place priority on the facts he is seeking.

From the proceeding one may form the impression that this kind of promotion is simply a matter of supplying the data to fill in the blanks on the investor's questionnaire. The investment process can be that straightforward, but experience teaches that investment decisions often turn on intangibles.

For example, Project X involved the siting of a cement plant in a region which already was proven to have the necessary infrastructure and natural resources to accommodate such a facility as there were two existing plants. Geologists and engineers searched for six months to find the right combination of mineral resources, soil bearing conditions, road and rail transportation network, etc. The technical staff were finally ready to present a choice of three sites to the President of the company. Each of the three had its own advantages and disadvantages, but all three conformed to the site criteria established by the technical staff at the start of the search.

The President of the company arrived, and spent a few hours touring the three sites in question, offering only comment on the technical aspects of the project, showing no preference for or making any commitment to one site over the other.

While returning to the corporate jet for the return flight to Texas, the President and his entourage happened to drive past a particular site. “Who owns this property?”, inquires the CEO. “We do not know as we never considered this site as it is located on an interchange of the superhighway, and we thought it much too expensive, not sure about the technical criteria, etc., etc.”, defensively replied the technical team.

“Well, find out, because I am going to buy it and build my cement plant here.”

So why was Project X placed in a prominent site on the superhighway instead of on one of the isolated ones that had been thoroughly researched by the technical team? “I am going to build a ‘state of the art’ cement plant. There won’t be

> any white smoke coming out as at the other plants in this region, and I want the passing public on the superhighway to witness that."

The point of the foregoing is not to say that Texas has corporate Presidents who do not listen to their staff, or that are concerned about public relations. It is that there may well be certain criteria which are crucial, but which are not, nor could not be included in the technical study.

It emphasizes the importance of the interpersonal relationship, which the Project Officer develops with the investor. With the development of a close working relationship, the PO is much more likely to be aware of these emotional and other human factors which can play a large or even dominant role in decision making.

Investment promoters, even though they are not selling a product or service in the strictest sense, would be well advised to always keep in mind the formal phases of the sales process. The progress of an investment project moves through steps quite similar to those of the sale of an automobile, or of any article or service. These same steps, consciously or unconsciously, will be followed throughout the evolution of an investment project. (Note: the following has been taught and discussed for decades in sales seminars, training sessions, etc., but to the writer's knowledge was first formalized by Prof. Benson P. Shapiro of the Harvard Business School, Harvard Business Review, On Management, Harper and Row.)

The Opening

The opening is accomplished by the salesman when he finds a prospect who will listen to his sales presentation.

> For industrial promoters it is often the case that investors walk in the door because industrial promotion organizations by their nature are the logical place to start inquiring for information. Investment promotion organizations must often create their openings to prospects by participating in seminars, lauching investment missions, etc. The successful opening for the development promotion organization is made to the highest

level decision maker, within whatever organization, that it can reach.

The Qualification

Qualifying in the simplest sales sense means determining whether or not the buyer has the means to pay for the product that the salesman is trying to sell. If the customer does not have the means to buy a set of pots and pans, it is rather wasteful of the salesman's time to pursue the sale.

For the project officer, qualification means essentially the same thing. The Project Officer attempts to determine whether or not the prospect has acquired adequate financing for his project, whether he can self finance, or whether or not the project could feasibly be financed. If the Project Officer is reasonably certain that the investor lacks financial backing, and that the project appears unlikely to be financed, she is polite and helpful, but she spends her time and energy on other, more valid projects.

The Presentation

The Presentation is simply the talking about and the showing of the automobile, perhaps even taking the prospect for a demonstration drive.

The successful salesman will focus his presentation on three elements: the <u>features</u> of his product which distinguish it from all others; the <u>advantages</u> which his product offers to the buyer; lastly, and most importantly, the <u>benefits</u> which will accrue to the buyer when he chooses the salesman's product.

<u>Features</u> of a product are such things as the four doors of the automobile. Another <u>feature</u> could be that the automobile has four wheel drive.

An <u>advantage</u> would be the fact that since the four doors allow ease of passenger entry, and that the four-wheel drive gives good traction in icy road conditions.

Many buyers will respond so warmly to the features and advantages which the salesman points out that they will commit to closing the sale.

The seasoned, professional salesman, however, knows that it is the benefit which the prospect thinks that he will receive from a product or service which inspires the firmest commitment. It is the perceived benefit, which moves the buyer to close on the sale in most cases.

What would be a benefit to the buyer of the automobile ? Perhaps that by possessing the automobile he will be perceived as successful by his family and neighbors. The four-wheel drive will enable him to be a better father by taking the family into the fields for picnics on the weekend. Benefits.

The benefit may not always be so apparent. The buyer may perceive some unspoken benefit, which is never made clear. For the President of the cement company the benefit was? The envy of the competition for his audacious decision to site a cement plant in full view of the public? The admiration of the public and the publicity?

The Closing

The closing occurs when the customer agrees to buy. The best closing is the one where the buyer, because he has convinced himself on the basis on the features, advantages, and benefits, elects to conclude the sale. The worst kind of closing occurs when the buyer is coerced by an aggressive salesman into buying something which he is not fully convinced that he needs. This will produce an unsatisfied customer who will not be very receptive to further closings.

In industrial development the Investor normally arrives at his decision. Quite often, however, at the moment of decision, the Investor will need reconfirmation of facts, and, if the Project Officer has established the right kind of relationship with the Investor, the Project Officer’s concurrence that the Investor is making the right decision. This is the final moment in the sales process when the buyer wants the salesman to reassure him that he is making the right decision when he decides to buy.

Most buyers at one time or another have found themselves in that very position. The salesman that was most appreciated was the one who gave the most assurance in the least obvious way. This psychological moment-when the buyer has decided to buy, and looks for every reason to either justify or reconsider the purchase- has a name in the language of sales; it is called "buyer's remorse".

Service

In industrial promotion service is one of the most important elements of the sales process. The Project Officer who has developed the personal working relationship with the Investor now continues on with a new set of problems to replace those of siting a factory or forming a joint venture - now there are those of managing the investment on a day to day basis.

The PO is far from expert in solving these kinds of problems; but he knows the professionals who can help the Investor, and at least for a while the PO remains the person to whom the Investor comes for help. This is as it should be for the Investor has confidence in the PO, and they have developed a means of good communication between themselves.

Eventually the Investor may go directly to the new sources of assistance, which the PO has led him to, or he may not, depending on the circumstances. If the Investor does eventually no longer call upon the PO for assistance, the PO still follows up occasionally by contacting the Investor and inquiring about the state of things.

The best source for leads and new projects is the satisfied Investor who is already established. He will have credibility with other potential investors, which the IPC can never equal.

General Reception Guidelines

It is imperative that the IPC show a good first impression to the investor by providing a reception that is welcoming and professional. A receptionist should be prominently visible at the point of entry, and at the moment of the arrival of the investor, all other duties should be put aside, and the investor's requests should be given full attention.

The investor should understand from the first moment of arrival that he is the reason for the existence of the IPC. Nothing gives a worse impression than to arrive at an investment promotion office either to find no one to address one's requests, or worse, to find a reception that is too occupied with other business to respond immediately.

The quality of the welcome and the professionalism of the reception will remain with the investor when he has returned to his home country. It has been said that a professional reception leaves the impression with the visitor that he is that important person that has been awaited for some time. The IPC would do well to leave that impression.

If the investor requests to see a particular person, and if that person is not available in short order, then some other member of the staff should present himself. Even if the investor has come only seeking brochures, some member of the staff should meet with him, and speak with him about Jordan, its advantages to investors, and the importance of investment to the country's economy.

Reception practices

- warm smile and words of welcome
- immediate attention to investor
- presence of staff to assist him asap

Telephone reception

Of equal importance to the first impression gained from a visit to the investment promotion organization is the impression conveyed by a phone call to the IPC. Poor telephone manners reflect very negatively on an organization, and regretfully this area of customer service is often overlooked.

Communication is a two way process, and good communication requires patience, skill and commitment, especially on the part of the representative of the promotion agency who is trying to render customer service. Listening is vital to good telephone communication, and it is important that the person on the other end of the line understands that she is being attentively heard.

The voice of the promotion agency should be clear, positive and interested, never rushed, distracted and bored. Accents are not important, but sounding clear and enthusiastic make an excellent impression.

Receiving telephone calls at the promotion center:

- smile when answering
- say good morning, this is Investment Promotion Corporation
- if you recognize the person calling, address them by name
- summarize the conversation before ending it

Good manners in transferring calls is another area that is often overlooked by the promotion center. A professional attitude to this activity can earn big returns by making a very good impression from a really small effort.

Transferring calls:

- explain to the caller what you are doing
- check with the recipient to see that they are indeed there
- if there is delay, return to the caller and ask if they wish to continue to hold
- if there is urgent need to talk to the recipient, ask to find them and call back

Receiving messages:

- use message forms especially designed for the purpose
- do not hesitate to ask that message be repeated or spelled
- read it back

SCOPE OF WORK

CAPACITY BUILDING PROGRAM FOR MANAGEMENT AND TECHNICAL STAFF OF JORDAN INVESTMENT PROMOTION CORPORATION

I. Introduction and Background

Factors slowing the success of the investment program and the implementing agency remain real and immediate. The recent financial crisis in East Asia has led to several companies reversing their decision for outward investments in manufacturing and infrastructure-related projects. Asian companies form an important segment for Jordan's target market, as determined in the study, and such factors greatly influence the operations of the investment promotion agency.

The promotion challenge is further compounded by the malignant negative perceptions that exist in ASEAN and OECD economies about business conditions in Middle East countries. To succeed, the Investment Promotion Corporation must be equipped with the appropriate tools that virtually guarantee a certain level of success despite these threats.

The Investment Promotion Corporation is already staffed with competent senior management. The approving authority of the investment program gives it legitimacy with investors, who often view business service agencies as mere public relations agents. The strength of the agency at the top is partially mitigated by the low level of experience at the functional level of the agency. The level of experience in investment promotion, management and monitoring is virtually non-existent at this level. This makes promotion difficult at the initial stages.

II. Summary of Needs Assessment

According to the proposed strategy for the Investment Promotion Corporation of Jordan in the USAID-funded study, the emphasis for the Promotion and Public Relations division is mainly on supporting the overseas efforts of the General Secretary in the initial stages, through effective market research. In tandem, the division will focus on local and regional awareness generation efforts. With respect to the first objective of awareness generation, the division is grossly understaffed and is ill prepared to undertake promotion efforts on a significant scale. There is low level of exposure by staff in the areas of presentations and facilitation of prospective clients.

III. Investment Promotion and Administration Training

These sessions will have a focused agenda dealing with core investment promotion and administration techniques and strategies. The emphasis of each session will be on practical, problem solving rather than on theoretical methods. These sessions will address the following subjects:

Session 1: Individual Skill Building. Presentations during this session will focus on increasing the management and interpersonal capabilities of individual investment program officials responsible for investment promotion and administration. A combination of lectures, videos, and role-playing exercises will provide training in a wide range of skills such as preparing and giving presentations; time management; preparation for site visits; the development of standard operational procedures and forms; and the account executive approach to investment promotion and administration. Participants will be required to take an active role, including taking part in group presentations and completing "homework" assignments and other exercises to ensure that these skills are actively practised.

Session 2: Investment Promotion and Administration Techniques. This session will teach investment program officials the "tried and true" investment promotion and administration techniques that have been effectively employed by successful investment agencies world-wide. The session will focus on the following two key themes:

- Developing the Investment Promotion Product, including how to analyse the investment "product;" identifying competitive and comparative advantages and constraints; building competitive advantage and positioning the country in the global marketplace; and the policy, legal, and physical prerequisites for success.

- Applying Investment Promotion and Administration Techniques and Delivery Methods. This will address basic categories of services (investment monitoring, statistical updates, investor services); evaluating various delivery method options (e.g., public relations, trade shows, promotion materials, using technology in investment monitoring, etc.); developing an optimal marketing and promotion mix; and planning and conducting a successful promotion campaign.

Session 3: Targeting High-Potential Customers. The third training session will teach officials how to target potential investors. The topics to be covered will include comparative and competitive advantage approaches to targeting; the importance of end-user market orientation; and the effectiveness of sectoral, geographic, and company size-oriented targeting approaches. In addition to teaching general techniques, this session will draw heavily upon the results of the FDI Demand Study recently completed, in order to provide concrete and direct targeting skills training in the sectors determined to be the most pertinent for the investment program.

IV. Deliverables

Investment program officials responsible for investment promotion and administration and facilitation will be trained in "best practices" planning, execution and follow up techniques for outward (and inward) investment promotion missions, as well as techniques in investment monitoring.

V. Timing

The proposed start up of the project is September 1 1998.

VI. Resources, Level of Effort & Budget

The proposed consultant is one specialist with previous experience in investment promotion training program.

SCOPE OF WORK

PROMOTION OF THE QIZ PROGRAM BY THE JORDAN INVESTMENT PROMOTION CORPORATION

Introduction and Background

The qualifying industrial estate (QIZ) preferential status, which allows for duty free access into the United States for goods produced in a designated estate, was scheduled to extend from Israel to Palestine and Jordan at the time of this writing (June 1998). This status is as advantageous as it is unprecedented in United States-Jordan trade relations. Under the agreement, the QIZ-based exporter may choose from a combination of input options, provided appropriate regional content can be demonstrated, to waive duties that are otherwise applicable. This will be especially advantageous to companies that export in categories that are generally levied higher duties, such as the sown goods industry - textiles, apparel, sporting goods, luggage, etc. There is reportedly significant momentum by prospective investors, although most are at the inquiry stage. According to a USAID-funded study in June 1998, Jordan, with its reputation of well-qualified labor, comparatively low production costs and geographic proximity to the West European market, has a strong potential in attracting investment into the high value-added segments of the textile industry, particularly knitting and finishing.

However, it should be noted that this benefit will only be available in the short-term, as under the WTO agreement, these quotas are legislated to be phased out by the 2005. This factor will adversely effect Jordan's ability to attract FDI in the apparel industry as the nation does not possess a low wage advantage, and is presently capitalizing on bilateral preferential status. Sustainable long-term development is assured only if the industries are expanded to other industries as well, while skills are upgraded in the textiles and apparel industry.

This scope of work proposes a program to aggressively market the Qualifying Industrial Zone (QIZ) concept to prospective investor segments to take full advantage of the preferential treaty that has been provided to the country.

Structure of Program

The program proposes a combination of information seminars and awareness generation advertising in Jordan as well as in the major overseas target markets. The objective is to inform and provide step-by-step guidance to parties that are interested in establishing a project in Jordan that takes advantage of the QIZ program.

The Corporation plans to put in place an eighteen-month broadcasting program that aggressively advertises and informs the appropriate companies about the benefits of locating in the QIZ. A blitz of press releases, advertisements, and information seminars will be undertaken in the major markets. The 'first wave' of investment is likely to originate from the apparel industry, since apparel exporters are levied among the highest tariffs when shipping to the United States. Information seminars on a quarterly basis in Jordan, the Middle East and Asia – in particular those countries where a critical mass of investors can be expected. These include, but are not limited to, India, China, Hong Kong, Dubai and Bahrain.

The step by step process for the QIZ program entails the following:

- Developing promotional materials that focus on the QIZ program. These include complete information packets in the various media. A communications specialist will work with a graphics/imaging specialist in developing the various promotional materials.

- Establishing the schedule for overseas information seminars. A logistics consultant will work alongside an in house staff member for the duration of the program in identifying the companies, setting up events in the various countries and following up with the program

- Developing an awareness campaign through print and broadcast media, locally as well as internationally. The communications consultant will work alongside in house staff member in establishing the medium and developing the appropriate script for the various messages to the media.

Deliverables

The deliverables include four direct campaigns and a series of advertising programs that will reach at least 75 percent of the intended audience in the target market.

Timing

The proposed start up of the project is September 1 1998.

Resources

A communications specialist and a logistics consultant is proposed for the QIZ program. In addition, a senior investment specialist will assist in structuring the program to ensure the thoroughness of the program with respect to quality and effectiveness of delivery.

SCOPE OF WORK

TRIAL OUTWARD MISSIONS FOR JORDAN INVESTMENT PROMOTION CORPORATION

Introduction and Background

A recently completed study by a team of international consultants funded by the United States Agency for International Development (USAID) suggested that the Investment Promotion Corporation program a series of outward missions that focus on promoting investment opportunities in the major markets as a pre-cursor to its full scale international investment missions. The study recommended that the Corporation program these missions in the Middle East, Europe/North America and East Asia regions. The results of the pilot missions will subsequently allow for the Corporation to plan for large-scale missions in the markets considered most receptive to investment opportunities. Furthermore, the pilot missions will allow for the promotion department to test its skills in company research and event preparation.

Structure of Program

An aggressive marketing personal campaign supported by rigorous corporate-level research forms the core of the pilot program. The results of the pilot program will provide management with its first pool of high potential overseas investors, and provide insight into key obstacles faced in marketing Jordan. This insight will allow management to tighten its promotional message and, if necessary, promotional strategy. Specifically, the work plan outlines the following activities:

- Construct a detailed profile of the leading private firms that make up the target audience for the promotional campaign. This will be achieved through analysing the planning and investment patterns of specific firms to determine their preferences with respect to location and size of facility. A plethora of literature exists through economic development agencies world wide which are routinely contacted by these companies for site selection considerations.

- Make corporate presentations to chief executives, corporate location planners and related decision-makers in the targeted companies in Jordan's major markets. The presentations will be used as a medium to not only showcase Jordan, but also to gather both corporate intelligence on site selection and expansion programs in order to set the stage for submitting solicited and unsolicited proposals.

- Develop a list of "hot companies", identifying those that are most likely to consider Jordan as a site in the immediate and medium term. This list will provide invaluable insight into prospective tenants, specifying their land use preferences. Jordan can use this list to attract an equally important segment - industrial estate developers.

Deliverables

A report profiling thirty (30) 'hot companies', detailing the insight into the site selection approach and requirements based on exhaustive research and/or direct corporate presentations during the pilot promotion phase. The report will rank the companies in terms of highest probability and the medium necessary to attract the investment into Jordan.

Timing

The proposed start up of the project is September 1 1998.

Resources, Level of Effort & Budget

A team of two (2) skilled professionals with demonstrated experience in promoting opportunities internationally are required to implement this program. Specifically, a lead consultant will be required to present to the CEOs and related decision-makers of the various companies. The lead consultant will be supported by a corporate location researcher, who will focus on the investigative research into corporate location practices.

A.1: Potash & Phosphate

Introduction

Industry Definition

The downstream potash and phosphate industries are defined as those that are derived primarily used potassium chloride and phosphate as inputs. While the products that use these intensively are too numerous to mention, fertilizers remain the principal downstream industry, accounting for over 90% of the downstream use of potassium chloride.

The primary downstream industry for potash and phosphate is the manufacture of fertilizer. Potassium chloride (potash) and phosphate are two of the three primary sources of crop nutrients - the third being nitrogen. A number of fertilizer types or grades can be manufactured from each of the two nutrients, including both low- and high-value added products.

Initial List of Industries for Consideration

The analysis focuses on the fertilizer industry, which accounts for 90 percent of the downstream industry for both potash and phosphates. All major fertilizer products will be analyzed for consideration in the final list of products that must be promoted for inward investment.

Analysis of Comparative Advantage

Industry Requirements vs. Location Attributes

What are the principal location requirements for in establishing a fertilizer project, and how does Jordan compare in this respect? These questions are answered in this section.

Size and Access to Market: The size and access to market is a perhaps the most important factor of all. Jordan's significant advantage is its proximity and continuing trade relations with Asia - the largest and fastest growing region for fertilizer exports. Asia is poised to be the largest growth center for fertilizer consumption. In 1996, the developing economies of South and East Asia accounted for 48 percent of world fertilizer consumption, the largest regional share, with India and China as the largest consumers in each of their respective regional markets. Asia, as a whole, is expected to account for approximately 56 percent of annual growth in worldwide fertilizer demand.

Table A1.1: Summary of Comparative Advantage Rankings
(Scale 1-4, 4-significant advantage; weights and ratings through private sector interviews)

Factor	Weight	Ratings	Score	
Size and Access to Market	35.0%	3	26.25%	Main advantage is proximity Asia - the largest and fastest growing region for fertilizer exports. Shipment costs are higher than competing ports.

Availability of Raw Materials/Inputs	35.0%	4	35.00%	Sixth in the world for phosphate production, considered a competent location to source fertilizer input.
Availability of Land	0.0%	0	0.00%	
Availability and Cost of Trainable Labor	10.0%	4	10.00%	Engineers and skilled technicians widely. Salaries fraction of industrialized country counterparts. But labor is concentrated in Amman.
Quality/ Availability of Infrastructure	10.0%	4	10.00%	Reasonable in comparison with competing countries.
Intellectual Property	10.0%	4	10.00%	Limited problem because of few players.
Total	100.0%		91.30%	Grade A

Despite slowdown in the economic situation in East Asia, analysts believe that the situation is merely short term and does not merit investor concerns. Further, growth will remain strong owing to the continued demand in India and China, which together account for over 70% of Asian demand and who have remained largely unaffected by the economic crisis, according to the US based Fertilizer Institute.

There are certain factors that limiting optimal growth of the industry. First, shipment costs from Aqaba are higher than competing ports such as Haifa, which has already been cause for concern by Jordanian companies. The development of Aqaba port, presently underway, is critical to the continued success of the industry as storage and handling facilities are reportedly rather weak. Second, weak transportation infrastructure has been considered a partially limiting factor.

Raw Materials: With respect to raw materials, Israel offers higher amounts of granular potash for higher value fertilizer, but Jordan is the largest producer of potash in the Arab world and the sixth in the world for phosphate production, and is therefore considered a competent location to source the inputs for fertilizers. However, the presence of some of the world's leading fertilizer, Norsk Hydro, BASF and NPK in Jordan in one form or another provide strong investor signals.

A potential problem to the entry of a new investor is the monopoly of the raw materials. Both Arab Potash Company (APC) and

Jordan Phosphate Mines Company (JPMC) are the single source of potash and phosphate respectively and this could cause a potential loss in bargaining power on part of the foreign investor. Still, both companies are seeking to aggressively internationalize their distribution of value-added output and the presence of NPK sends strong investor signals that the companies are not closed to a symbiotic arrangement. In sum, the issue of monopoly should figure in a limited manner.

The notable absence in the local market of a key ingredient in fertilizer production - di-ammonium phosphate (DAP) - is a clear drawback. World market prices of fertilizer are partially influenced by the movements costs of the DAP, which must be imported in Jordan. Fortunately, the shortage of sulfuric acid is being met with the proposed phosphoric acid complex that will produce 1.5 million tons per year (tpy) of the input along with 500,000 tpy of phosphoric acid.

Availability and Cost of Trainable Labor: With respect to the availability and cost of trainable labor, Jordan rates very well in this area. Engineers and skilled technicians are widely available, and salaries are a fraction of industrialized country counterparts. However, given that the location is likely to be the port area, it could pose a problem since labor is not as widely available as, say in Amman. Also, the issue of quality and availability of infrastructure could influence the decision somewhat although its importance vis-a-vis other factors is also admittedly less. Again, the quality of services in Aqaba is not as well developed as in Amman.

Intellectual Property Protection: Intellectual property violation will not pose a threat to incoming companies given the virtual non-existence of competing local counterparts, other than the current JPMC/APC -allied companies.

Results of Comparative Advantage

There are few sectors in which Jordan possesses a higher degree of comparative advantage as it does in potash and phosphate fertilizers. The proximity to both European and the growing Asian markets, the large reserves of potash and phosphate, and the continuing presence of world class companies meet the fundamental supply and demand criteria. The monopolistic supply condition in Jordan is not unlike scenarios experienced elsewhere (discussed at length in the following section) and this condition may be mitigated through the appropriate agreements between foreign and local partner. Overall, Jordan ranks very favorably as a location option for the fertilizer industry, assuming that market trends continue to operate in the favor of the local industry. These trends are discussed in the following section - competitive advantage.

Analysis of Competitive Advantage

Local Mega Trends

Establishment of Mega-projects: A series of mega-projects in the Jordanian fertilizer industry is likely to stimulate the continued confidence of the overseas investors. Leading projects include the following:

- The 50-50 joint venture project between Arab Potash Company of Jordan and Kemira Agro Ventures of Finland for the development of potassium nitrate and di-calcium phosphate, announced in June 1998
- The joint venture between Arab Potash Company, Jordan Phosphate Mining Company and Norsk Hydro of Norway to develop complex fertilizers, announced in August 1997
- The joint venture between APC and Israel's Haifa Chemicals for the production of liquid fertilizer, announced in January 1997

JPMC has also signed joint venture projects with several international companies. These include an agreement signed with SPIC of India that led to the set up of the Indo-Jordan Chemicals Company to produce phosphoric acid. According to its 1998 annual report, JMPC also contributed, along with Arab Potash and a number of Japanese companies in the establishment of the Nippon-Jordan Fertilizer Company to produce (NPK) compound fertilizer, and with Fawji (FFC), a Pakistani company, in the establishment of FFC-Jordan Fertilizers, a company based in Pakistan to produce di-ammonium phosphate, urea and ammonia. The company also has a number of other ventures that are currently under consideration.

Overall, the buoyancy of the fertilizer industry suggests a high level of confidence in the sector, and analysts still point to the continued potential for Jordan to develop its fertilizer industry[6].

Lowered Cost of Electricity: While Jordan's rates are competitive with the rest of the region, rising demand, which is expected to grow about nine percent per year, is likely to put pressure on supply. According to the Jordan National Power Corporation, this will require an annual investment in expanded capacity of US$ 170 million per annum. The government's decision to privatize and de-monopolize the sector by 1999 should go a long way in ensuring that the required targets are met. Already, the Ministry of Energy's recently issued tender to build and operate private power plants was generated proposals from eleven international power providers, an impressive figure by global standards.

International Mega Trends

Strengthening of North American Oligopoly: three North American corporations largely control both the potash and phosphate fertilizer sectors. These corporations, which include the Potash Corporation of Saskatchewan (PCS) of Canada, and IMC Global and Freeport McMoran of the United States, comprise an oligopoly in the global mining of raw potash and phosphate. A series of mergers and acquisitions within the North American market, beginning in 1995, fortified this oligopoly. The remainder of the market is more geographically dispersed and remains fairly fragmented, with output destined to domestic or regional markets.

6 Discussion with potash/phosphate analyst, Ministry of Planning, Amman.

However, the production decisions of the North American oligopoly have a strong supply-side influence on worldwide fertilizer prices. As production elsewhere has little impact on world prices, production cost is the principal determinant in the size of manufacturers' profit margins, margins that tend to be rather low when compared to nitrogen-based fertilizers. Recent investments by advanced economy-based fertilizer producers into developing economy markets with cheap raw materials and labor point to this drive to expand profit margins.

Jordan, with its local supply of raw potash and phosphate, combined with relatively low production costs, has the potential to reap favorable profit margins on the manufacture of fertilizers, a potential that would prove attractive to investors.

Developing Economies as Consumption Growth Centers: Since 1974, there has been a steady rise in fertilizer consumption (including nitrogen-based) in the developing and emerging economies due to an increase in cereal production (cereal production accounts for 58 percent of world fertilizer consumption) as well as the economic recovery in Central and Eastern Europe and the former Soviet Union. The overall upward consumption trend can be expected to continue - fertilizer consumption is expected to grow at a rate of 3 percent per annum through 2002. While nitrogen-based fertilizers currently account for the largest share of developing country fertilizer consumption, the need to strike a balance between crop nutrients will stimulate an increased consumption of high grade potash and phosphate fertilizers, as well.

Following Asia, North and Latin America together form the second largest consumption group, with 24 percent of the world consumption total. Europe and the states of the former Soviet Union comprise the third largest group, consuming 20 percent of world fertilizer production. The Middle East accounts for 4 percent while Africa and Oceania each account for two percent of world fertilizer consumption.

While consumption is growing in these markets, domestic-based production of fertilizers is unable to keep up with demand, requiring large imports of fertilizers. The following table of PCS's potash and phosphate fertilizer exports provide a glimpse at recent fertilizer trade patterns outside the U.S. and Canada:

As seen from the table, China is the leading export market for both potassic and phosphate fertilizers. While domestic production has been stepped up, output continues to fall far short of the growing demand by agricultural producers. In 1996, more than four million tons of phosphate fertilizers were imported to meet 40 percent of China's domestic consumption requirements. Local potash fertilizer production also fell short of domestic demand, of which 49 percent was met by imports. It is projected that it will take 15 years before China reaches self-sufficiency in phosphate fertilizers while self-sufficiency in unlikely to be achieved in potassic fertilizers due to inadequate raw material resources.

The growing import demand for potash and phosphate fertilizers, particularly in the developing world, presents Jordan with an opportunity to expand its export base of both low- and high-grade products. The Middle East market, though only accounting for 2 percent of current world consumption, is a growing market, with demand increasing an average of 5 percent per annum. At present, sales to the regional market total US$82.0 million, the majority of which is imported. Jordan's relatively cheap supply of raw materials, low production costs, and proximity to the Asian, Middle Eastern, and African markets, make it a promising investment site.

East Asia Crisis Unlikely to Unsettle Industry Growth: The East Asian financial crisis has sent shock waves through a number of industries worldwide. However, according to the Fertilizer Institute, an industry association in the U.S., the potash and phosphate sectors are unlikely to be among those seriously affected. While potash and phosphate producers in North America derive 20 to 25 percent of their earnings from sales to Asia, the bulk of these sales are to China, India and Japan. Thailand, Malaysia, Indonesia and South Korea are not significant buyers of fertilizer. As long as China, the region's largest consumer of fertilizers, remains unscathed by the crisis, producers should feel little negative impact on their demand.

Joint Ventures in Developing Economies: While the North American market continues its process of consolidation through a series of mergers and acquisitions, investment activity is speeding up in the developing economies, primarily in the form of joint ventures. The majority of these investments involve the participation of advanced economy producers - such as the United States, Europe, and Japanese - reflecting the desire by some to increase profit margins through lower production costs and by others to access local or regional markets. Examples of the former include those new production is destined to home markets, such as the recent investments by Haifa and Nippon in Jordan. Recent investments exemplifying the latter include Albright & Wilson's (UK) joint venture in Brazil and Japan's investment in Vietnam.

Its should be noted that the majority of these joint ventures involve advanced economy producers though none involve the North American oligopoly members, indicating that it is the second- and third-tier, advanced economy producers that are the most promising targets for joint ventures in the developing world.

Table A1.2: Recent Investments in Potash- and Phosphate-Based Fertilizers

Source Country	Source Company	Destination Country	Destination Company	Method Of Entry	Products	Date Of Article	Value Of Investment (Us$)
Finland	Kemira Agro Ventures	Jordan	Arab Potash Co.	50:50 Joint Venture	potassium nitrate & dicalcium phosphate	6/1/98	75 mil.
Spain	Fertiberia	Algeria	Sonatrach	60:40 Joint Venture	phosphatic fertilizer	4/1/98	533 mil.
India	Southern Petrochemical Industries Corp.	India	Tuticorin Alkalies & Chemicals	Merger	phosphatic fertilzer	3/31/98	n/a
India	Rama Phosphates Ltd.	India	____	Plant expansion	single super phosphate fertilzer	3/25/98	Rs. 12 crore
US	IMC Global	Canada	Freeport Mc Moran	Acquisition	potash and phosphatic fertilzers	12/27/97	748 mil.
Norway	Norsk Hydro,	Jordan	APC/ JPMC/ Social Security Corp.	Joint Venture	complex fertilizers	8/29/97	540.5 mil.
US	Mississippi Chemical	US	____	Plant expansion	DAP fertilizer	7/28/97	10.5 mil.

Source Country	Source Company	Destination Country	Destination Company	Method Of Entry	Products	Date Of Article	Value Of Investment (Us$)
	Corp.						
US	Jacobs Engineering Group, Inc.	India	Oswal Chemicals & Fertilizers Ltd.	Joint Venture	DAP fertilizer	6/16/97	150 mil.
India	Rama Petrochemicals	India	Rama Fertilizers	Merger	single super phosphate fertilizer	2/6/97	n/a
Israel	Haifa Chemicals	Jordan	Arab Potash Co.	Joint Venture	liquid fertilizer	1/1/97	60 mil.
Japan	Tomen Corp.	Vietnam	Vietnam National Chemical Corp.	Joint Venture	phosphatic fertilizer	1/1/97	180 mil.
US	Mississippi Chemical Corp.	US	First Mississippi Corp.'s fertilizer operations	Acquisition	DAP	12/24/96	314 mil.

Source: Various reports from IAC-Insite Database

Jordan, as a low-cost producer in geographic proximity to the growing markets of Asia, Africa and the Middle East, has the opportunity to capitalize on both trends, attracting both those interested in the regional market and those seeking a low-cost production base for export outside the region.

Results of Competitive Advantage

The majority of current investments analyzed in potash and phosphate fertilizers involve the participation of advanced economy producers - such as the United States, Europe, and Japanese - reflecting the desire by some to increase profit margins through lower production costs and by others to access local or regional markets. Jordan, as a low-cost producer in geographic proximity to the growing markets of Asia, Africa and the Middle East, has the opportunity to capitalize on both trends, attracting both those interested in the regional market and those seeking a low-cost production base for export outside the region. The sector is ranked A.

Consistency with Policy Objectives

Table A1.3: Summary of Consistency with Policy Objectives
(Scale 1-4, 4-high consistency; ratings through private sector interviews)

Development Indicators	Weight	Ratings	Score
Labor Intensive	16.7%	2	8.3%
Smart-Industry	16.7%	2	8.3%
Export-Orientation	16.7%	4	16.7%
Investment Levels	16.7%	4	16.7%
Natural Resource Usage	16.7%	4	16.7%
Value Added	16.7%	4	16.7%
	100.0%		83.4%
Consistency With Policy Objectives Ranking			B

Investment levels in the potash and phosphate fertilizer industry, which tend to be of a mega project scale (investments over US$50 million) could greatly strengthen Jordan's position as a major producer in the world market. Most importantly, beneficiation processes in this industry will partially ameliorate the high levels of exports in primary commodity form. While the government could realize benefits through tax revenues and increased foreign exchange earning, it cannot expect much in terms of employment levels, owing to the nature of the projects. Overall, the industry scores reasonably with its consistency with policy objectives and is ranked as a B.

Final List of Target Industries

Within downstream potash and phosphate products, the focus is on high value fertilizer for the Asian market.

Target Investors / Countries

Potash and phosphate-based fertilizer manufacturers tend to be large specialized companies or subsidiaries of major multinationals, with sales ranging from US$ 100 to US$ 500 million. The substantial fixed investment required in fertilizer plants in their countries suggests that target companies may undertake projects in Jordan only as part of a market expansion or joint venture program, not as a relocation. Investments, therefore, are only for those companies that have assured buyers in existing, high growth markets. Given their recent activity in developing economy markets, the most likely candidates for investment into Jordan include German and North American producers. There are also select companies in Japan and Spain that should be investigated on a case-by-case basis. A sample of the type of companies that are very active overseas at present is shown in Table A1.2.

A.2: Textiles and Apparel Sector

Introduction

Industry Definition

Textiles manufacture is defined as the process wherein the primary product, yarn or filament yarn undergoes various processes to be convert into fabric form. In the case of natural textiles, the process may be broadly divided into three parts:

- Spinning, where yarn is converted (spun) into fibers;
- Weaving, where the fibber is woven into primary fabric, called gray fabric and;
- Finishing, where the primary fabric is treated through dyeing or printing or related processes to arrive at a marketable form of fabric.

The apparel sector refers to companies engaged in the manufacturing of women's, men's and children's clothing. The sector is also referred to as the textile products sector.

Structural Overview of Local Conditions

Jordan's apparel industry is highly underdeveloped. Only two companies are considered large scale - which together employ 1,450 workers. At the next level, 39 medium sized companies are registered which employ approximately 2,128 workers. At the lowest level, the number of enterprises is even greater, although these employ between one and five workers.

Initial List of Industries for Consideration

The list of industries for analysis in apparel is as follows:

- Women's casual wear
- Women's lingerie
- Women's formal
- Men's/Boy's casuals wear

- Men's/Boy's underwear
- Juniors' casual wear
- Baby/Infant Clothing

Analysis of Comparative Advantage

Local Attributes vs. Industry Requirements

Jordan's principal advantages with respect to the apparel industry are as follows:

- Low cost, particularly Asian, apparel manufacturers tend to base their investment decision on a location's ability to provide unmet quotas. Jordan's status as a quota free manufacturing location will be attractive to potential investors. Furthermore, the qualifying industrial zone (QIZ) status given to the region (Israel, Jordan and the Palestine National Authority) will spiral Jordan's advantage over the others.

- Labor intensive, apparel manufacturers require significant quantities of low wage unskilled workers. Jordan wage rates, higher than many apparel producing countries, are still lower than Israel and the QIZ and quota status mitigate against the high wage rates. This should represent an incentive to potential investors.

Jordan's principal disadvantages are as follows:

- Textiles represent apparel manufacturers' major raw material input. Jordan currently does not have a viable textile industry. Consequently, firms choosing to locate in Jordan would need to incur the cost of transporting their textiles; as such, this factor could act as a disincentive.

Table A2.1: Summary of Comparative Advantage Rankings
(Scale 1-4, 4-significant advantage; weights and ratings through private sector interviews)

Factor	Weight	Rating	Score	Notes
Size and Access to Market	45.0%	4	45.0%	Quota free status and the qualifying industrial zone (QIZ) status will spiral Jordan's advantage over the others
Availability of Raw Materials/Inputs	10.0%	3	7.5%	Firms choosing to locate in Jordan would need to incur the cost of transporting their textiles
Availability of Land	10.0%	3	7.5%	Irbid's Hasan Industrial Estate is presently the only one with QIZ status and is fully occupied
Availability and Cost of Trainable Labor	25.0%	3	18.8%	Jordan wage rates, higher than many apparel producing countries, are still lower than Israel
Quality/ Availability of Infrastructure	10.0%	4	10.0%	infrastructure conditions in Jordan are higher than many apparel industry manufacturing locations world wide
Intellectual Property	0.0%	0	0.0%	- Not Applicable -
	100.0%		88.8%	Grade B+

- A reliable supply of electricity represents a necessary input for apparel manufacturers. Since infrastructure conditions in Jordan are higher than many apparel industry manufacturing locations world wide, this would be a non-issue.

- By nature labor-intensive apparel manufacturers are export-oriented and require competitive airfreight and sea freight rates. As high transportation rates represent one of Jordan's comparative disadvantages, this would partially impede Jordan's potential to attract FDI.

Results of Comparative Advantage

The comparative analysis of apparel as a manufacturing option for foreign investors seems very strong owing to the QIZ, despite traditional factors costs such as labor costs, etc. that would otherwise mitigate against such advantage. The apparel industry gets a B+ ranking on the comparative advantage scale.

Analysis of Competitive Advantage

Local Mega Trends

QIZ Status Could Catalyze US Market Access*:* The qualifying industrial estate (QIZ) preferential status, which allows for duty free access into the United States for goods produced in a designated estate, was scheduled to extend from Israel to Palestine and Jordan at the time of this writing (June 1998). This status is as advantageous as it is unprecedented in United States-Jordan trade relations. Under the agreement, the QIZ-based exporter may choose from a combination of input options, provided appropriate regional content can be demonstrated[7], to waive duties that are otherwise applicable. This will be especially advantageous to companies that export in categories that are generally levied higher duties, such as the sown goods industry - textiles, apparel, sporting goods, luggage, etc. There is reportedly significant momentum by prospective investors, most of whom are at the inquiry stages.

Congestion In QIZ Designated Locations May Diminish Market Access Advantage*: According* to discussion with the competitive analysis team at the Ministry of Planning, the benefits of the QIZ status may not be fully realized in Jordan owing to the lack of space in the presently designated QIZ areas, namely Hassan Industrial Park in Irbid and the Sabah Industrial Park. The need for land is critical since the likely investor group, the sown goods industry, has a reputation for rapid decision-making, owing to small profit margins and low fixed investment levels in the industry. The lack of land will potentially lead companies to abandon their relocation plans to in Jordan.

[7] According to discussions with the textiles competitiveness unit analyst, Ministry of Planning, Amman, the exporter may demonstrate (a) 35% regional content of direct costs, with a minimum of 11.6% of Israel, 11.6% of Jordan and 11.6% of Palestine input. (b) 40% of regional content in either direct or indirect costs, with a minimum of 20 % from Israel and 20% from Jordan (April 25 1998)

International Mega Trends

Apparel: a Segmented Market: The apparel industry is generally sub-divided into two segments - mass-market products and high value-added products - each with a different overall factor input mix and pricing structure, as well as different consumer markets. As a result, the location decisions tend to differ between manufacturers in the two segments.

The location decisions of mass-market apparel manufacturers have generally been based on two factors: access to extremely low-cost, low skilled labor - as the wage bill is a significant component in the products' pricing structure - and the availability of quotas. Given the low cost of capital installations, factory relocation is relatively easy and cost-effective for mass-market producers should more favorable opportunities arise. Asian garment manufacturers, in particular, have gained a reputation as being "foot-loose" "quota-hoppers". As wages rise and quotas are exhausted in Asia, Asian apparel manufacturers have been establishing facilities in the Mahgreb region and Sub-Saharan Africa as a means of obtaining more competitive wage rates and unmet quotas. At the same time, U.S. mass-market producers are shifting their garment assembly operations to Mexico and the Caribbean - who benefit from preferential access tot he U.S. market - in order to access low-wage labor.

The location decisions of manufacturers of high value-added apparel - such as men's suits, women's lingerie, and more fashion-sensitive items - is, instead, governed by a different set of criteria. Unlike mass-market products, labor costs comprise only a small proportion of the product price in this market segment. While labor costs may have some influence on location decisions, other factors tend to outweigh the wage bill. Other factors include proximity to destination markets (for just-in-time sourcing), access to more skilled labor, production quality and access to preferential trade terms. Value-added apparel manufacturers are generally located in the advanced economies as well as a number of middle-income emerging economies.

Jordan's attributes are unlikely to attract mass-market producers due to the availability of cheaper labor in South Asia, Africa, Latin

America and the Caribbean except, perhaps, some quota-hoppers in the short-term. On the other hand, with a well-trained labor force with relatively low wages when compared to advanced economy markets, Jordan has the potential of attracting manufacturers of higher value-added apparel. Jordan's proximity to the European market would prove an additional attraction to Europe-based producers while QIZ status in the U.S. would prove attractive to other investors interested in accessing the U.S. market.

Shifts in Textile Production: Like the two apparel industry segments, the textile industry has its own set of investment criteria. As the industry is generally more capital- and skills-intensive than the apparel industry, a low wage bill is less important to producers than availability of semi-skilled labor, proximity to apparel manufacturers (for fast turn-around times), and competitive overall production costs.

In response to these investment criteria, the production of textiles is, according to Textile World magazine, currently undergoing a geographic shift from the Far East - where high production costs and slow response times impede competitiveness - to the emerging economies of the Middle East and South America. The key factors driving this shift are speed of production, proximity to end-user markets, and competitive production costs.

At the same time, West European, as well as some Asian, producers are moving into the Central and Eastern European markets, particularly the Czech Republic and Poland in response to comparatively lower production costs, availability of semi-skilled labor, and proximity to the West European apparel market.

Jordan, with its reputation of well-qualified labor, comparatively low production costs and geographic proximity to the West European market, has a strong potential in attracting investment into the high value-added segments of the textile industry, particularly knitting and finishing.

Textile and Apparel Quotas to be Phased Out by 2004: Much of the international trade in textiles and garments, some 75 percent of the total, is currently governed by the Multi-Fiber Agreement (MFA) under the WTO (formerly GATT), a quota-based system designed to protect, primarily, the domestic industries of the United States and Western Europe. As mentioned above, "foot-loose" investors are known to quota-hop, relocating to take advantage of unmet quotas in other exporting countries.

During the Uruguay Round of GATT negotiations, agreement was finally reached to begin the phase-out of the MFA which is scheduled to be completed by the end of 2004. While tariffs by importing countries will remain in effect past 2004, the elimination of the quota system will bring the highest degree of "free trade" to the industry seen in more than 30 years.

As a result, any attraction to Jordan's unmet quotas would prove short-lived as other factors dominate investment decisions. However, a free-trade regime can benefit Jordan. While Jordan cannot compete with lower-wage countries for mass-market apparel manufacturing, Jordan possesses a number of assets that could prove attractive to high value-added textile and apparel manufacturers. Once again, these attributes include Jordan's preferential access to the U.S. market, its geographic proximity to the European market, and relatively low-cost, high-skilled labor.

European Manufacturers' Investment Trends: Recent investments by Western European manufacturers points to Jordan's potential in attracting investment into this sector. Western European manufactures of high value-added products are experiencing difficulty competing with the lower wage nations. The apparel manufacturers in the Far East, North Africa and East European nations not only have comparatively lower production costs, but also have improved quality levels moving beyond low-cost apparel niches and have supplanted Western European producers in the international markets.

Some recent examples of this trend include the following:

- Many Italian products are made in the Far East and Eastern Europe and shipped to Italy for the 'Made in Italy" label, with only a marginal added value in the producer countries.[8]

- Western European, particularly French and Italian companies, are increasingly installing production facilities in Eastern Europe, Portugal, Morocco, Tunisia, and Turkey in order to profit from their comparatively lower production and transportation costs[9]. Following are some such investments:

- The French company Ozona anticipates relocating 60 percent of its manufacturing operations to countries in the regions of the Maghreb and southeastern Asia.

- The Italian firms Belfe, Benetton, and Marzotto are subcontracting the assembly aspect of their production processes to North African nations.[10]

This emerging trend for European textile and apparel manufacturers operating in the high value-added sectors points to Jordan's potential in attracting such investments as it possesses the three primary criteria driving such investments: comparatively low wages, skilled labor, and geographic proximity.

Recent Investments World-wide

As indicated above, the cost of labor currently represents a strong factor when mass-market manufacturers are deciding to expand or establish a facility. The higher wage rate Asian nations have long been relocating their facilities in the their lower-wage Asian counterparts and are now looking at quota-free countries in the

8 US Department of Commerce, Market Research Report: Italy, Children's apparel, November 1994.

9 US: Market Research Report: France: Jeans wear, January 1995.

10 "International Manufacturing Strategies: Experiences from the Clothing Industry", International Journal of Operations and Production Management, November, 1996.

Maghreb region as well as Sub-Saharan Africa. European and US companies are also attracted to these nations' lower wage rates.

Higher value-added textile and apparel producers - from Western Europe, as well as some from Asia - on the other hand, are moving into the emerging markets of Central and Eastern Europe, North Africa and the Middle East to access higher skilled, comparatively low-cost labor and to ensure quick turn-around times through strategic geographic locations. Recent investment activity in these regions has covered most categories, including greenfield investments, acquisitions, mergers, and joint ventures.

It is in this second grouping, once again, that Jordan has the most potential in attracting investment given its ability to match industry requirements.

Recent Investments Worldwide

The cost of labor currently represents a strong factor when companies are deciding to expand or establish a facility. The higher wage rate Asian nations have long been relocating their facilities in the their lower-wage Asian counterparts and are now looking at quota free countries in the Maghreb region as well as Sub Saharan Africa. European and US companies are also attracted to these nations' lower wage rates.

As Table A2.2 indicates, there has been a flurry of cross regional acquisitions and joint-ventures, as was the rationale behind the Belgian Sioen’s acquisition of some Indonesian counterparts, and the Italian Zucchi’s joint-venture with the Indian Welspun.

In addition, European nations are also undertaking greenfield investments in Eastern Europe, North Africa and Asian nations. UK’s Dewhirst considering Morocco and Indonesia as possible sites for relocation indicates such activity. It should be noted that Western European nations tend to prefer Eastern European or North African locations over Asian sites due to the resulting decrease in transportation time and costs to the European market.

Table A2.2 Recent Investments in Apparel Sector

Date	Source Company	Source Country	Target Company	Target Country	Method of Entry	Ownership	Value US$ Mn	Product
Sep-97	Dewhirst	UK	-	Morocco Indonesia	Expansion	100%	$20.3	apparel & related products
Sep-97	Ramatex	Malaysia	Tai Wah Garments	Malaysia	Acquisition	N/A	$7.95	apparel & related products
Aug-97	Manifatura Di Valle Brembana	USA	Morarjee Mills	India	Joint Venture	N/A	$19.2	garments
Jul-97	EBRD	Russia	Gloria Jeans	Russia	Equity Sales	20%	$3	jeans
May-97	Zucchi	Italy	Welspun	India	Joint Venture	N/A	$2	robes/dressing gowns
May-97	Rouleau Guichard	France	Daniel France	France	Acquisition	N/A	N/A	undergarments
Feb-97	Modibel Texim	Belgium	-	France	Greenfield	100%	$5	t-shirts, pullovers, automation
Jan-97	Malerba	Italy	-	Italy	Greenfield	N/A	$29.4	children's clothing, socks

1997–est	Ozona	French	-	Maghreb	Expansion	NA	NA	Children’s clothing

Table A2.2 Recent Investments in Apparel Sector (Continued)

Date	Source Company	Source Country	Target Company	Target Country	Method of Entry	Ownership	Value US$ Mn	Product
Jan-97	Designer Textiles	New Zealand	-	Australia	Greenfield	N/A	N/A	-
1996-est	Gunz	Japan	GRI	Indonesia	Joint Venture	70%	N/A	stocks, stockings
Dec-96	Great River Intnl.	Indonesia	-	Indonesia	Greenfield	N/A	$15.8	stocks, stockings, shirts
Oct-96	Sioen	Belgium	-	Indonesia	Acquisition	N/A	N/A	apparel and related products
Sep-96	Pancaidi Enterprise	Malaysia	-	Malaysia	Greenfield	N/A	N/A	N/A
1996-est	Marks & Spencer	UK	White House	India	Joint Venture	N/A	N/A	Undergarments
May-96	Kurt Kellerman	Sweden	P. Zarya Co.	Russia	Acquisition	50.6%	N/A	women's apparel

May-96	Galey & Lord	USA	-	Mexico	Acquisition (6 plants)	N/A	$22.5 (total)	men's pants and shorts

Source: 1997 F&S Index, 1997 IAC Insite

For that matter, it is the East and South Asian companies that are major suppliers to the United States that are likely to be target investors in Jordan.

Results of Competitive Advantage

As noted above, foreign direct investments in apparel are quite mobile, with manufacturers choosing locations to capitalize on low labor costs and country quotas, and leaving again when either is exhausted or becomes unavailable. This factor bodes well for Jordan and the surrounding regions as their Lome Convention provides them with preferential market access to the European Union. This element combined with Jordan's relatively low wage and transportation rates has the potential to make Jordan an attractive FDI location. However, it should be noted that this benefit will only be available in the short-term, as under the WTO agreement, these quotas are legislated to be phased out by the 2005. This factor will adversely effect Jordan's ability to attract FDI in the apparel industry as the nation does not possess a low wage advantage, and is presently capitalizing on bilateral preferential status.

Consistency with Policy Objectives

Table A2.3: Summary of Consistency with Policy Objectives
(Scale 1-4, 4-high consistency; ratings through private sector interviews)

Development Indicators	Weight	Rank	Total
Labor Intensive	16.7%	1.00	16.7%
Smart-Industry	16.7%	0.25	4.2%
Export-Orientation	16.7%	1.00	16.7%
Investment Levels	16.7%	0.30	5.0%
Natural Resource Usage	16.7%	0.00	0.0%
Value Added	16.7%	0.50	8.3%
	100.0%		50.8%
Consistency With Policy Objectives Ranking			C -

While employment per project is significantly greater than most of the sectors examined in this study, the apparel industry provides few other benefits. Foreign exchange earnings remain low in most apparel projects despite high export orientation, owing to the significant levels of imported inputs. Skill enhancement is low since only short- term (60 days usually) training required for the vast majority of tasks within the production process. Overall the industry gets a C in its consistency with policy objectives.

Final List of Target Industries

Within textiles and textile products, focus on high-end apparel in the classic garments category - men's suits and women's lingerie. The cost of labor forms a relatively small share of the overall cost of production, offsetting the wage-based advantage that other African and South Asian countries may offer. Furthermore, products such as men's suits and women's lingerie are not seasonal, thus diminishing the importance of the quick-response system, which has allowed many high-cost labor economies to continue apparel production. Finally these categories represent high priced clothing, and therefore high absolute value of tariff, which are offset owing to the QIZ advantage.

Target Investors/Countries

For textiles and textile products (apparel), companies from UAE (Dubai's Jebel Ali Free Zone), India, Egypt and China/Hong Kong. These are companies that are presently exporting to the United States in the specific categories mentioned and would find it beneficial to get the duty free access.

A.3: Dead Sea Cosmetics Sector

Introduction

Industry Definition

The industry encompasses products classified as beauty products that are made of the Dead Sea salts (Carnelite) and Dead Sea mud.

Structural Overview of Local Conditions

The Dead Sea cosmetics industry in Jordan derives its existence through a natural resource endowment - the Dead Sea - shared only by Israel. The Dead Sea cosmetics, however, remain relatively underdeveloped, having started only in 1986 (Israel's industry was established in 1968, in contrast). Despite an entirely export-oriented industry, over 90% of Dead Sea cosmetics are shipped in unprocessed form. In 1996, Jordan's total industry revenues, according to statistics from the Ministry of Planning, amounted to US$4.7 million - half of the output of a single leading Israeli firm. Furthermore, less than US$ 0.5 million of the products were shipped in processed form, amounting to less than one percent of the estimated US$50.0 million global dead sea cosmetics market.

The raw material source at present, Numeira, is a monopoly that could potentially lead to tensions. These issues of monopoly are presently being address, and an investor would need assurance of consistent input prices.

Initial List of Industries for Consideration

The initial list of industries for consideration is products that are intensive users of Dead Sea salts. These encompass face creams and masks and hair cleansers and conditioners.

Analysis of Comparative Advantage

Local Attributes vs. Industry Requirements

This section discusses project requirements of the industry, and not broad investor expectations of political risk and economic certainty, which take precedence over project specific requirements. Comparative advantage is analyzed using the following factor conditions: size and access to market, availability of raw material inputs, availability and cost of trainable labor, availability of land, and quality/availability of infrastructure.

Table A3.1: Summary of Comparative Advantage Rankings
(Scale 1-4, 4-significant advantage; weights and ratings through private sector interviews)

Factor	Weight	Rank	Total	Notes
Size and Access to Market	30.0%	3	22.5%	Jordan's free trade agreement with the EU and the bilateral QIZ status with the United States provide it with a special status , Transport is twice as high.
Availability of Raw Materials/Inputs	30.0%	4	30.0%	Carnelite is fully one-third the price of Israeli and boasts a higher content of magnesium, Mud from Jordan is fully one-fifth the cost of Israeli mud
Availability of Land	5.0%	4	5.0%	Industrial land is generally cheaper than Israel and is rather easily available in Amman as well as other industrial areas
Availability and Cost of Trainable Labor	25.0%	4	25.0%	Jordanian labor is fully one-sixth the cost of Israeli labor, although their experience with Dead Sea cosmetics is admittedly less.
Quality/ Availability of Infrastructure	10.0%	3	7.5%	Infrastructure in Amman is very good and reliable. Electricity higher cost than most
Intellectual Property	0.0%	0	0.0%	
	100.0%		90.0%	Grade A

Size and Access to Market: Despite a small but relatively untapped market with high growth potential, Dead Sea cosmetics production will have to necessarily be export oriented to warrant production economies of scale. The Middle Eastern market, while untested, is small in comparison to Europe and the United States, where supply cannot keep up with demand. Jordan's free trade agreement with the EU and the bilateral QIZ status with the United

States provide it with a special status, although Israel also enjoys the latter. The drawback here is the transportation cost, with Israel's cost per container fully half that of Jordan. Still, Jordan's high shipment costs are offset by the its lower cost of labor and raw materials, as discussed later.

Availability of Raw Materials/Inputs: Jordan's advantages in inputs are tremendous. Carnelite is fully one-third the price of Israeli and boasts a higher content of magnesium, thereby requiring less synthetic interventions in production. Mud from Jordan is fully one-fifth the cost of Israeli mud. Overall, Jordan is well positioned to attract investors on this factor.

The lack of quality packaging is likely to be a negative factor, but this could easily be imported from Israel, from the region or elsewhere. Problems with importation have been reported, although could be ameliorated through establishing the appropriate pre-clearance documents.

Availability of Land: This is not an issue since industrial land is generally cheaper than Israel and is rather easily available in Amman as well as other industrial areas. The investor who is presently considering exports to the United States will face problems acquiring land in Hassan Industrial Park, currently the only location where production qualifies for tariff waiver in the United States.

Availability and Cost of Trainable Labor: Jordanian labor is fully one-sixth the cost of Israeli labor, although their experience with Dead Sea cosmetics is admittedly less. However, this is not a principal impediment; labor can be easily trained. It should be note that Jordanian labor is still not as cheap as elsewhere in the region; it may be cheaper for example to produce in Egypt using processed forms of Dead Sea cosmetics. In this case, the processor cannot boast that this was made in the "Holy Land", which is a big draw for customers.

Quality/Availability of Infrastructure: The quality of infrastructure, while not as sophisticated as Israel's is quite adequate for production. Electricity is consistent, although water may be a problem.

Results of Comparative Advantage

Jordan's comparative advantages in raw material inputs and cost of labor versus Israel, in addition to the special access to growing markets of Europe and the United States place its in an excellent position to attract inward investment for countries that are targeting those markets.

The results of this screen is an A, suggesting a high level of comparative advantage for Jordan.

Analysis of Competitive Advantage

Local Mega Trends

One of leading trends at present is the ongoing discussions internally with the industry and Numeira, which is likely to lead Numeira to into a single pricing scheme (allegation of dual pricing for its subsidiary cosmetics company, Isal, have lead to several complaints by the industry).

Another development in the local industry is the QIZ status granted to Israel-Palestine and Jordan whereby Jordan can export duty free to the United States. This is likely to contribute to a growth on the industry as the United States continues to a grow as a market for organic cosmetics.

International Mega Trends

<u>A Green Revolution in Consumer Tastes</u>: While nature-based beauty care products are nothing new, the beauty products industry has seen consumer interest in such products grow tremendously over the past decade. Consumer tastes have undergone a "Green Revolution", with consumers becoming increasingly aware of the therapeutic effects of natural ingredients as well as environmental and health concerns. The trend has been strongest in the United States and Europe - a "trend" that industry analysts predict is here to stay. The popularity of such

companies as Aveda, The Body Shop and Bath & Body Works -- who manufacture and retail nature-based beauty products -- points to the potential of this "niche" market. Beauty care product manufacturers are eager to exploit this trend. Jordan, as one of the only two sources of Dead Sea salts and mud, can, in turn, exploit this Green Revolution to its own advantage.

A "Niche" Within a "Niche": The Dead Sea cosmetics sector is but a small "niche" within the "niche" organic cosmetics sector, accounting for only US$50.0 million in sales annually. While the organic cosmetics industry is poised to expand significantly as the Green Revolution reaches the mainstream, the Dead Sea sector is not, according to manufacturers, expected to ever go mainstream itself.

Table A.3.1 Recent Dead Sea Product Launches
(excluding those of Israel-based manufacturers)

Company Name	Country	Product Introduced	Date of Article
Molton Brown	UK	Bath Treatment	2/23/98
Dead Sea Products	US	Bath Treatment; Face Mask	12/8/97
Bath & Body Works	US	Bath Treatment	6/23/97
Pureline, Inc.	US	Bath Treatment	5/26/97
Masada Marketing Company	US	Bath Treatment	1/13/97
Crabtree & Evelyn	US	Bath Treatment	12/9/96
Montagne Jeunesse	US	Bath Treatment	8/26/96
Bath & Body Works	US	Bath Treatment	4/8/96
Cabot Industries, Inc.	US	Bath Treatment	9/11/95
Aveda	US	Bath Treatment	8/21/95
Mavala	UK	Bath Treatment	3/15/95
Finders International	UK	Hair Treatment; Skin Treatment	3/1/95
Freeman	US	Hair Treatment	1/23/95

Source: "Product Alert", publication by IAC-Insite, Marketing Intelligence Service Ltd.

Therefore, while industry growth can be expected - as the continued introduction of new Dead Sea product lines indicates - its share of the cosmetics market, with its small niche status, is likely to remain fairly stable. Once again, as one of only two sources of Dead Sea salts and mud, as well as a low cost producer, Jordan has the opportunity to grab its fair share of this "niche" market by attracting existing manufacturers to produce, not just source, locally.

Recent Investments Worldwide

Mergers and Acquisitions Across Market Segments: In recent years, the organic beauty care industry has witnessed a number of investments across market segments. The beauty care industry is traditionally sub-divided into two segments: mass market and the premium-brand/salon market. In the past, the organically-based "niche" products were primarily marketed by premium-brand manufacturers. With growing consumer interest in organically-based cosmetics, a number of mass-market, multi-product producers, in addition to introducing new organically-based product lines, have acquired existing premium-brand nature-based product lines (some of which include Dead Sea products), eager to tap this growing niche market.

Few of these product lines, though, are 100 percent natural. The majority of 100 percent organic products - which include aromatherapy-, vitamin-, and essential oil-based products, as well as Dead Sea products - are not from mass market producers, but specialty/premium market producers, such as The Body Shop, Aveda, and Bath & Body Works. As mass market products are not likely to contain high quantities of natural products, due to their expense (and effect on final product prices, which for Dead Sea cosmetics range, on average, from US$10 to US$20 per unit), it is the wholly-organic "specialty" cosmetic manufacturers that are the most promising targets for Jordan's Dead Sea cosmetics sector.

Investments in Developing Markets: A number of multinationals - producing a combination of both organic and non-organic products - have set up joint ventures with local manufacturers, to access both local markets and locally-sourced natural ingredients. Japan and Germany have both been active in developing markets, including China and India.

Source Country	Source Company	Destination Country	Destination Company	Method Of Entry	Products	Date Of Article	Value Of Investment (Us$)
US	Bristol-Myers Squibb	US	Redmond Products	Acquisition	Hair care products	4/20/98	$275 million
Germany	Henkel Group	Germany	Schwarzkopf Group	Acquisition	Hair and skin care products	3/31/98	Remaining 23% of shares
Japan	Shiseido	Thailand	Saha	Joint Venture	Skin care products	3/1/98	n/a
France	Thalgo Cosmetics	China	2 Chinese partners	Joint Venture	Skin care products	2/25/98	n/a
US	Estee Lauder	US	Aveda	Acquisition	Aromatherapy-based hair, skin and body products	12/9/97	$300 million
US	Chesebrough Ponds, Helene Curtis and Lever Brothers	US	Unilever Home and Personal Care USA	Merger	Hair and skin care products	11/3/97	n/a
US	Sara Lee Corp.	Australia	Nutri-Metics International	Acquisition	Skin care and beauty products	9/1/97	Undisclosed
India	Dabur India	Spain	Antonio Puig SA and Perfumeria Gal	Joint Venture in India or Nepal	Hair and skin care products	8/2/97	n/a
Japan	Shiseido Company	France	______	New Factory	Skin care and make-up products	8/1/97	n/a
Japan& China	Shiseido Liyuan Company	China		Plant expansion	Skin care products	8/1/97	$30.5 million

Source Country	Source Company	Destination Country	Destination Company	Method Of Entry	Products	Date Of Article	Value Of Investment (Us$)
Japan	Shiseido	Japan	Unilever's Helene Curtis Industries Inc.	Acquisition	Hair care products	7/28/97	$185 million (undisclosed)
US	Styling Technology Corporation	US	U.K. ABBA Products, Inc.	Acquisition	Aromatherapy-based hair care products	6/26/97	$20 million
Japan	Shiseido	US		New plant	Skin care products	6/25/97	n/a
US	L'Oreal	Chile	Gillette's Unisa	Acquisition	Hair care products	12/1/96	n/a
US	Shiseido International Corp.	US	Helene Curtis Inc.	Acquisition	Salon hair care products	12/1/96	$89.3 million
Germany	Henkel	China	Liyuan Group	Joint Venture	Hair care products	10/9/96	60% stake
US and Hungary	Unilever and Caola	Hungary	Biogal Gyogyszergyar's Helia-D line	Acquisition	Skin care products	9/10/96	n/a
US	Unilever	US	Helene Curtis	Acquisition	Hair care products	3/31/96	$770 million + $145 million in debt
France	L'Oreal SA	Israel	Interbeauty Cosmetics	Acquisition	Skin and hair care products	1/26/96	Increased stake by 35% to 65.5%total
Germany	Henkel Group	Germany	Schwarzkopf Group	Acquisition	Hair and body care products	10/31/95	77% of shares

Source: "Product Alert", publication by IAC-Insite, Marketing Intelligence Service Ltd.

Results of Competitive Advantage

The small but steadily growing market for this "niche within a niche" industry, increasingly favored by the larger specialty stores in the major markets suggests that overall conditions for dead seas products are only good as long as the raw material issue is settled. The relationship that the local supplier of Dead Sea salts and mud has with downstream processors will shape the decisions of prospective investors. Dead Seas salts and mud get a B ranking in competitive advantage, since there are no major trends favoring its growth or mitigating against it.

Consistency with Policy Objectives

The indicators suggest that the industry ranks favorably in most development criteria, therefore qualifying as a B ranking on the consistency with policy objectives ranking.

Table A3.3: Summary of Consistency with Policy Objectives
(Scale 1-4, 4-high consistency; ratings through private sector interviews)

Development Indicators	Weight	Ratings	Score
Labor Intensive	16.7%	4	16.7%
Smart-Industry	16.7%	1	4.2%
Export-Orientation	16.7%	4	16.7%
Investment Levels	16.7%	2	8.3%
Natural Resource Usage	16.7%	4	16.7%
Value Added	16.7%	4	16.7%
	100.0%		79.2%
Consistency with Policy Objectives Ranking			B

Final List of Target Industries

No products have been excluded. The Corporation should promoted all products classified as beauty products that are made of Carnelite and, to a lesser extent, Dead Sea mud since the latter has a very small overseas market.

Target Investors/Countries

Target Investors are likely to be the following

- Large organic cosmetic companies in Germany that are considered the leaders in industry for their products. Once again, these may be companies that wish to enter into a contractual agreement with a local company to produce and export under license..

- Large manufacturers of organic products located in Japan and the United States. These may include manufacturers that presently source Dead Sea salts (Carnelite) from Israel and Jordan and are vendors to retailers in Japan. These may also be companies that wish to enter into a contractual agreement with a local company to produce and export under license.

A.4: Information Technology Sector

Introduction

Industry Definition

In general, information technology encompasses all aspects of hardware, software and related professional services. Specific product groups are particularly difficult to define in this industry as rapidly evolving technologies increasingly blur the distinction between data, voice and image mediums. Figure A.4.1 illustrates the overall framework of the industry as it exists today. With the IT industry, integrated solutions is especially relevant to Jordan. Integrated solutions pertains to the provision of IT services in different spheres of a business organisation, such as database development and network management. With the integrated solutions sub-sector, data processing was excluded as an industry given the since the industry is exclusively driven by low-wage considerations. Jordan cannot compete with countries such as Caribbean island states, whose labour costs are far lower for batch data entry jobs. This chapter examines the potential for investment in the areas of computer programming services.

Structural Overview of Local Conditions

The computer programming or integrated solutions industry is difficult to measure owing to a plethora of firms that are aggregated under "computer firms". The Computer Science Society has about 200 listed member firms, but a significant number of these are either distributors of computer hardware or "hardware-software" firms, suggesting a cross-section of activities. According to informal estimates by the Society, only about a dozen companies may be considered major players i.e. employing between 100 and 150 professionals and continually developing alliances in overseas markets. Still, competition at the local level is fierce owing to the small size of the domestic market for services. The largest clients, Banks and government ministries, tend to staff information technology projects from within. Meanwhile, barriers to entry in the industry are low, since capital requirements are relatively small (usually a few workstations and standard office automation, or about US$10,000). The medium sized companies tend to need minimal customization, and are decisions in these firms tend to be mainly cost-driven. Despite saturation of an already small domestic market, exports of software service remain dismally weak; according to an unofficial estimate, possibly as low as US$5.0 million a year for the industry.

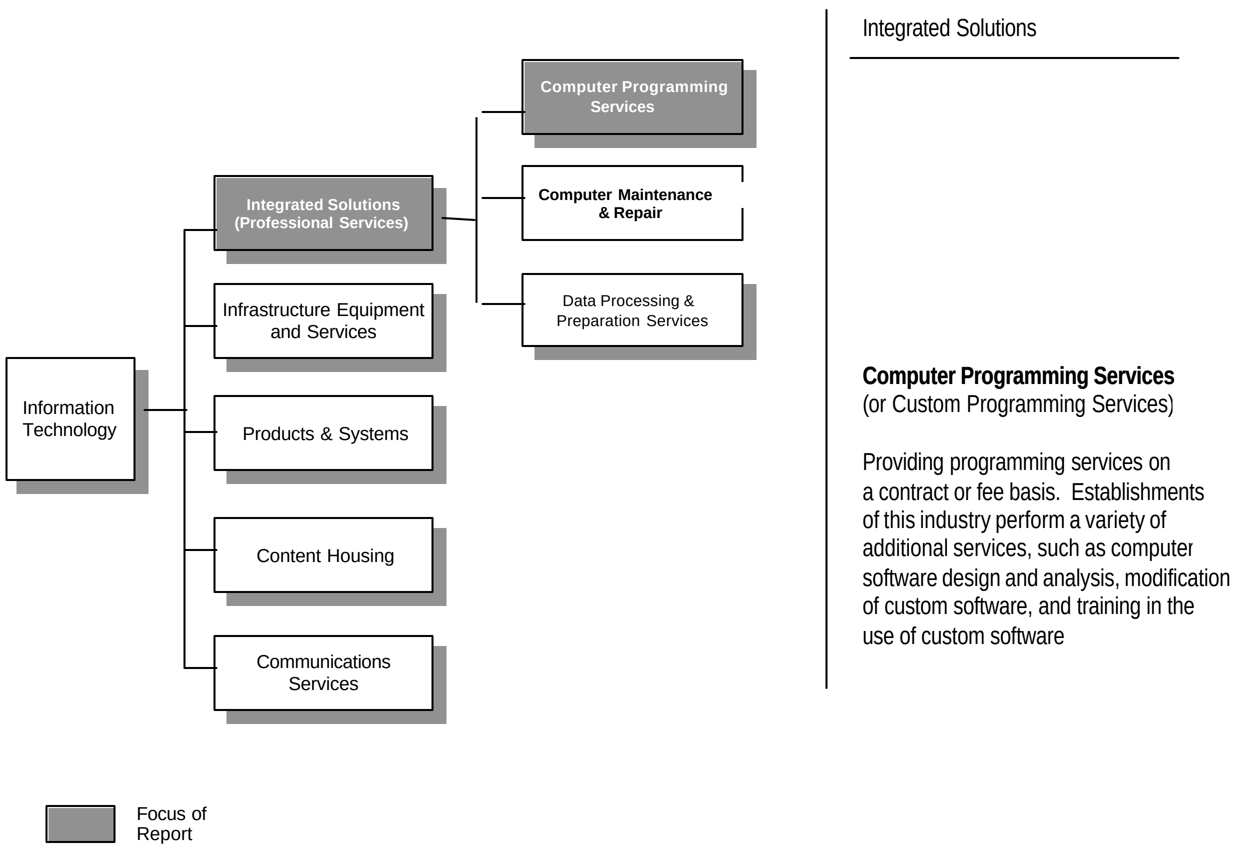


Figure A.4.1: The Information Technology Industry, Products and Services

Initial List of Industries for Consideration

The focus is on computer programming services, the sector of the information technology industry that is the fastest growing, most profitable and which has the highest value added.

Analysis of Comparative Advantage

Local Attributes vs. Industry Requirements

Jordan's principal advantages with respect to the software development industry are as follows:

- The fundamentals of the computer programming staff - the strong emphasis on analytical skills in education allows for adaptability for a wide range of applications.

Table A4.1: Summary of Comparative Advantage Rankings
(Scale 1-4, 4-significant advantage; weights and ratings through private sector interviews)

Factor	Weight	Ratings	Score	
Size and Access to Market	10.0%	2	5.00%	Less relevant since information can be transmitted without difficulty.
Availability of Raw Materials/Inputs	0.0%	0	0.00%	- Not Relevant -
Availability of Land	0.0%	0	0.00%	- Not Relevant -
Availability and Cost of Trainable Labor	60.0%	3.5	52.50%	The quality of workmanship, the level of project experience in the various tools are most critical
Quality/ Availability of Infrastructure	10.0%	4	10.00%	The quality of telecommunications, reliable electricity are important factors
Intellectual Property	20.0%	3	15.00%	The assurance of propriety of technology is appropriate. Few problems here, with the exception of packages software,
	100.0%		82.5%	Grade B

- The cost of labor in context of the quality. At an average of US$640 per month, it rivals rates from leading Indian software developers (considered highly cost competitive) and is at least one-sixth the rate of neighboring Israel. This advantage is however also shared by Egypt, an emerging growing supplier of software programming skills in the Middle East.

Jordan's principal disadvantages are:

- The small size of the domestic market which does not allow for extensive exposure to new project applications; the changing nature of technology requires technical labor to stay abreast with new technologies in context of their applications.
- The lack of native English, a medium of instruction in India and Israel, as well as most of the emerging software developers such as South Africa. English is the medium in the major markets of the United States and the United Kingdom.
- The nascent size of software developers skills are lost increasingly to Middle East markets, and this 'brain drain' of software skills cannot be as rapidly replenished.

The above disadvantages are partially ameliorated by the fact that Jordan remains the leading supplier of quality software skills in the Arab-speaking world.

Results of Comparative Advantage

The results of the comparative advantage is that Jordan's advantages are fully realized if placed in context of the Arab speaking world which, will much smaller in comparison to the West, will continue to be "computerized" in the coming years. Jordan is given a B comparative advantage overall.

Analysis of Competitive Advantage

Local Mega Trends

There are no significant mega trends in the local market that influence, either negatively or positively, the current attributes of the Jordan information technology industry.

International Mega Trends

Growing Demand for Multi-Lingual Applications: While English remains the global lingua franca of the IT industry, demand for bi- and multi-lingual applications is growing, including both foreign language interfaces and multi-lingual translation programs. The widespread use of the Internet has provided an additional boost to the latter. While Western-language interfaces are widely available, non Western- language interfaces, such as Arabic, continue to be in relatively short supply despite efforts in recent years to satisfy this growing market. Over the past few years, a number of software houses have introduced Arabic language-based applications to supply the 186 million strong market of native Arabic speakers. One company, in particular, Sakhr Software of Egypt, has been very successful in marketing its Arabic-based applications, including web browsers and English-Arabic e-mail readers. Other companies - including multinationals such as Borland International, Oracle, Apple, and Digital Equipment Corporation - have introduced Arabic versions for their latest software products. Jordan, as a leading software supplier in the Arabic-speaking world, would be an attractive base from which software developers could access this growing "niche" market.

Shortage of Programmers in Developed Markets: The leading markets for software development are currently facing extremely tight labor markets for trained programmers. In the U.S., computer programming is one of the fastest growing industries. It is estimated that approximately 137,000 new software workers will be required annually to meet projected growth in the industry over the next decade. While labor demand is growing, labor supply cannot keep up and, in absolute terms, is actually in decline: the number of computer science graduates in the US declined from about 42,000 in 1986 to below 24,500 in 1995. Canada's Ottawa-Carleton region, which has been coined "Silicon Valley North" and is the nation's IT headquarters, is also undergoing a labor shortage. It is estimated that by 1999, the industry will have a shortage of 20,000 programmers as labor supply fails to keep up with demand. The UK, another leading supplier of software development, is facing similar shortages in trained computer programmers. Even less developed, but growing, markets, such as Singapore and Thailand, are also experiencing labor shortages in their software development industries. Not only have these labor shortages already led to skyrocketing salaries in these markets, but may also lead to a potential loss of competitiveness in these markets as key positions go unfilled. Consequently, software developers are increasingly looking to overseas markets to meet their growing demand for lower cost, but highly qualified labor (see table on recent investments below). Jordan, with its reputation for high quality programmers and competitive labor costs, can exploit the growing labor shortage in the more developed markets.

Strategic Alliances in Developing Markets: In recent years, software developers from more advanced countries - who remain at the frontier of technological change - have come to recognize the growing expertise of their counterparts in developing economies. As a result, a number of strategic alliances have been forged, enabling software developers from both sides to benefit.

Strategic alliances have enabled software developers in advanced economies to benefit from the expertise of their developing economy counterparts without the taking on the costs associated with joint ventures. Such alliances are also more flexible arrangements, enabling deals on a project-specific basis. At the same time, developing economy enterprises - who are relatively small players in a global industry - gain the opportunity in strategic partnerships to work hand-in-hand with industry leaders.

Following are just a few examples of such alliances with developing economy-based enterprises over the past year:

- Informix International Inc. of the United States has joined forces with NIIT Ltd. in India to collaborate on data warehousing software.

- Japan's Oki Electric Industry Company has partnered with India's DSQ Software Ltd. to develop software for the telecommunications industry.

- Microsoft entered into a cooperative partnership with Israel's Black Web Technologies to enhance delivery and broadcast features on Microsoft's Internet Explorer 4.0.

- Visionics Corporation of the United States has entered into an agreement with TL Technology Research of Malaysia to develop an airline passenger security system based on face recognition technology.

Once again, Jordan's reputation for high quality programmers and as a leader in the region, make its local industry well-positioned to join forces with overseas software developers if appropriate opportunities can be identified based on local specialization. While such partnerships would bring nothing, directly, in the way of FDI to Jordan, Jordan's software industry could benefit from exposure to new technologies which, in turn, would act as a springboard for the advancement of local industry.

Recent investments Worldwide

A Flurry of Investment Activity: The software industry, given its high-technology character, is exceptionally dynamic. This dynamism is reflected in the industry's investment scene, as software enterprises struggle to remain on the forefront of technological- and market-driven change. The result is a seemingly never-ending wave of mergers, acquisitions and joint ventures as developers seek ways of gaining market share within their "niche" categories or expand into complementary "niche" markets. A large number of these investments have taken place within and between software developers based in advanced economies.

At the same time, though, as programmers in developing markets have successfully nurtured their own industries - industries that are now gaining in international reputation - developers from advanced markets are now turning in large numbers to these new

Table A.4.2: Recent Investments in the Information Technology Industry Worldwide

Source Country	Source Company	Destination Country	Destination Company	Method Of Entry	Products	Date Of Article	Value Of Investment (Us$)
US	Deltek Systems, Inc.	US	Sales Kit Software Corp.	Acquisition	Project-oriented Business Software	May 5 98	n/a
US	Autodesk, Inc.	Germany	Genius CAD-Software GmbH	Acquisition	Mechanical Applications	May 4 98	$68 million
Canada	SLM Software, Inc.	Canada	Milkyway Networks Corp.	Acquisition	Internet Security Software	May 4 98	100% of issued and common shares
Japan	Japan Associated Finance	Israel	RADGuard	Majority Investment	IT Security Software	April 30 98	Majority investment
US	Metamor Worldwide, Inc.	US	Micorcrafts, Inc.	Acquisition		April 29 98	Undisclosed
US	Parametric Technology Corp.	Germany	Control Data System's ICEM Technologies	Acquisition	Automotive and Aerospace Software	April 28 98	$45 million
US and UK	Mizar, Inc. and Loughborough Sound Images, Ltd.		Blue Wavs Systems, Inc.	Merger	DSP Software	April 28 98	n/a
US	Preview Software and Portland Software	____	____	Merger	ESD Commerce Application	April 27 98	n/a
	Aspen Technology				Manufactuirng		

Source Country	Source Company	Destination Country	Destination Company	Method Of Entry	Products	Date Of Article	Value Of Investment (Us$)
US	Inc.	UK	Zyqad Limited	Acquisition	Software	April 23 98	n/a
Israel	Sagantec	Israel	Micro CAD	Acquisition	Physical Design Software	April 20 98	n/a
US	TECSTAR, Inc.	US	Demo Systems Inc.	Acquisition	Avionics Software	April 20 98	Undisclosed
UK	Siebe Plc.	US	Simulation Sciences Inc.	Acquisition	Process Control Software	April 16 98	$147 million
Canada	Architel Systems Corp.	Canada	Accugraph Corp.	Acquisition	OSS Telecom Software	April 15 98	C$37 million
US	Engineering Animation Inc.	US	Sense8 Corp.	Acquisition	Virtual Rerality Software	April 14 98	$8.5 million
US	OAO Technology Solutions, Inc.	US	DHR Technologies, Inc.	Acquisition	Object-Oriented Software	April 3 98	n/a
US	Federal Data Corp.	US	Technical and Management Assistance, Inc.	Acquisition	Air Traffic Management Software	March 23 98	Undisclosed

Source: Various articles from IAC-Insite, Market Intelligence Services, Ltd.

emerging software markets. The aim is generally not to tap domestic markets, but, similar to the trend toward strategic alliances, to tap low-cost, local expertise for software products destined to a regional or global marketplace.

Both India and Israel have had great success in attracting foreign investment in software development owing to the reputation of their programmers, relatively low labor costs, and growing expertise of their domestic industries. Although Jordan does not yet possess the worldwide reputation of India or Israel, given its small export-oriented market, nor their English language skills, it is considered a leader in programming skills within the Arabic-speaking region. With its highly qualified, cost-competitive pool of computer programmers, Jordan has the opportunity to attract software developers seeking to gain a share in the regional market.

Results of Competitive Advantage

The global dynamics in the direct investment suggests that the dynamism of the industry has led to a quantum leap in development in some countries, and brain drain in many others. Jordan's future in the industry will be a direct result of the successful linkages that local businesses create with foreign counterparts, as in the case of Jordan and India. In other words, the trends could either work in the favor of Jordan or directly against it. The information technology industry gets a B ranking- suggesting both an advantage and a disadvantage - in such a case.

Consistency with Policy Objectives

The information technology industry gets a B ranking overall in the consistency with policy objectives. Ranking is high in virtually all aspects except the levels of investment, since investment in the case of information technology often takes the form of strategic alliances for accessing markets, and knowledge/ resource-sharing arrangements.

Table A4.3: Summary of Consistency with Policy Objectives
(Scale 1-4, 4-high consistency; ratings through private sector interviews)

Development Indicators	Weight	Ratings	Score
Labor Intensive	16.7%	3	12.5%
Smart-Industry	16.7%	4	16.7%
Export-Orientation	16.7%	4	16.7%
Investment Levels	16.7%	1	4.2%
Natural Resource Usage	16.7%	4	16.7%
Value Added	16.7%	4	16.7%
	100.0%		83.4%
	Consistency with Policy Objectives		B

Final List of Target Industries

The final list of industries are software products with specific applications for industry, and which require customization for adaption in the Arab world. These may include general applications, such as building Arabic based email, or more specific, such as hospital software in Arabic. The list is too extensive and can never be inclusive given the dynamic nature of information technology.

Target Investors/Countries

Many multinationals with headquarters in the United States, Canada and, to a lesser extent, the United Kingdom have introduced Arabic versions for their latest software products (examples include Borland International, Oracle, Apple, and Digital Equipment Corporation). Jordan, as a leading software supplier in the Arabic-speaking world, would be an attractive base from which software developers could access this growing "niche" market. The focus should be on large companies that are seeking to enter the Middle East market in a particular application (say, medical software) and would require Arabization of the product.

A.5: Tourism Sector

Introduction

This chapter reviews the proposed projects for public and private investment as presented by the relevant government authorities in national and international forums; determines which projects that could be further promoted by the Investment Promotion Corporation, based on their attractiveness to the private sector and their contribution to economic development and, for those identified projects, determines the likely investor groups that could be targeted for inward investment.

Background

A literature review of the last three years' reports by the Ministry of Tourism and various bilateral / multilateral - funded agencies revealed the significant levels of analysis of Jordan's tourism industry. The annual Middle East & North Africa Economic Summit has been one of the principal catalysts for organising and subsequent presenting such analyses, in the form of proposals seeking either private and public sector funding. In addition, a tourism study by JICA in February 1996 provides the most comprehensive overview of Jordan's tourism industry in addition to presenting several model large-scale tourism projects. Still, with the exception of the summits, there is a limited level of broadcasting of opportunities. While proposals have developed in many cases, the effectiveness of the distribution channels remains uncertain. Even large forums such as the Middle East Economic Summits attract mainly draw the public sector, thus having little impact on private sponsored projects. In sum, the shortcoming is in the promotion, and not the identification, of investment opportunities.

Initial List of Projects

The initial list of projects for active promotion consideration is shown in Table A.5.1. The list is a compilation of various proposals made in the last three years by the Jordan Rift Valley Steering Committee (1997), Ministry of Tourism and Antiquities (1995), Japan International Co-operation Agency (1996), proposals made at the Middle East and North Africa Economic Conferences (1995-1997). Several private sector sponsored projects have also used one or more of the above sources to broadcast their interest in foreign or local participation. The list encompasses a diverse range of projects - infrastructure projects, integrated tourism development plans, accommodation/leisure projects and specific tourist attractions (e.g. sand skiing, desert ballooning, theme park, etc.) Overall, 50 projects have been selected in the initial list.

Methodology in Screening Initial List of Projects

The investor targeting methodology explained in Chapter 2 has been adapted in the case of the tourism sector. The first screen, comparative advantage - which benchmarks a particular area against competing areas from the perspective of matching a project's location requirements - does not apply in the case of tourism investment. Instead of benchmarking, tourism locations are evaluated from the perspective of expected traffic. The second screen, competitive advantage - which identifies those mega trends in the local or international markets that could impact the tourism based investment - does apply, however. This is also true of the third screen - consistency with policy objectives.

In identifying the projects for promotion consideration, a number of screens were used in project identification. The screens were created to answer a number of questions. First, given the Corporation's limited resources, which are the projects that should be promoted?. Second, how can the Corporation provide highest value in its services to the project sponsors and the beneficiaries?

Recognising that tourism investments must be defined and finite by nature (for example, there is a critical mass of hotels that can be accommodated in a zone), the Corporation should only undertake the promotion of pre-determined investment projects. Within the list of pre-determined projects, the guidelines for selecting projects for promotion are as follows:

- First, the project must be past the conceptual stage of the project development cycle. The greater the degree of preparation, the fewer the number of queries that remain to be answered to prospective partners. The Corporation can therefore focus on broadcasting the project proposal to overseas investors, thereby capitalising on its overseas linkages, and not developing project proposals, for which it has little in-house expertise. In fact, limitation with the Ministry of Tourism and Antiquities has been pointed out by a recent Tourism study which mentioned that the "... good studies on the tourism by the MoTA are not implemented due to limited resources" (Partners in Development, Iss.5. October 1997, Ministry of Planning). The Corporation can therefore add value through its promotion resources.

- Second, the project must be deemed relevant and attractive to private sponsors either in private projects or private-public projects. Public-sector sponsored projects (for example, large infrastructure projects) are presented to the government or the international donor community directly by the appropriate line ministry. In such a case, "promotion" to the financiers by the Corporation is not required. Private sector projects are therefore those that have demonstrated an attractive rate of return or a prima facie case of investor attraction (through a demand survey, for example) or have been deemed as attractive only to the public sector owing to the low levels of tourism influx at this point.

- Third, the project must be of a significant scale of investment and employment to merit promotion. Projects such as sand skiing and tour operators are often too small to merit participation from overseas investors.

The screening process is undertaken in context of the mega trends on the local and regional and to some extent the global level that could impact prospects for selection of the project.

Screening the Initial List of Projects

Using the first screen, screening for post-conceptual stage development, the following projects were eliminated from immediate promotion consideration:

- Rift Valley Accommodation
- Hijaz Railway
- Lookout and Rest Facilities
- Dead Sea Coast Resort Town
- Jordan Valley Green Village
- Amman International Tourism Center
- Dead Sea Cruise
- Desert Ballooning and Sand Skiing
- Ma'in- Dead Sea Cable Car
- Soft Adventure Tour Operation
- Introduction of Excursion Boats in Jordan River

As the Corporation learns of project feasibility of these projects, it should analyse these projects using the subsequent filters.

Using the second filter, relevance and attractiveness to the private sector, the pure public-sector projects were excluded from consideration

- Infrastructure Investment Project at Petra
- Dead Sea: Infrastructure - Roads/ Power/ Phone at Dead Sea
- National Museum in Amman
- Infrastructure for Dead Sea Tourism Project
- Lowest Park on Earth
- Joint Dead Sea Tourism School
- Infrastructure for the Aqaba Tourism Project

- Development at the Baptism Site of Jesus at South Jordan Valley
- Amman Downtown Tourist Zone
- Madaba-Dead Sea Parkway
- Dead Sea Panoramic Complex
- Historic Old Salt

Final List of Projects

The final list identifies twenty seven projects, eleven of which are private-public partnership initiatives - projects which typically suggest an integrated tourism development zone program initiated by government with a specific role of the private sector. This role tends to be in the area of accommodation and leisure/resorts, the domain of private participation in tourism-based investment. Furthermore, pure private projects also appear to be heavily in the accommodation and leisure/resorts category.

The emphasis of the private sector on tourism hospitality - hotels and resorts - is quite apparent. Much of this development has been spurred by the peace process initiated in 1994, and the projected atmospheric growth in tourism arrivals as a result of multi-faith pilgrimages to Jerusalem at the turn of the century. The improved regional political climate has also spurred public sector proposals, which focus on integrated regional development and provision of infrastructure to accelerate growth in tourism arrivals.

The final list of projects is shown in A.5.2.

List of Prospective Investors

The Global Context

In determining the investor groups, a quick primer on the hotel industry is provided below.

- The hotel and resort industry is divided into a number of functions, including real estate acquisition and finance, design and construction, franchising, operations management, human resources management, reservations and referrals, administrative control, and guest services, with large firms operating across a number of these areas. Only financiers, owners, and construction entities actually take on an equity stake in a hotel project, while the other functions are service providers. Typical investments in the industry range from US$18.0 - 30.0 million and employ between 200 and 800 workers.

- Multinational corporations have assumed the industry's dominant role, particularly since integrated information technology systems and access to capital markets combine with media and long-haul travel trends to concentrate the industry. Political stability and high economic growth rates in their target markets are the primary attraction for these investors.

Many of the countries of the Middle East and North Africa are making new efforts to broaden their appeal as tourist destinations, moving beyond their traditional dependency on their cultural, religious and historical attractions. Resort complexes, family-oriented theme parks and golf courses are among the many new investments in tourism infrastructure in recent years throughout the Middle East.

The majority of these new investments are of domestic origin, financed both privately and publicly. Recent examples include the Dreamland theme park developed by a private entrepreneur in Egypt, a tourist complex developed by an Egyptian consortium, the expansion of Kuwait Entertainment City, and a thermo-mineral spa and tourism complex developed by the Negev Tourism Development Authority in Israel. A snapshot of tourism investment world-wide is shown in Table A5.1

Investment in Jordan

While the majority of investments have been of local origin, foreign investors have begun to take an interest in developing the Middle Eastern tourism industry. A number of investments, some greenfield and some joint ventures, have taken place in recent years by American and European leisure-industry developers. Recent investments include Magic World Development's (USA) joint venture for a theme park in Aqaba, France's Bouygues' joint venture in Tunisia, and Bechtel's (USA) Magic World theme park in Dubai.

Foreign investors in Jordan's hospitality industry - those defined as financiers, owners, and construction entities - tend to originate from the Middle East region, mainly Dubai, Saudi Arabia and Bahrain. The service providers, management entities such as Le Meridien and the Intercontinental Group tend to be West European or North American.

Target Investors

As a first step, the target companies should be financiers, owners, and construction entities from the traditional markets. In additions, major hotel chains in India, Malaysia and South Africa tend to double as service providers and equity investors. These are worth investigating as many have been successful in aligning with multinationals companies in third markets for investments.

Table A5.2: Recent Investments in Tourism Infrastructure in the Middle East

Source Country	Source Company	Destination Country	Destination Company	Method Of Entry	Type Of Site	Date
Jordan	Business Tourism Company	Jordan	____	Greenfield	Leisure complex	Janu
Oman	Dhofar Tourism Company	Oman	____	Greenfield	Tourist resort complex	Dece 1997
United Arab Emirates	Jumeriah Beach Hotel	United Arab Emirates	____	Greenfield	Water park	Nove 1997
Morocco	Hyperion	Morocco	____	Greenfield	Theme park	Octol
Saudi Arabia	Faqeeh Group for Tourism	Saudi Arabia	____	Greenfield	Four Tourist Complexes	Augu
USA	Bechtel	United Arab Emirates	____	Greenfield	Theme park	Febru
France	Bouygues	Tunisia	Tunisia-Saudi Investment & Development Company	Joint venture	Tourist resort complex	Nove 1996
Egypt	Dr. Ahmed Bahgat Fatouh (Private Entrepreneur)	Egypt	____	Greenfield	Theme park	Octol
Italy	Siviaggi SPA	Israel	____	Greenfield	Vacation village	April

Source Country	Source Company	Destination Country	Destination Company	Method Of Entry	Type Of Site	Date
USA	Magic World Development	Jordan	Aqaba Regional Authority	Joint venture	Theme park	Dece 1995
Egypt	Egyptian Company for Tourist Resorts (consortium)	Egypt	____	Greenfield	Tourist complex	Dece 1995
Kuwait	Touristoc Enterprises	Kuwait	____	Expansion & renovation	Theme park	Febru

Source: Various sources extracted from IAC-Insite Database

A.6: Pharmaceuticals Sector

Introduction

Industry Definition

The pharmaceuticals industry is comprised of firms primarily engaged in manufacturing, fabricating or processing drugs for human or veterinary use. Products of this industry consist of two important lines. Pharmaceuticals preparations promoted primarily to the dental medical or veterinary professions are often known as "ethical drugs" or patent drugs and pharmaceuticals preparations promoted primarily to the public are known as "over the counter drugs" or generic drugs.

Structural Overview of Local Conditions

The pharmaceutical industry in Jordan was estimated at US$168 million (JD120 million) in 1997, a rise from US$56 million (JD40 million) in 1990. The industry is considered small by international standards - South Africa' s industry, for example, was valued at US$3.5 Billion in 1996, about 20 times the Jordanian industry size although South Africa's population is only eight times as much. Statistics on combined employment throughout the value chain was estimated at 2500 or about 3.8 percent of the working population; the industry is this not a significant employment generator. Growth in the industry has been healthy, at a compounded annual growth rate of 12 percent. The industry is dominated by four companies - Hikma (30%), Arab (25%), Dar al Dawa (18%) and the Jordanian (6%), although six additional companies have entered in the last few years. Foreign companies have a limited representation in the country.

Initial List of Industries for Consideration

The initial list of industries for consideration includes both ethicals and over the counter drugs.

Analysis of Comparative Advantage

Local Attributes vs. Industry Requirements

This section discusses project requirements of the industry, and not broad investor expectations of political risk and economic certainty, which take precedence over project specific requirements. Comparative advantage is analyzed using the following factor conditions: size and access to market, availability of raw material inputs, availability and cost of trainable labor, availability of land, and quality/availability of infrastructure.

Jordan scores high in two of the three leading factors in corporate location decisions -- availability/cost of labor and size and access to market.

Jordan boasts a strong medical industry -- 3870 pharmacists, 5109 doctors and many chemists. Culturally, the sciences (especially medical) are given high priority in the education system, and Jordan is already considered among the best value for money in medicine. Wages, which average from US$600/month, are around one-eighth of prevailing wages for counterparts in the OECD countries (especially United States, Switzerland and Canada). Many of the professionals are trained in these countries, returning to Jordan mostly for cultural reasons.

With respect to size and access to market, Jordan's demonstrated exporting prowess in the MENA region, with a joint population of 200 million compensates for the five million inhabitants in the country itself. Jordan has established links in Saudi Arabia, Algeria and Iraq as well as parts of Eastern Europe.

Jordan's main drawback is the asymmetrical nature of Jordanian intellectual property laws with internationally accepted intellectual property laws. According to Jordanian laws, it is the process (formula) but not the final product that is protected. Under this law, companies can develop variations of existing patents to provide similar results. On a brighter note, Jordan recently concluded agreement with the European Union to realign its laws to reflect international practices with a period of four years. While this could be damaging to some local companies, especially the many smaller ones whose core product lines are patent-derivatives, Jordan will earn significant recognition in the international investment marketplace.

Table A6.1: Summary of Comparative Advantage Rankings
(Scale 1-4, 4-significant advantage; weights and ratings through private sector interviews)

Factor	Weight	Rank	Total	Notes
Size and Access to Market	20.0%	3	15.0%	80% of Jordan's production is exported, most to the Middle East. Shipping costs are highest in the region however
Availability of Raw Materials/Inputs	5.0%	1	1.3%	With few exceptions, chemicals have to be imported
Availability of Land	5.0%	3	3.8%	Available in Amman. Rates are higher than surrounding region.
Availability and Cost of Trainable Labor	30.0%	4	30.0%	Among the best trained labor and among the least expensive in the world
Quality/ Availability of Infrastructure	10.0%	4	10.0%	Infrastructure in Amman is very good and reliable. Electricity higher cost than most
Intellectual Property	30.0%	3	7.5%	Rating is consistent with the MENA region. EU agreements and USTR discussions may lead to solution
	100.0%		67.5%	Grade C

Results of Comparative Advantage

The above analysis leads to a comparative advantage grading of C at present, owing mainly to the incongruent intellectual property laws. Should this issue be resolved, Jordan will be considered a leading destination for investment (certainly a grade A comparative advantage at that point).

Analysis of Competitive Advantage

Local Mega Trends

Perhaps the only local trend of any significance that could impact the pharmaceutical industry in Jordan as an investment location is the proposed legislation that seeks to align the current laws governing intellectual property with the international laws. While this would spell disaster for many local companies whose production techniques will be considered in violation of revised laws, it will certainly send very strong signals to the international investor community of pharmaceutical manufacturers.

International Mega Trends

A Fragmented Market: In the early 1990s, the world market pharmaceuticals industry topped US$250 billion (Jordan accounted for less than one percent of the world market). Despite a flurry of mergers and acquisitions, the world pharmaceuticals industry remained fragmented. The 10 largest companies - three American, three Swiss, one each from Great Britain, France and Germany and one Anglo-American - represented only one fourth of the world market. In addition, while some mergers and acquisitions have been carried out by this top tier of companies, it is the multitude of smaller, but highly lucrative, corporations that are most active on the world investment scene (see *recent investments* below). While some opportunities for investment may exist among the top tier, it is these smaller corporations that present the most promising investment opportunities for Jordan.

Downward Pressure on Prices: Historically, the pharmaceuticals industry has been characterized by fast growth and rising profitability. In the past, the industry, which was relatively protected from free market forces through government regulations, operated in a "cost-plus" mode, passing on all costs to the consumer (government or insurance agencies). During the 1990s, the pharmaceutical companies have seen their profit margins being squeezed as prices have been pushed downwards. Three new trends are the cause of this downward pressure:

- Government regulations that formerly prevented free trade in pharmaceuticals are currently being reformed across the globe, forcing producers to face the normal economic laws of supply and demand.

- Governments, health maintenance organizations, and managed care organizations have targeted the pharmaceuticals industry as a means of reigning in the fast-rising costs of healthcare (though the cost of pharmaceuticals generally accounts for only 10 to 15 percent of total healthcare expenditures).

- The rise of generic drugs, due to a wave of patent expirations this past decade, has increased price competition for "ethical drug" producers.

  Consequently, pharmaceutical manufacturers are seeking new ways to reduce the costs of drug development and production. Jordan, as a low cost production site, can capitalize on the industry's growing need to contain escalating manufacturing costs.

<u>Shift from Vertical Integration to Outsourcing</u>: Until recently, pharmaceutical companies have been completely vertically integrated, controlling "in-house" all aspects of drug production - from initial research and pre-clinical development to clinical testing to manufacturing the final product. New technologies and shrinking profit margins in the 1990s have induced companies to restructure, forcing the loosening of "in-house" control. Pharmaceutical companies have begun to outsource different aspects of drug development. Though R&D and clinical testing were the first to be farmed out to third party suppliers, pharmaceutical companies are now looking to outsource manufacturing as well, both for pharmaceutical ingredients and the final product. As a result, new investment opportunities are opening up in the industry -such as licensing and other contractual agreements - outside the traditional, vertically-integrated corporations. As a low cost production site with established know-how, Jordan can capitalize on such new investment opportunities.

<u>Shift from Global Sourcing to Regional Sourcing</u>: As mentioned above, in the past, heavy government regulation of pharmaceuticals production created barriers to free trade. In addition to effects on profitability, the existence of government regulations also resulted in the scattering of production worldwide in order to access local markets. The end result was a plethora of

manufacturing units, each operating far below capacity (sometimes as low as 40 percent) and leading to the duplication of resources. With the loosening of government restrictions, as well as the need to reduce operating costs, pharmaceutical companies are divesting from non-strategic plants and moving toward regional production and away from local production. With its strong export record to the MENA region, Jordan is well positioned to exploit this trend towards the regionalization of pharmaceuticals production.

United States Differences With Jordan: The United States pharmaceuticals industry, which leads the world in the development of important medicines (of 152 major global drugs developed between 1975 and 1994, almost half were of U.S. origin, has lodged complaints of intellectual property violation with its Trade Representative Office (USTR). In the short term, until adequate IPR provisions are in place, U.S. manufacturers, particularly of patented drugs, may be hesitant to invest in Jordan.

The United States is a leading market for Jordan in areas related to pharmaceuticals as well. In the emerging field of biotechnology, the U.S. has a commanding lead. Of the 150 genetic engineering health care patents issued by the U.S. Patent and Trademark Office in 1995, 122 went to U.S. applicants. Once again, with the absence of internationally accepted IPR provisions, Jordan may be hindered from attracting leading U.S. manufacturers.

Joint Ventures as Key Method of Entry into Developing Economies: Mergers and Acquisitions tend to dominate the pharmaceuticals investment scenario within and between the industrialized economies, reflecting the maturity of the industry in these markets as well as the need to consolidate a highly fragmented market. However, multinationals are turning more frequently to Joint Ventures as the key method of entry into developing economy markets, both in order to comply with local requirements, in some cases, and to capitalize on the experience of local producers. The United States, Germany, and Japan are the most frequent sources of outward investment in pharmaceuticals to developing economies, particularly to the emerging Indian and Chinese markets.

Table A6.4: Recent Investments in the Pharmaceuticals Industry Worldwide (Continued)

Date	Source Company	Source Country	Target Company	Destination Country	Method Of Entry	Ownership	Value (US$ Mn)	Product
Nov-96	Fresnius AG	Germany	PIC Pharmaceutical	Germany	Acquisition	100%	-	Pharmaceuticals, Medical Technology, Project and Service Business
Nov-96	Hindustan Ceba Geigy (Swiss TNC)	India	Sandoz India	India	Merger (forming Novartis AG)	-	-	
Oct-96	Boehringer Manheim India (German TNC)	India	Nicholas Piramal	India	Merger	-	-	
Oct-96	Ranbaxy Labs (US TNC)	India	Ohm Laboratories	India	Acquisition	100%	-	Ethicals
Oct-96	Ranbaxy Labs (US TNC)	USA	-	India	Greenfield	-	$ 45.00	
Nov-96	China Pharmaceutical and Enterprise Corp.	China	Hebei Zhongkang	China	Equity Stake Increase	99%	-	Penicillin

Date	Source Company	Source Country	Target Company	Destination Country	Method Of Entry	Owners hip	Value (US$ Mn)	Product
Oct-96	PSM Holdings	New Zealand	Merck Sharp Dohme	New Zealand	Acquisition	100%	NZ 3.00	Creams, Liquids and Capsules
Oct-96	Block Drug	UK	Glaxo Wellcome's Priton Drug Group	UK	Acquisition	100%	-	Priton Drug
Oct-96	Gehe	Germany	Lloyd Chemist	UK	Acquisition	100%	-	-
Oct-96	Sandoz	UK	Azupharma (s/o Gehe)	Germany	Acquisition & Merger (with Novatris)	100%	$ 420.00	Generics
Oct-96	Knoll	UK	GNR Pharma (s/o Gehe)	France/Germa ny	Acquisition	100%	-	Generics
Oct-96	Stadias	Germany	Alid Pharma (s/o Gehe)	Germany	Acquisition	100%	-	Generics
Oct-96	Proctor and Gamble	USA	-	India	Expansion	-	$ 50.00	OTCs

Date	Source Company	Source Country	Target Company	Destination Country	Method Of Entry	Owners hip	Value (US$ Mn)	Product
Oct-96	Kopran & Industrial Promotion Services	India & Kenya	Kampala Pharmaceuticals	Uganda	Acquisition	50-50%	-	Generics
Oct-96	ICN Pharmaceuticals	USA	Alkaloida Chemical Co.	Hungary	Acquisition (Privatization)	50%	-	Cardiovascular, anti-allergic, anti-malarial, CNS products, anti-asthmatics
Oct-96	Elan	Ireland	Adv. Therapeutic Systems	Bahamas	Acquisition	100%	$ 141.00	Drug Delivery Technologies
Oct-96	Izasa	Spain	Chromogenix	Sweden	Acquisition	100%	-	Medical Technology
Oct-96	Izasa	Spain	Mallickrodt	USA	Acquisition	100%	-	Medical Technology
Oct-96	Quintiles Transnational Corporation	USA	Innovex	UK	Acquisition	100%	$ 788.00	Contract Research
Oct-96	Adcock Ingram	South Africa	Premier Pharmaceuticals	South Africa	Acquisition	100%	$ 650.00	OTCs, Ethicals and Generics

Date	Source Company	Source Country	Target Company	Destination Country	Method Of Entry	Ownership	Value (US$ Mn)	Product
Oct-96	Pharma Vision	Switzerland	Tularik	USA	Equity Stake	10%	-	Gene Expression Medicine
Oct-96	Synth Labo	France	Henning Berlin Gmbh	Germany	Acquisition	-	-	Thyroid Treatment Medicine
Oct-96	American Home Products	AHP	Cyanamid Agro India (s/o HP) and Wyeth Cos. (S/o AHP)	India	Merger	-	-	
Oct-96	Unichema Laboratories	India	Unisearch and Uncihem Exports (s/o Unichema)	India	Merger	-	-	
Aug-96	Baxter International	USA	Immuno International AG	Austria	Acquisition	100%	$ 715.00	

Source: F&S Index International

The Growth of India's Pharmaceuticals Industry: India has emerged as an important player in pharmaceuticals, particularly in the area of generic bulk drug manufacturing. In only four years, the Indian market more than doubled, from US$1.4 billion in 1991 to US$3.4 billion in 1995. By 1995, locally based producers met 70 percent of India's bulk drug requirement and accounted for 85 percent of its bulk drug exports. Six of the top ten companies are Indian-owned. India's success in pharmaceuticals is based on the strength of their chemical skills, a low-cost operational base and the availability of process technology. With a new patent regime, Indian companies are aiming to acquire world stature in generic bulk drugs. Over the past two years, Indian companies have expanded their reach beyond their borders, investing in other developing economies. In turn, the reduction of government regulations and the signing of GATT have increased the interest of pharmaceutical multinationals, who have entered into a number of joint ventures with local companies, eager to capitalize on India's generic production know-how.

Results of Competitive Advantage

The international market for pharmaceuticals suggests that there are tremendous prospects for growth in Jordan as companies expand in emerging markets and increasingly outsource research and development of select activities. The most significant impact will be the proposed legislation that seeks to align the current laws governing intellectual property with the international laws. This will become on the strongest signals to the international investor community, thereby strengthening Jordan’s position as a location. Pharmaceuticals gets an A ranking in this context.

Consistency with Policy Objectives

The development indicators suggest that the industry ranks favorably in its consistency with policy objectives, thereby qualifying as a B ranking on the consistency with policy objectives ranking.

Table A6.3: Summary of Consistency with Policy Objectives
(Scale 1-4, 4-high consistency; ratings through private sector interviews)

Development Indicators	Weight	Ratings	Score
Labor Intensive	16.7%	2	8.3%
Smart-Industry	16.7%	4	16.7%
Export-Orientation	16.7%	4	16.7%
Investment Levels	16.7%	4	16.7%
Natural Resource Usage	16.7%	1	4.2%
Value Added	16.7%	4	16.7%
	100.0%		79.2%
Consistency with Policy Objectives			Grade B

Final List of Target Industries

Target industries are drugs that are among the most popular in the Middle East exports. The nature of the drug will vary by each company. It is therefore important that promotion be undertaken to all the leading manufacturers in the United States and major pharmaceutical producing countries.

Target Investors/Countries

Immediate-term targets are likely to be the following:

- Small- to medium-size companies specializing in bulk generic drugs in Germany and Japan. These may be companies that wish either to enter into joint ventures with local manufacturers or to enter into a contractual agreement with a local company to produce and export under license.

- Small- to medium-size companies specializing in bulk generic drugs in India. Once again, these may be companies that wish either to enter into joint ventures with local manufacturers or to enter into a contractual agreement with a local company to produce and export under license.

ANNEX B

B.1: Location Audit

Introduction

This chapter examines, from a site-seeker's perspective, the basic competitiveness of Jordan as an investment location vis-a-vis its regional competitors in the Middle East and North Africa. Companies tend to place their production facilities in locations that can offer a macroeconomic policy framework conducive to private enterprise and whose comparative resource endowments most closely match their own technical requirements, thus enabling them to minimize production and transaction costs per unit of output. While the specific factors required by an individual company vary from industry to industry, international companies often conduct a broad benchmark evaluation in the early stages of their site selection process.

The competitive benchmarking exercise is designed to assess a location's relative assets and liabilities from an investor's point of view. The process includes a series of general comparisons to regional competitor countries in areas most likely to shape the corporate location decisions of potential investors. The outcome is a clear picture of Jordan's comparative advantages and disadvantages. The areas chosen for analysis include the following:

- General Economic Environment
- Political Risk
- Access to Trade
- Investment Environment
- Financial Sector
- Labor Regime
- Transportation Regime
- Infrastructure

Jordan, when benchmarked marked against its regional competitors for investment - Egypt, Israel, Cyprus, Bahrain, Tunisia, Morocco, and Lebanon - offers a business4riendly, including a strong commitment to market liberalization, an attractive package of incentives, and an educated work force operating under a flexible labor regime.

General Environment

Foreign investors tend to seek a location where the government is committed to the development of private enterprise and market-friendly policies through the promotion of a stable macroeconomic framework -- an important element for a company's future growth prospects.

In 1989, Jordan embarked on a process of market liberalization and structural reform, transforming itself from a protectionist and statist economy into a market friendly, pro-private enterprise environment. Its efforts have earned Jordan praise from the International Monetary Fund. The economy moved from a decade of economic crisis in the 1980s to high growth in the early 1990s.

Though most economic indicators in 1996 deteriorated slightly when compared to the previous period (1990 to 1995), the economy, continued to perform relatively well. Real GDP climbed 5.2 percent, though this was significantly slower than its average growth rate for the previous five years which topped 8 percent. Inflation was maintained below 7 percent. By 1995, per capita GNP, as measured by Purchasing Power Parity, reached US$4,000.

During the early 1 990s, Jordan's economy, overall, outperformed those of its regional competitors (see Figures 1 through 4). Between 1990 and 1995, Jordan had one of the highest rates of economic growth at 8.2 percent - almost two percentage points ahead of its closest competitor, Israel. Morocco and Egypt had the slowest rate of growth, registering just above one percent for both.

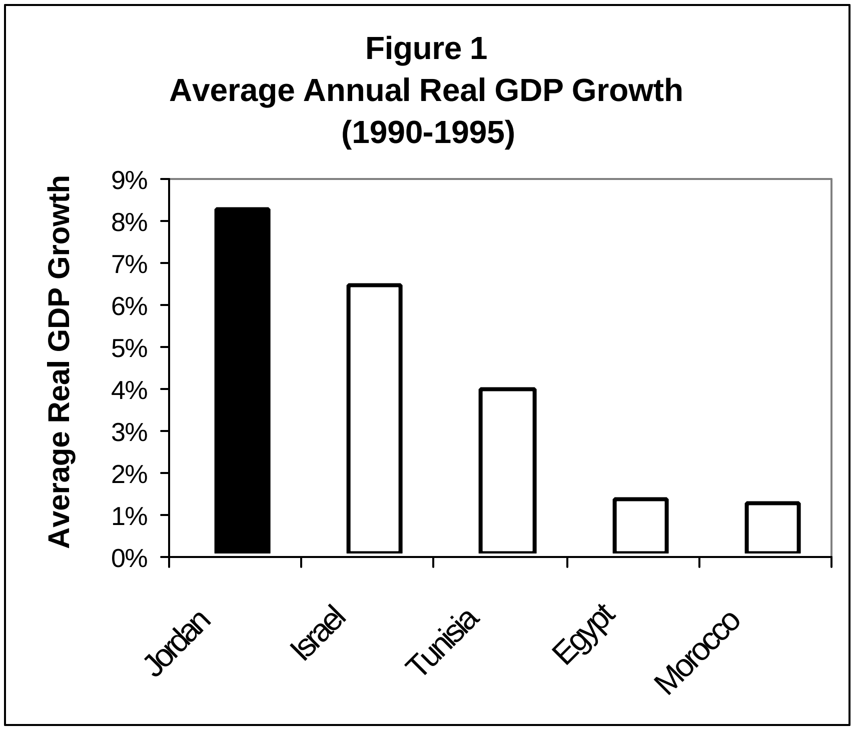
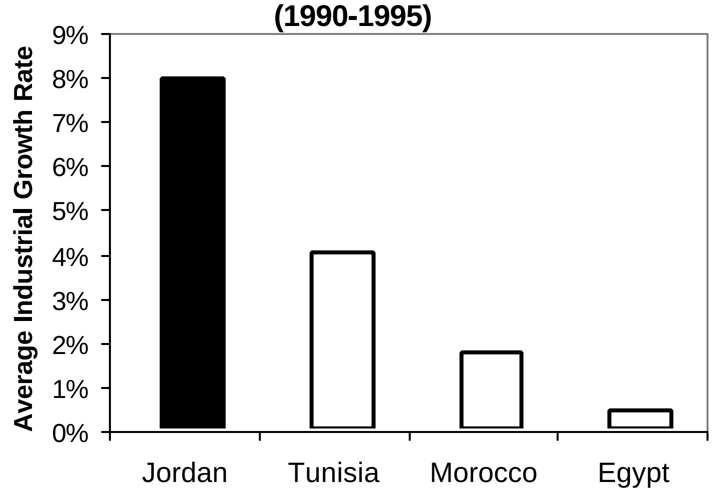


Figure 1
Average Annual Real GDP Growth
(1990-1995)
Average Real GDP Growth
9%
8%
7%
6%
5%
4%
3%
2%
1%
0%
Jordan
Israel
Tunisia
Egypt
Morocco

Figure 2
Average Annual Industrial Growth
(1990-1995)



Jordan's economic expansion was driven, primarily, by a rapid industrial growth rate, 7.9 percent - again, one of the highest in the region. Tunisia, Morocco, and Egypt lagged behind with industrial growth rates of four percent, 1.7 percent, and 0.4 percent, respectively.

In terms of annual export growth, Jordan performed well compared to its competitors. Between 1990 and 1995, Jordan's average annual export growth rate reached 9.5 percent, somewhat behind Lebanon's 13.7 percent (the highest recorded rate), though significantly ahead of both Morocco and Egypt.

Figure 3
Average Annual Export Growth
(1990-1995)

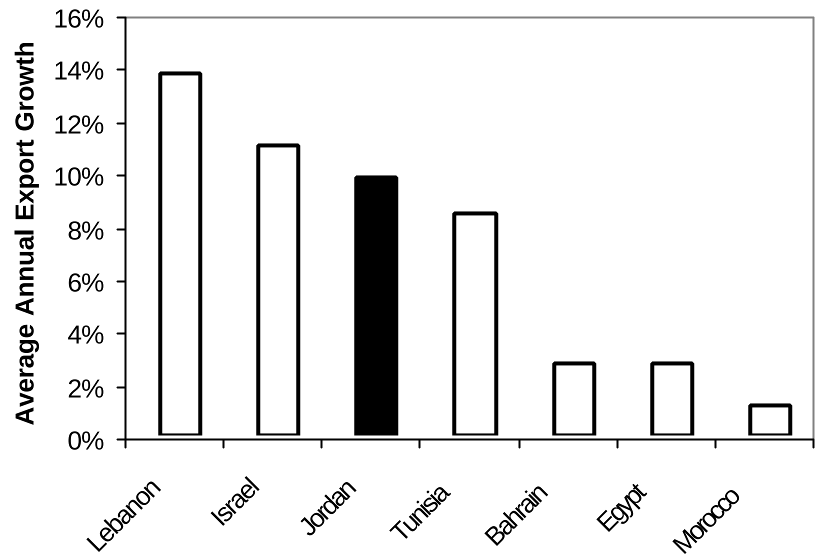
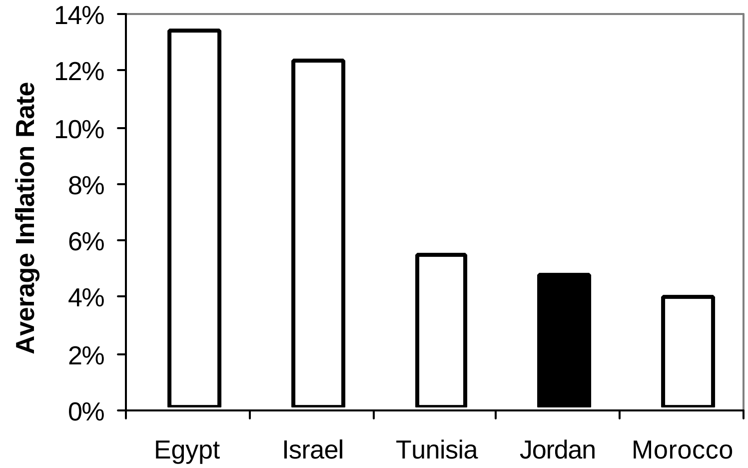


Figure 4
Average Annual Inflation
(1990-1995)



Despite a fast growing economy, Jordan maintained one of the lowest inflation rates over the period, at 4.7 percent. Egypt's slow growth, instead, was coupled with the highest inflation rate, 13.3 percent.

Jordan, with its renewed commitment to continued reform, possesses a favorable macroeconomic policy framework. Its economic performance throughout the 1990s - the best overall - provides Jordan with a strong advantage over its neighboring competitors.

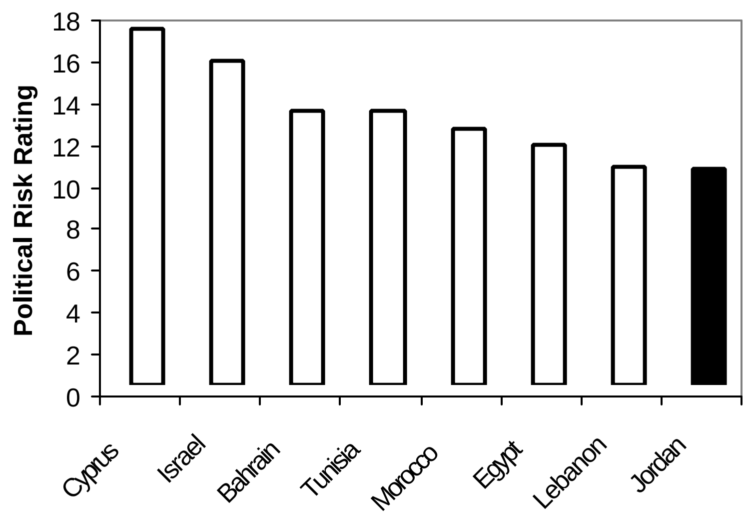
Political Risk

In addition to economic stability, companies look for a degree of political stability when selecting a site for investment. Investors must be reasonably assured that future governments will not reverse the commercial and investment policies that attracted them in the first place. In addition, companies must be assured that their investment will be safe, physically, from political or civil unrest.

Despite Jordan's promising economic performance, commitment to reform, and efforts to maintain internal political stability, Jordan is perceived by the international community as a high risk environment, politically, for investors.

Euromoney magazine conducts political risk ratings on a regular basis. The political risk rating represents a poll of risk analysts, risk insurance brokers, and bank credit officers. The 1997 *Euromoney* ranking of political risk places Jordan below all of its regional competitors, scoring 10.3 out of a possible 25 points. Cyprus, with 17 points, has the highest degree of perceived political stability in the region. Figure 5 displays the rankings of the competitor country sample.

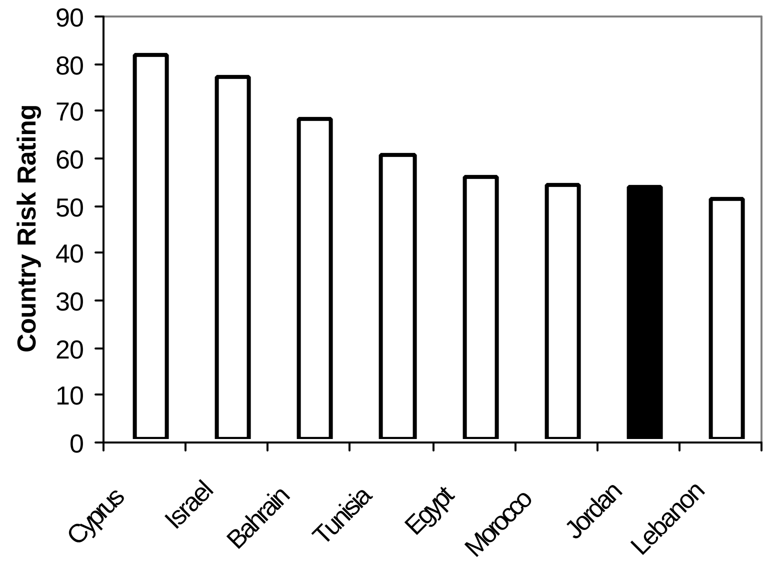
Figure 5
***Euromoney* Political Risk Rating (1997)**
(Total Possible=100, 100=Not Risky, 0=Very Risky)



While regional instability, an external factor, can certainly be blamed for part Jordan's "riskiness", it cannot be considered the over-riding factor since countries such as Israel and Lebanon, who are more directly involved in the regional turmoil, are perceived to be of less political risk than Jordan

Euromoney magazine also conducts overall country risk ratings which is based on a combination of economic data, political risk rankings, debt indicators and debt default / rescheduling information, credit ratings, and access to financial markets. The overall ranking is based on a weighted average, with political risk accounting for 25 percent of the overall score. In the 1997 survey, Jordan ranks relatively low, second to last among the selected regional competitors, scoring marginally better than Lebanon. Once again, Cyprus ranks the highest (see Figure 6).

Figure 6
***Euromoney* Country Risk Rating (1997)**
(Total Posssible=100, 100=Not Risky, 0=Very Risky)



Political and financial stability are prerequisites to sustained economic development. The relatively high degree of risk associated with investment in Jordan, one of the "riskiest" among the selected comparator countries, represents a disincentive to investment in Jordan.

Access to Trade

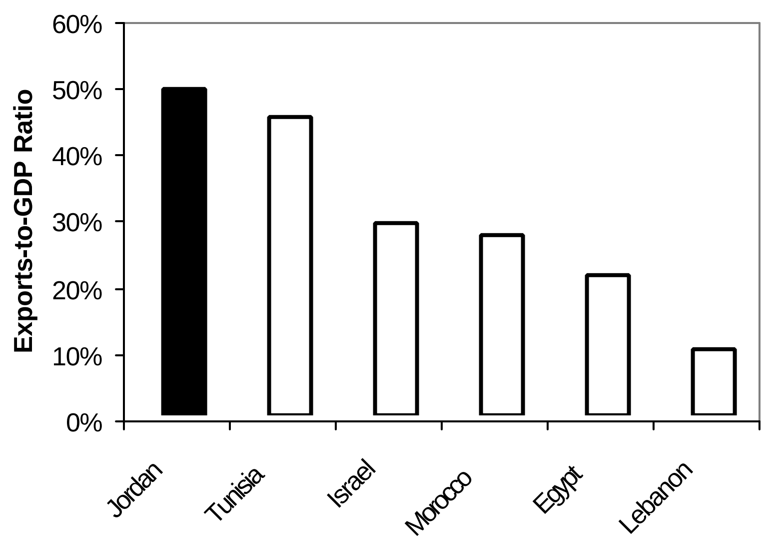
With the proliferation of regional trade blocs and the trend toward regional sourcing - as well as the large economies of scale required in some industries - access to free or preferential trade opportunities can provide a strong incentive to investors.

As a relatively small country with few natural resources and limited agricultural production, Jordan is strongly dependent on international trade for its livelihood. Jordan is, in fact, one of the most "open" economies when compared to the competitor countries, with exports equivalent to 49 percent of GDP in 1995.

Only Tunisia comes close to this degree of "openness", with

exports totalling 45 percent of GDP. The export-to-GDP ratios of Israel, Morocco, Egypt, and Lebanon all come under 30 percent (see Figure 7).

Figure 7
Exports as Percentage of GDP (1995)



Since 1989, the Government of Jordan has actively endorsed access to free trade and is committed to continued liberalization. Unilaterally, Jordan reduced its mean trade-weighted tariff, in 1996, to 13.7 percent, down from 16.8 percent in 1987. Jordan has applied for admission to the World Trade Organization and discussions are currently underway.

Jordan has also entered into a number of trade agreements, giving Jordanian exports preferential access to the United States and European Union. This past year, the United States extended its Qualified Industrial Zone (QIZ) status to Jordan. Under this arrangement, enterprises located in specified industrial estates are qualified for duty-free exports to the United States. Only Israel, among the competitor countries, shares this preferential status.

Jordan has also signed a Partnership Agreement with the European Union. Under this arrangement, Jordan will gain duty-free access to the EU market by 2010. In the meantime, tariff and non-Tariff barriers to the EU will be gradually reduced for Jordanian exports, beginning in 1999. Both Egypt and Lebanon have signed similar partnership agreements with the European Union. While these three countries will enjoy increased access to the European Union, they must compete with the signatories to the Lome Convention - more than 70 developing countries in Africa, the Caribbean, and the Pacific - who currently receive duty-free access to the European Union.

In addition to these agreements, Jordan also benefits from a number of inter-regional trade agreements. In the past, trade was hindered in the region by a web of bilateral trade protocols that served to restrict regional trade. These barriers, however, are being reduced by new trade agreements:

- A free trade agreement was concluded with Bahrain in 1995.
- Jordan and Israel, as part of their 1994 Peace Treaty, signed a Trade and Transport Agreement in 1996 (revised in early 1997), providing for reduced customs on Jordanian exports to Israel and streamlined processing and clearance procedures at the northern and southern border crossings.
- Jordan is expected to negotiate bilateral free trade agreements with Tunisia and Morocco this year.
- Jordan and Egypt have initialed a free trade agreement which has been ratified by the Jordanian House of Parliament, though Egypt has yet to ratify.
- Jordan and other Arab countries have proposed a greater Arab free trade area for which they hope to finalize procedures, leading to a formal Arab free trade area by

2007.

Jordan's ongoing process of trade liberalization, both unilateral and with its trading partners, provides a strong incentive to investors interested in accessing global or regional markets for exports as well as sourcing opportunities. However, as a number of the trade agreements are still in the "pipeline"-stage, Jordan should not expect to harvest the fruits of these arrangements until they are closer to implementation.

Investment Environment

Issues such as taxation, investment restrictions, import / export policies, and the foreign exchange regime all form part of the "rules of the game" - the regulatory framework in which businesses operate. A "business4riendly" environment boosts business confidence and attracts investment. In addition, investment incentives such as access to free zones, duty exemptions, and tax holidays provide an additional inducement to investors.

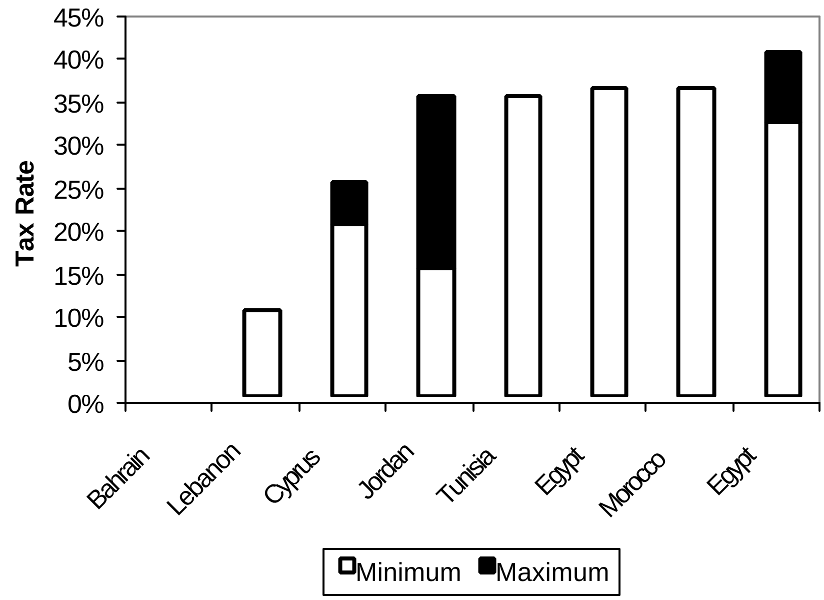
Profit Tax: Jordan's Income Tax Law was amended in 1995 to lower the general tax rates for both corporations and individuals. A three-tier flat-tax structure was defined for corporate taxation, with the rate determined by enterprise type:

Table B. 1: Corporate Profit Taxation

Mining, manufacturing, hotels, hospitals, transportation, construction projects (with paid-up capital above US $700,000)	15%
Banks, financial companies, insurance companies, exchange companies, and brokerage companies	25%
All other businesses, including trading and services companies	35%

Jordan's corporate tax rates are competitive with others in the region where rates are typically set close to 35 percent (see Figure 8), with Lebanon and Bahrain as the exceptions. Lebanon offers a low corporate tax rate of 10 percent while Bahrain offers investors a tax-free haven.

Figure 8
Corporate Tax Rates



Tax Incentives: In addition to competitive tax rates, Jordan offers many of its investors an attractive package of tax incentives. The Investment Promotion Law of 1995 encourages investment in targeted sectors into lesser developed areas of the country, with tax holidays of 25 to 75 percent granted for a period of 10 years, depending on sector and geographic location. In addition, all corporate profits gained through export earnings are 100 percent tax-exempt.

Jordan's package of tax holidays compares favorably with those of its regional competitors. Only Egypt and Israel offer a comparable package of investment incentives. While the remainder - except Bahrain which has no need to offer tax holidays - offer incentives to export-oriented enterprises, few provide tax holidays for other enterprises. Cyprus offers no tax incentives (see Table B.2).

Table B2: A Comparison of Investment Environments

	Jordan	Egypt	Israel	Lebanon	Tunisia	Morocco	Bahrain
Profit Tax	15-35%	32-40%	36%	10%	35%	36%	0%
Tax Holidays (excl. Free Zones)	- 25 to 75% tax holiday for a period of 10 yrs on new investments, depending on sector and geographic location - 100% exemption on export earnings	- 5 yr. tax holiday for new investments plus possible 5-yr. extension - 5 yr. tax holiday on expansions	- on undistributed profits only - 2-10 yr. tax holidays, depending on geographic location	none	none	none	not applicable
Duty Exemptions (excl. Free Zones)	duty-free imports of capital goods	none	n/a	n/a	10% flat rate on capital goods	5% flat rate on capital goods	n/a
Free Zone Policies	- 12 yr. tax holiday - duty-free imports - free repatriation of profits	- duty-free imports - exemptions from sales tax	- duty-free imports	- 10 yr tax holiday - duty-free imports	- 10 yr. tax holiday - duty-free imports	- duty-free imports - offshore banking	- duty-free imports
Foreign Exchange	- fully convertible - free repatriation of profits	- repatriation of profits upon approval	- controls on capital movements maintained	- free repatriation of profits	- free repatriation of profits	- free repatriation of profits	- free repatriation of profits

Restricted Sectors: While Jordan has made progress towards removing barriers to foreign investors, with the majority of industries open to 100 percent foreign ownership, the current Investment Law maintains several restrictions that may hinder inflows of foreign investment. Foreigners may not own more than 50 percent of companies operating in the following sectors:

- Construction contracting;
- Land and air transport (excluding railways);
- Wholesale and retail trade and commercial services;
- Banking and insurance;
- Telecommunications;
- Mining;
- Agricultural crops; and
- Information/media (maximum 25 percent foreign ownership).

Most of the other countries under consideration have comparable restrictions on foreign ownership. While Jordan remains "competitive" with the countries selected for comparison, such restrictive practices are not to Jordan's advantage as they remain more restrictive, in general, than standard rules against investing in "strategic" sectors found in other countries.

While an amendment to the Investment Law which would reduce the number of sectors subjected to ownership restrictions, until such time investment will continue to be hindered in a number of potentially attractive sectors.

Free Zone Policies: Jordan's Free Zone Corporation currently has two established free zones - at Aqaba and Zarka - that have been designed to promote export-oriented industries and transit trade. Enterprises operating within the two Jordanian zones, both foreign and local - enjoy a competitive package of incentives and exemptions, including:

- Exemptions of profits from income and social services tax for a period of i2 years from commencement of operations;

- Exemptions on income tax and social service tax for salaries of non-Jordanian employees working in the free zone;

- Exemptions from customs duties, import fees, and sales taxes on goods imported to or exported from the free zones;
- Exemptions from customs duties on the market consumption of goods manufactured in the free zone provided they contain local components;
- Exemptions on licensing fees and real estate taxes on buildings constructed within the zones
- Free repatriation of invested capital and profits earned;
- Free transfer of currency; and
- Concessionary rental rates for land and buildings in the free zone.

Both the Aqaba and Zarka Free Zones have proven successful in attracting investment into a number of sectors. There are more than 700 commercial trading and industrial projects based in the operating free zone areas. They comprise storing, repackaging, mixing, blending, and manufacturing operations, including apparel manufacturing, food processing, printing and publishing, electrical and electronic assembly, automotive parts, construction equipment, and furniture manufacturing.

The current plan to extend the Aqaba Free Zone, creating a 2.5 million square meter facility, as well as plans for two additional zones in Sahab and Queen Alia International Airport, will provide an extra boost to investment in export-oriented manufacturing as well as entrepot activities.

Jordan's free zone policies and incentives compare favorably with those of its regional competitors. While a number of these countries provide free zone/EPZ facilities to export-oriented manufacturers, few offer such a comprehensive package of incentives. Both Lebanon and Tunisia do offer similar tax holidays in addition to duty-free imports and other exemptions while

Morocco and Egypt, on the other hand, offer additional tax holidays for zone enterprises.

Duty Exemptions: In addition to the duty4ree imports granted to enterprises located in the established free zones, Jordan offers duty4ree status to a number of targeted industries, regardless of geographical location. At present, targeted sectors include Industry, Agriculture, Hotels, Hospitals, and Maritime Transport and Railways. Duty exemptions are granted on certain fixed assets, spare parts, and furniture and other supplies. Jordan's duty exemption program is competitive with others in the region - most of which offer similar incentives.

Foreign Exchange Regime: Jordan has a comparatively liberal foreign exchange regime. Recent reforms have brought equal treatment between foreign and domestic deposits for current payments, the removal of ceilings on resident accounts in foreign currencies, and the introduction of swap operations. The Jordanian dinar is fully convertible into major currencies.

The Central Bank's efforts to remove all significant restrictions have been rewarded with increasing capital inflows into the Jordanian banking system - a strong confirmation in business confidence in Jordan's commitment to reform.

Since reform, Jordan's foreign exchange regime has proven to be on par with its regional competitors, all of which maintain more or less standard policies on foreign exchange.

Overall, Jordan's investment environment is competitive with the selected comparator countries. With its competitive rates of taxation, generous tax holidays, access to free trade zones, duty-free imports, and a fairly liberal foreign exchange regime, Jordan provides a favorable environment to foreign investors.

Financial Sector

A market-driven, well-developed financial sector is an important factor for investors. As recent events in East Asia have revealed, investor confidence is strongly tied to the health of the financial sector. Foreign investors are particularly interested in access to and cost of trade financing as most of their enterprises tend to be export-oriented.

While Jordan has enacted a number of market friendly policies, adequate reform has yet to be introduced in the financial sector, particularly with regard to credit facilities.

Specialized Export Credit Guarantee Programs: The Central Bank of Jordan exercises direct control over credit in the country, with bank financing dependent on prevailing Central Bank policy. In 1994, the Central Bank authorized the establishment of the Export and Finance Bank.

The Export and Finance Bank, a partially public-owned (20 percent) institution, is presently the only domestic-based source for trade financing. With a registered capital of US$ 14 million, the bank provides credit for export financing to both foreign- and domestic-owned enterprises, including letters of credit and letters of guarantee.

Export Credit Interest Rates: While domestic firms obtain credits at market-driven rates, credit facilities for foreign firms are determined on a case-by-case basis.

Constraints on Trade Finance: In addition to the absence of market-determined interest rates, foreign firms must receive the approval of the Central Bank before applying for credit locally, including export financing through the Export and Financing Bank..

Other Means of Accessing Finance: The United States EXIMBANK and the Central Bank of Jordan signed an agreement in 1996 allowing the private sector to import U.S. goods up to US$ 200 million using EXIMBANK short- or medium-term credit guarantees.

In addition, once new regulations are put into effect, private commercial borrowing will be permitted to cover all types of business activities, including trade financing - however Central Bank approval will still be required for foreign investors.

While access does exist in Jordan for export financing, its limited nature and the absence of free market forces provide a strong disincentive to foreign investment.

Labor Regime

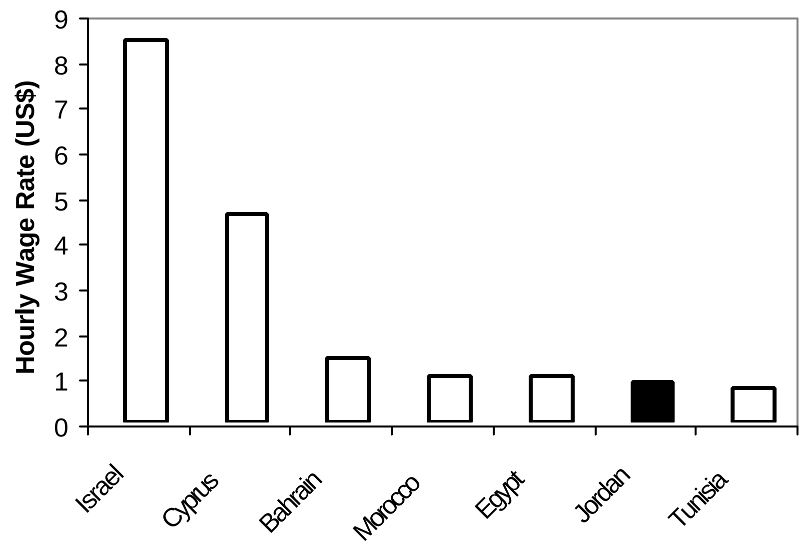
The majority of investments made by foreign investors in developing economies are in labor-intensive industries. Thus, a flexible labor market and the availability of low-cost labor, at all required skill levels, are prime factors in the site selection process.

Jordan's labor regime provides a significant asset to investors. A well-educated, comparatively low-cost work force is complemented by a relatively flexible labor market, making Jordan an attractive site for investors, particularly those operating in labor-intensive industries.

Worker Skills: The Jordanian work force is among the most educated in the region. Literacy rates average 85 percent, one of the highest in the region, and more than 17 percent of the labor force has obtained a higher education, with more than 19,000 having obtained post-graduate degrees. Jordan boasts almost 33,000 engineers - covering the full range of disciplines - and more PhD graduates per year than Israel. While much remains to do in terms of vocational training, Jordan's skill base continues to both deepen and widen, providing the economy with skills that had once been in short supply, such as computer programming, managerial skills, and marketing skills. In recent years, the return of Jordanian ex-patriate workers from the Gulf Region has further augmented Jordan's skills base. As a result, Jordan has become a major supplier of brainpower throughout the MENA region.

Wage Rates: Jordan's wage rates are among the lowest in the region. Average manufacturing costs range from US$ 90 to US$ 230 per month, comparable to Tunisia, Morocco and Egypt and only a fraction of manufacturing wages elsewhere. In Bahrain, manufacturing wages are, on average, 55 percent higher than in Jordan while Cyprus and Israel are considerably higher. Average manufacturing wages are more than five times higher than in Jordan and in Israel, average wages are almost 10 times higher (see Figure 9).

Figure 9
Manufacturing Wage Rates



In addition, the Jordanian government imposes no national minimum wage or wage controls on either Jordanian or expatriate workers. However, the government does retain the prerogative to set minimum wages either by occupation or geographic location. Lebanon is the only other country among the selected sample that likewise does not currently impose any legislated wage regulations. The remaining six countries all impose minimum wages though few have wage controls.

Hiring / Firing Requirements: Jordan has one of the most flexible labor markets in the region, with few controls on hiring or firing, regarding both Jordanian and ex-patriate workers. The new Labor Law that came into effect in 1996 stipulates that employees may be let go for any justifiable reason without compensation (unless agreed upon contractually). In addition, wages can be reduced by employers when necessary. However, cultural norms generally protect employees against lay-offs.

The hiring of ex-patriate workers is under the control of the Ministry of labor. Foreign and domestic firms may hire ex-patriate workers if justified (e.g. technical labor); however, in practice, some companies have complained about difficulties in obtaining the required permits. Furthermore, the Ministry stipulates several occupational categories in which the hiring of foreigners is prohibited.

Despite these difficulties in hiring ex-patriate workers, Jordan remains more flexible than many of its neighbors. Bahrain has arguably the most restrictive hiring policies. An active policy of "Bahrainization" has led to the introduction of limits on the number of foreigners that may be hired in a given enterprise and some incentives are dependent on Bahrainization.

Overall, Jordan's labor regime is one of the most attractive compared with those of its regional competitors. A comparatively low-cost, well-educated work force, combined with relatively flexible hiring/firing requirements, enhances Jordan's attractiveness as an investment location.

Transportation Regime

As most foreign enterprises in developing economies are export-oriented and are also dependent on the import of capital equipment and raw materials, access to cheap and reliable transportation services can make or break a business.

While Jordan's transportation infrastructure is on par with those of its competitors, relatively high costs for both air and sea freight represent a comparative disadvantage to Jordan.

<u>Air Transportation</u>: Jordan has three airports, including two international airports at Aqaba and Queen Alia. Both possess relatively modern infrastructure for cargo handling and are comparable to other international airports in the region.

Airfreight costs, though, tend to be relatively high in Jordan when compared to its competitors. While rates are only slightly higher than in Egypt and Cyprus, they are considerably higher than in Tunisia, Lebanon and Morocco. Jordan's airfreight rates to London are, on average, 46 percent higher than Lebanon, 105 percent higher than Morocco and almost 250 percent higher than Tunisia.

Sea Transportation: The Port of Aqaba is Jordan's only sea port, operated by The Ports Corporation. The Gulf of Aqaba's strategic location between four countries and two continents provides the port with the opportunity to capitalize on growing trade with the Far East and Indian sub-continent.

The Aqaba port, in general, possesses modern facilities, adequate for handling current traffic flows. In 1996, the port handled over 12 million tons of cargo and has the potential to expand its handling capacity to 30 million tons - just enough to meet the projected growth in traffic expected by 2010. Plans are already underway to expand the industrial port, thereby enabling Jordan to meet the expected growth in demand.

While Aqaba's expanded infrastructure will prove attractive, in terms of costs, Jordan is at a disadvantage when compared with some of its regional competitors. Both Morocco and Cyprus, given their relative proximity to Europe, can offer cheaper freight rates to Western Europe. For instance, the transport of a 2O4oot container to London costs 250 percent more from Jordan than from Cyprus.

Land Transportation: Jordan's road network covering 6,800 kilometers is considered to be in good condition and is adequate for current transport flows. However, an upcoming surge in transport activity that is expected in the coming years will require significant upgrades and expansions, in terms of quality, capacity and efficiency. Road transport, however, remains a cheap mode of transport in Jordan due to low fuel prices, averaging US$ 0.154 per liter of gasoline and US$ 0.074 per liter of diesel fuel. Despite low fuel costs, Jordan does not possess a comparative advantage in land transport. At US$ 0.20 per kilogram, land transport in Jordan is twice as high as in Cyprus.

Railway transport is a less attractive mode of ground transportation. The railway network is jointly managed by the Hijaz

Railway and Aqaba Railway Corporation. Despite a 676 kilometer network, Jordan's railways are not considered an effective mode of transport. Nevertheless plans to expand the system, with the aim of improving its integration with the regional network.

Table B.3: Cost of Transportation

	Jordan	Lebanon	Egypt	Morocco	Tunisia	Cyprus
Air Freight US$/kg To London	3.28	2.25	3.05	1.60	.95	3.15
Sea Freight US$/ 20' Container To London	1000	N/A	N/A	N/A	1600	400

Infrastructure

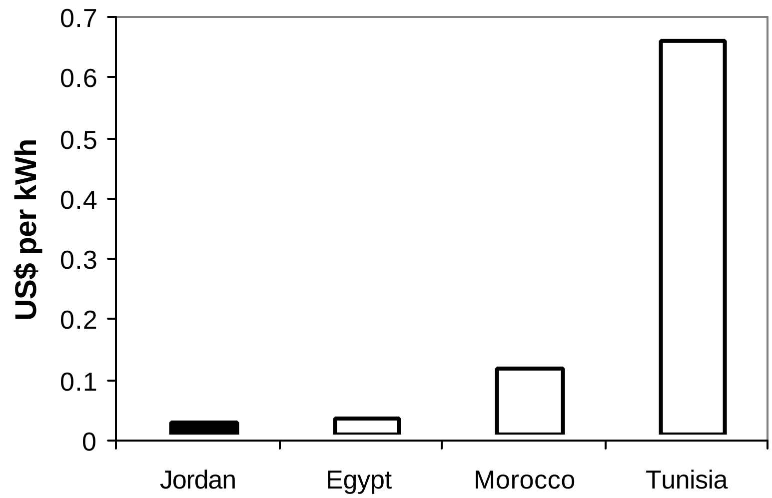
Most enterprises, both manufacturing- and service-oriented, are dependent on the availability of cheap and reliable utilities - including water, electricity, and telecommunications. Frequent breakdowns and "pre-modern" services can hamper production and, thus, profitability.

Jordan expects a rapid increase in the demand for utilities over the next ten years. While current supplies of water and power are already stretched to the limit, Jordan must undertake massive investment in infrastructure in order to meet this growing demand.

Electricity: Jordan, as a developing country, has an impressive electrification record - approximately 99 percent of the country is electrified to international standards. However, rising demand, which is expected to grow about nine percent per year, will require an annual investment in expanded capacity of US$ 170 million per annum. The government's decision to privatize and de-monopolize the sector by 1999 should go a long way in ensuring that the required targets are met.

Tariff rates for electricity are very competitive by both world and regional standards and are considerably lower than most middle-income developing economies. While commercial enterprises pay US$ 0.0322 per kilowatt hour (kWh), manufacturing enterprises pay substantially less, ranging from US$ 0.009 to US$ 0.013 per kWh, comparable to Egypt's rates. Both Jordan and Egypt have a distinct cost advantage over Morocco and Tunisia where average tariff rates are 80 percent higher and 3,000 percent higher, respectively. (See Figure 10)

Figure 10
Average Electricity Tariff Rates



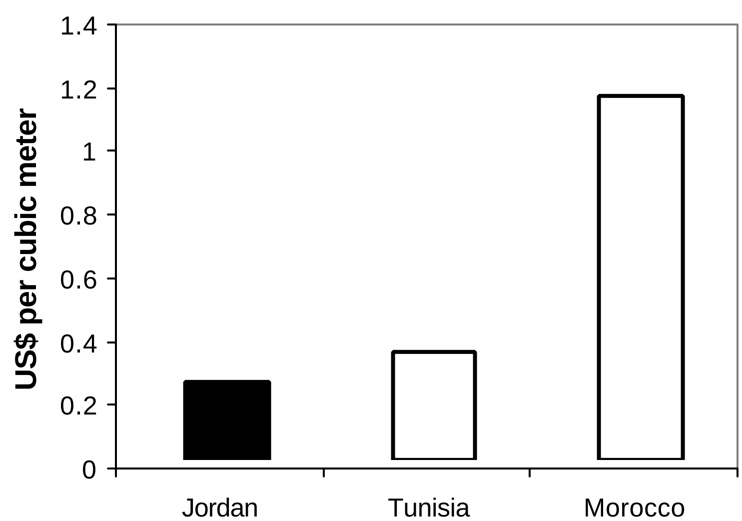
Jordan's good quality power infrastructure, combined with its competitive tariff rates, would prove to be an attractive incentive to investors interested in the region.

Water: Like many countries in the Middle East and North Africa, Jordan's water supply situation is inadequate to meet current demand. Shortages are common. Expected growth in demand for water is expected to worsen the situation. By 2010, demand is expected to total more than three times current available resources. Massive investment in desalination, water treatment and dams will be required to meet the nation's needs in the coming years.

Despite the shortage of water, tariff rates remain relatively low in

Jordan and are competitive even with those countries with more abundant water supplies. Tariff rates range from US$ 0.07 to US$ 0.42 per cubic meter, depending on usage. Jordan's water tariff rates compare favorably with those of its regional competitors (see Figure 11). In Tunisia, tariff rates are slightly higher, ranging from US$ 0.13 to US$ 0.55 per cubic meter. In Morocco, tariff rates are considerably higher, ranging from a low of US$ 0.16 per cubic meter outside Casablanca and Rabat to an exorbitant US$ 2.14 per cubic meter within the two main cities.

Figure 11
Average Water Tariff Rates

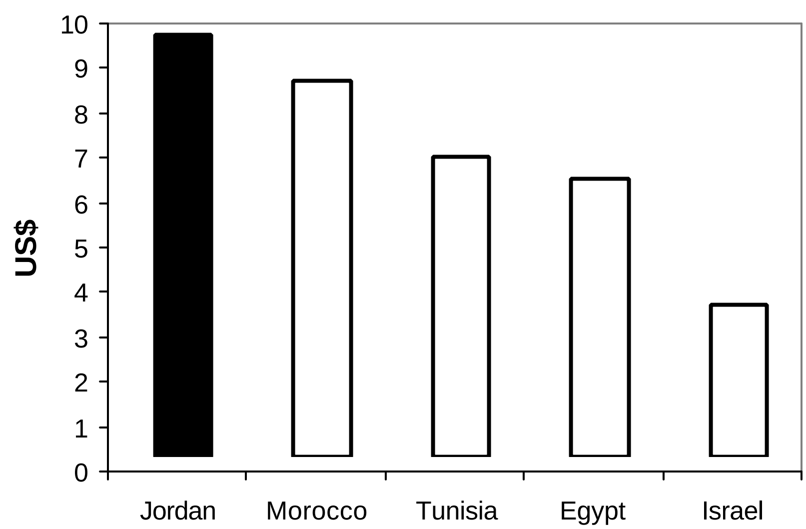


Telecommunications: Jordan possesses an increasingly modern telecommunications infrastructure, with one satellite station, 3 earth stations (two linked to INTELSAT and one linked to ARABSAT), as well as mobile and internet services - similar to the infrastructure available in the competing counties However, while international direct dialing (IDD) is available throughout the country to most countries, the lack of such service to the United States is a distinct disadvantage.

In addition, Jordan's current capacity, as with other utilities, falls short of current demand. Often a 60 day wait is required for telephone connections. Efforts are being made to remedy this situation as the telephone line network capacity has been scheduled to be expanded from 335,000 to 615,000 lines. Bahrain has a comparative advantage over Jordan in terms telephone services with one of the highest penetration rates in the Arab world.

Jordan also possesses a disadvantage in terms of telecommunication costs which are relatively higher than in the comparator economies. In Jordan, a three-minute international telephone call costs, on average US$ 0.094 - 12 percent higher than in Morocco, 40 to 52 percent higher than in Tunisia or Egypt, and more than 175 percent higher than in Israel (see Figure 12).

Figure 12
Average Price of Three Minute International Telephone Call



Summary

This section, through a comparative analysis, has focused on a number of factors that generally shape the location-selection decisions of investors. The result is a clear picture of Jordan's advantages and disadvantages as an investment center.

Principal Location Advantages: Jordan possesses several characteristics that make it an attractive site for investors, including:

- a promising macroeconomic environment backed by a commitment to continued reform;
- a number of trade agreements providing Jordan-based enterprises with preferential access to the U.S. and European markets;
- an attractive investment environment, with competitive tax rates, attractive incentives packages, and a fairly liberal foreign exchange regime;
- highly qualified, relatively cheap labor;
- good electrical power infrastructure with tariff rates among the lowest in the region as well as beyond; and
- a comparatively cheap supply of water despite ongoing shortages.

Principal Location Disadvantages: A number of factors, however, in which Jordan is at a comparative disadvantage, may prove to be deterrents to investment. These factors include:

- a poor perception of Jordan's political stability, with the lowest score among its competitors in *Euromoney's* political risk ratings;
- the high cost of transportation - including air-, sea- and land- freight;

- lack of free-market access to trade financing; and
- comparatively high telecommunication costs.

ANNEX C

C.1: Investor Service Guidelines

Introduction

A promotion organization is a marketing entity, which possesses in its kit the traditional tools of communication: advertising and personal sales. Advertising is not a subject to be dealt with in this paper, except to say that it is a method used by varying degrees of effectiveness by promotion organizations for image building, and for investor generation.

Media advertising, sustained over a period of time, can be very useful in the process of image building. It can also be a very expensive endeavour, and many investment promotion agencies fail to achieve the long-term financial support necessary to carry it out. Results obtained in investment generation from a media advertising campaign are very difficult to measure, and any production would be long term at best.

Creation of brochures, flyers, etc. are forms of advertising essential to the investment generation efforts of a promotion agency, as they are used to present the competitive and comparative advantages of the product, in this case, Jordan. Today's investor more and more requires that this presentation be tailored to his particular needs, and that it focus on his particular investment project.

It is for this reason that investment promotion agencies today use electronic databases to retrieve the information pertinent to a particular investment project, and tailor the printed information as closely as possible to the issues at hand. Comprehensive, non-specific brochures and presentations are passing from the scene. Brochures used in direct mailings, etc., highlight the advantages for particular sectors of industry, for example, or emphasize a particular competitive advantage such as Jordan's QIZ.

The rendering of service to the investor is the utilization of that other method of communication: personal sales. Unlike advertising – a one way communication – personal sales establishes that essential dialogue between the promotion agency and the investor which allows the agency to quickly determine the investor's requirements, and to go to work to meet them.

The Case Officer Approach

The Project Officer (Case Officer) approach is the acknowledged best system of project and prospect management as it is designed to ensure the development of the personal relationship between individuals which is the key to good customer service. It is strongly recommended that the IPC adopt this approach by selecting 4 or 5 of its most qualified staff for these positions. The Project Officers would be supervised by a Director or Mangaer, such as a Director of Business Development, named by the Director General.

These Project Officers would ideally possess a variety of language and technical skills, and they would be grouped together to form a team of expertise in evaluating the needs of an investment project. The Project Officer will create a file in the appropriate electronic database for the investment project, and will keep a hard file as necessary. The Director of Business Development will have access to all project files, as will the Direction and the other Project Officers. Questions concerning confidentiality will be addressed and handled by the Director of Business Development.

Essential from the foregoing is the concept of having one person responsible for each project from inception to conclusion. The Business Director assigns projects to the Project Officers and meets with them on a regular basis in order to determine the status of the various investment projects. The Business Director, in her discretion, and because of the particular needs of a project, assigns a project according to the talents of a particular individual or group best suited to handle the task.

The Project Officers play a critical role in the success of the IPC because they have the day to day responsibility for the investment projects. The PO is charged with providing a quality of assistance to the investor that will make the IPC indispensable to all who would invest in Jordan.

The Investment Decision and the Sales Process

It is the task of the IPC to make it <u>easy</u> for investors to place their investments in Jordan. It is in the process of personal sales and service, figuratively taking an investor by the hand and helping him through the process of investing his money in Jordan, that the IPC can outperform all the competition, and can establish a standard of excellence of service unseen in this part of the world.

Investment promotion is to a great extent an information gathering and sales process because the project officer is usually dealing with an investor who is making the investment decisions himself, or she is assisting a representative of a company who has been trained to make a comparative search of potential investment sites. In both cases the project officer is faced with a person who thinks he knows what he is looking for, and that person has usually prepared himself well in advance to find the information that he needs.

One could say that one is dealing with a rather sophisticated buyer who will go through his investment site selection process in a businesslike manner and that by and large his need will be for information. The foreign investor usually knows what information he needs in order to arrive at a decision, and he usually knows when he has received the information that he needs in order to make a decision.

The Project Officer can provide the information by either supplying it from the resources of his own office, or by seeking the information from competent sources outside in either the public or private sector. This is a rather straightforward process, which the PO must accomplish with speed and accuracy, and is one that mainly requires the perseverance to see the task through. The key here is conscientious and prompt attention to the prospect's information needs. The

Project Officer would use his good judgement in knowing where to place emphasis on the facts he is gathering, and where to place priority on the facts he is seeking.

From the proceeding one may form the impression that this kind of promotion is simply a matter of supplying the data to fill in the blanks on the investor's questionnaire. The investment process can be that straightforward, but experience teaches that investment decisions often turn on intangibles.

For example, Project X involved the siting of a cement plant in a region which already was proven to have the necessary infrastructure and natural resources to accommodate such a facility as there were two existing plants. Geologists and engineers searched for six months to find the right combination of mineral resources, soil bearing conditions, road and rail transportation network, etc. The technical staff were finally ready to present a choice of three sites to the President of the company. Each of the three had its own advantages and disadvantages, but all three conformed to the site criteria established by the technical staff at the start of the search.

The President of the company arrived, and spent a few hours touring the three sites in question, offering only comment on the technical aspects of the project, showing no preference for or making any commitment to one site over the other.

While returning to the corporate jet for the return flight to Texas, the President and his entourage happened to drive past a particular site. “Who owns this property?”, inquires the CEO. “We do not know as we never considered this site as it is located on an interchange of the superhighway, and we thought it much too expensive, not sure about the technical criteria, etc., etc.”, defensively replied the technical team.

“Well, find out, because I am going to buy it and build my cement plant here.”

So why was Project X placed in a prominent site on the superhighway instead of on one of the isolated ones that had been thoroughly researched by the technical team? “I am going to build a ‘state of the art’ cement plant. There won’t be any white smoke coming out as at the other plants in this region, and I want the passing public on the superhighway to witness that."

The point of the foregoing is not to say that Texas has corporate Presidents who do not listen to their staff, or that are concerned about public relations. It is that there may well be certain criteria which are crucial, but which are not, nor could not be included in the technical study.

It emphasizes the importance of the interpersonal relationship, which the Project Officer develops with the investor. With the development of a close working relationship, the PO is much more likely to be aware of these emotional and other human factors which can play a large or even dominant role in decision making.

Investment promoters, even though they are not selling a product or service in the strictest sense, would be well advised to always keep in mind the formal phases of the sales process. The progress of an investment project moves through steps quite similar to those of the sale of an automobile, or of any article or service. These same steps, consciously or unconsciously, will be followed throughout the evolution of an investment project. (Note: the following has been taught and discussed for decades in sales seminars, training sessions, etc., but to the writer's knowledge was first formalized by Prof. Benson P. Shapiro of the Harvard Business School, Harvard Business Review, On Management, Harper and Row.)

The Opening

The opening is accomplished by the salesman when he finds a prospect who will listen to his sales presentation.

For industrial promoters it is often the case that investors walk in the door because industrial promotion organizations by their nature are the logical place to start inquiring for information. Investment promotion organizations must often create their openings to prospects by participating in seminars, lauching investment missions, etc. The successful opening for the development promotion organization is made to the highest level decision maker, within whatever organization, that it can reach.

The Qualification

Qualifying in the simplest sales sense means determining whether or not the buyer has the means to pay for the product that the salesman is trying to sell. If the customer does not have the means to buy a set of pots and pans, it is rather wasteful of the salesman's time to pursue the sale.

For the project officer, qualification means essentially the same thing. The Project Officer attempts to determine whether or not the prospect has acquired adequate financing for his project, whether he can self finance, or whether or not the project could feasibly be financed. If the Project Officer is reasonably certain that the investor lacks financial backing, and that the project appears unlikely to be financed, she is polite and helpful, but she spends her time and energy on other, more valid projects.

The Presentation

The Presentation is simply the talking about and the showing of the automobile, perhaps even taking the prospect for a demonstration drive.

The successful salesman will focus his presentation on three elements: the features of his product which distinguish it from all others; the advantages which his product offers to the buyer; lastly, and most importantly, the benefits which will accrue to the buyer when he chooses the salesman's product.

Features of a product are such things as the four doors of the automobile. Another feature could be that the automobile has four wheel drive.

An advantage would be the fact that since the four doors allow ease of passenger entry, and that the four-wheel drive gives good traction in icy road conditions.

Many buyers will respond so warmly to the features and advantages which the salesman points out that they will commit to closing the sale.

The seasoned, professional salesman, however, knows that it is the benefit which the prospect thinks that he will receive from a product or service which inspires the firmest commitment. It is the perceived benefit, which moves the buyer to close on the sale in most cases.

What would be a benefit to the buyer of the automobile ? Perhaps that by possessing the automobile he will be perceived as successful by his family and neighbors. The four-wheel drive will enable him to be a better father by taking the family into the fields for picnics on the weekend. Benefits.

The benefit may not always be so apparent. The buyer may perceive some unspoken benefit, which is never made clear. For the President of the cement company the benefit was? The envy of the competition for his audacious decision to site a cement plant in full view of the public? The admiration of the public and the publicity?

The Closing

The closing occurs when the customer agrees to buy. The best closing is the one where the buyer, because he has convinced himself on the basis on the features, advantages, and benefits, elects to conclude the sale. The worst kind of closing occurs when the buyer is coerced by an aggressive salesman into buying something which he is not fully convinced that he needs. This will produce an unsatisfied customer who will not be very receptive to further closings.

In industrial development the Investor normally arrives at his decision. Quite often, however, at the moment of decision, the Investor will need reconfirmation of facts, and, if the Project Officer has established the right kind of relationship with the Investor, the Project Officer's concurrence that the Investor is making the right decision. This is the final moment in the sales process when the buyer wants the salesman to reassure him that he is making the right decision when he decides to buy.

> Most buyers at one time or another have found themselves in that very position. The salesman that was most appreciated was the one who gave the most assurance in the least obvious way. This psychological moment-when the buyer has decided

to buy, and looks for every reason to either justify or reconsider the purchase- has a name in the language of sales; it is called "buyer's remorse".

Service

In industrial promotion service is one of the most important elements of the sales process. The Project Officer who has developed the personal working relationship with the Investor now continues on with a new set of problems to replace those of siting a factory or forming a joint venture - now there are those of managing the investment on a day to day basis.

The PO is far from expert in solving these kinds of problems; but he knows the professionals who can help the Investor, and at least for a while the PO remains the person to whom the Investor comes for help. This is as it should be for the Investor has confidence in the PO, and they have developed a means of good communication between themselves.

Eventually the Investor may go directly to the new sources of assistance, which the PO has led him to, or he may not, depending on the circumstances. If the Investor does eventually no longer call upon the PO for assistance, the PO still follows up occasionally by contacting the Investor and inquiring about the state of things.

The best source for leads and new projects is the satisfied Investor who is already established. He will have credibility with other potential investors, which the IPC can never equal.

General Reception Guidelines

It is imperative that the IPC show a good first impression to the investor by providing a reception that is welcoming and professional. A receptionist should be prominently visible at the point of entry, and at the moment of the arrival of the investor, all other duties should be put aside, and the investor's requests should be given full attention.

The investor should understand from the first moment of arrival that he is the reason for the existence of the IPC. Nothing gives a worse impression than to arrive at an investment promotion office either to find no one to address one's requests, or worse, to find a reception that is too occupied with other business to respond immediately.

The quality of the welcome and the professionalism of the reception will remain with the investor when he has returned to his home country. It has been said that a professional reception leaves the impression with the visitor that he is that important person that has been awaited for some time. The IPC would do well to leave that impression.

If the investor requests to see a particular person, and if that person is not available in short order, then some other member of the staff should present himself. Even if the investor has come only seeking brochures, some member of the staff should meet with him, and speak with him about Jordan, its advantages to investors, and the importance of investment to the country's economy.

Reception practices

- warm smile and words of welcome
- immediate attention to investor
- presence of staff to assist him asap

Telephone reception

Of equal importance to the first impression gained from a visit to the investment promotion organization is the impression conveyed by a phone call to the IPC. Poor telephone manners reflect very negatively on an organization, and regretfully this area of customer service is often overlooked.

Communication is a two way process, and good communication requires patience, skill and commitment, especially on the part of the representative of the promotion agency who is trying to render customer service. Listening is vital to good telephone communication, and it is important that the person on the other end of the line understands that she is being attentively heard.

The voice of the promotion agency should be clear, positive and interested, never rushed, distracted and bored. Accents are not important, but sounding clear and enthusiastic make an excellent impression.

Receiving telephone calls at the promotion center:

- smile when answering
- say good morning, this is Investment Promotion Corporation
- if you recognize the person calling, address them by name
- summarize the conversation before ending it

Good manners in transferring calls is another area that is often overlooked by the promotion center. A professional attitude to this activity can earn big returns by making a very good impression from a really small effort.

Transferring calls:

- explain to the caller what you are doing
- check with the recipient to see that they are indeed there
- if there is delay, return to the caller and ask if they wish to continue to hold
- if there is urgent need to talk to the recipient, ask to find them and call back

Receiving messages:

- use message forms especially designed for the purpose
- do not hesitate to ask that message be repeated or spelled
- read it back

ANNEX D

SCOPE OF WORK

TRIAL OUTWARD MISSIONS FOR JORDAN INVESTMENT PROMOTION CORPORATION

Introduction and Background

A recently completed study by a team of international consultants funded by the United States Agency for International Development (USAID) suggested that the Investment Promotion Corporation program a series of outward missions that focus on promoting investment opportunities in the major markets as a pre-cursor to its full scale international investment missions. The study recommended that the Corporation program these missions in the Middle East, Europe/North America and East Asia regions. The results of the pilot missions will subsequently allow for the Corporation to plan for large-scale missions in the markets considered most receptive to investment opportunities. Furthermore, the pilot missions will allow for the promotion department to test its skills in company research and event preparation.

Structure of Program

An aggressive marketing personal campaign supported by rigorous corporate-level research forms the core of the pilot program. The results of the pilot program will provide management with its first pool of high potential overseas investors, and provide insight into key obstacles faced in marketing Jordan. This insight will allow management to tighten its promotional message and, if necessary, promotional strategy. Specifically, the work plan outlines the following activities:

- Construct a detailed profile of the leading private firms that make up the target audience for the promotional campaign. This will be achieved through analysing the planning and investment patterns of specific firms to determine their preferences with respect to location and size of facility. A plethora of literature exists through economic development agencies world wide which are routinely contacted by these companies for site selection considerations.

- Make corporate presentations to chief executives, corporate location planners and related decision-makers in the targeted companies in Jordan's major markets. The presentations will be used as a medium to not only showcase Jordan, but also to gather both corporate intelligence on site selection and expansion programs in order to set the stage for submitting solicited and unsolicited proposals.

- Develop a list of "hot companies", identifying those that are most likely to consider Jordan as a site in the immediate and medium term. This list will provide invaluable insight into prospective tenants, specifying their land use preferences. Jordan can use this list to attract an equally important segment - industrial estate developers.

Deliverables

A report profiling thirty (30) 'hot companies', detailing the insight into the site selection approach and requirements based on exhaustive research and/or direct corporate presentations during the pilot promotion phase. The report will rank the companies in terms of highest probability and the medium necessary to attract the investment into Jordan.

Timing

The proposed start up of the project is September 1 1998.

Resources, Level of Effort & Budget

A team of two (2) skilled professionals with demonstrated experience in promoting opportunities internationally are required to implement this program. Specifically, a lead consultant will be required to present to the CEOs and related decision-makers of the various companies. The lead consultant will be supported by a corporate location researcher, who will focus on the investigative research into corporate location practices.

SCOPE OF WORK

PROMOTION OF THE QIZ PROGRAM BY THE JORDAN INVESTMENT PROMOTION CORPORATION

Introduction and Background

The qualifying industrial estate (QIZ) preferential status, which allows for duty free access into the United States for goods produced in a designated estate, was scheduled to extend from Israel to Palestine and Jordan at the time of this writing (June 1998). This status is as advantageous as it is unprecedented in United States-Jordan trade relations. Under the agreement, the QIZ-based exporter may choose from a combination of input options, provided appropriate regional content can be demonstrated, to waive duties that are otherwise applicable. This will be especially advantageous to companies that export in categories that are generally levied higher duties, such as the sown goods industry - textiles, apparel, sporting goods, luggage, etc. There is reportedly significant momentum by prospective investors, although most are at the inquiry stage. According to a USAID-funded study in June 1998, Jordan, with its reputation of well-qualified labor, comparatively low production costs and geographic proximity to the West European market, has a strong potential in attracting investment into the high value-added segments of the textile industry, particularly knitting and finishing.

However, it should be noted that this benefit will only be available in the short-term, as under the WTO agreement, these quotas are legislated to be phased out by the 2005. This factor will adversely effect Jordan's ability to attract FDI in the apparel industry as the nation does not possess a low wage advantage, and is presently capitalizing on bilateral preferential status. Sustainable long-term development is assured only if the industries are expanded to other industries as well, while skills are upgraded in the textiles and apparel industry.

This scope of work proposes a program to aggressively market the Qualifying Industrial Zone (QIZ) concept to prospective investor segments to take full advantage of the preferential treaty that has been provided to the country.

Structure of Program

The program proposes a combination of information seminars and awareness generation advertising in Jordan as well as in the major overseas target markets. The objective is to inform and provide step-by-step guidance to parties that are interested in establishing a project in Jordan that takes advantage of the QIZ program.

The Corporation plans to put in place an eighteen-month broadcasting program that aggressively advertises and informs the appropriate companies about the benefits of locating in the QIZ. A blitz of press releases, advertisements, and information seminars will be undertaken in the major markets. The 'first wave' of investment is likely to originate from the apparel industry, since apparel exporters are levied among the highest tariffs when shipping to the United States. Information seminars on a quarterly basis in Jordan, the Middle East and Asia – in particular those countries where a critical mass of investors can be expected. These include, but are not limited to, India, China, Hong Kong, Dubai and Bahrain.

The step by step process for the QIZ program entails the following:

- Developing promotional materials that focus on the QIZ program. These include complete information packets in the various media. A communications specialist will work with a graphics/imaging specialist in developing the various promotional materials.

- Establishing the schedule for overseas information seminars. A logistics consultant will work alongside an in house staff member for the duration of the program in identifying the companies, setting up events in the various countries and following up with the program

- Developing an awareness campaign through print and broadcast media, locally as well as internationally. The communications consultant will work alongside in house staff member in establishing the medium and developing the appropriate script for the various messages to the media.

Deliverables

The deliverables include four direct campaigns and a series of advertising programs that will reach at least 75 percent of the intended audience in the target market.

Timing

The proposed start up of the project is September 1 1998.

Resources

A communications specialist and a logistics consultant is proposed for the QIZ program. In addition, a senior investment specialist will assist in structuring the program to ensure the thoroughness of the program with respect to quality and effectiveness of delivery.

SCOPE OF WORK

CAPACITY BUILDING PROGRAM FOR MANAGEMENT AND TECHNICAL STAFF OF JORDAN INVESTMENT PROMOTION CORPORATION

I. Introduction and Background

Factors slowing the success of the investment program and the implementing agency remain real and immediate. The recent financial crisis in East Asia has led to several companies reversing their decision for outward investments in manufacturing and infrastructure-related projects. Asian companies form an important segment for Jordan's target market, as determined in the study, and such factors greatly influence the operations of the investment promotion agency.

The promotion challenge is further compounded by the malignant negative perceptions that exist in ASEAN and OECD economies about business conditions in Middle East countries. To succeed, the Investment Promotion Corporation must be equipped with the appropriate tools that virtually guarantee a certain level of success despite these threats.

The Investment Promotion Corporation is already staffed with competent senior management. The approving authority of the investment program gives it legitimacy with investors, who often view business service agencies as mere public relations agents. The strength of the agency at the top is partially mitigated by the low level of experience at the functional level of the agency. The level of experience in investment promotion, management and monitoring is virtually non-existent at this level. This makes promotion difficult at the initial stages.

II. Summary of Needs Assessment

According to the proposed strategy for the Investment Promotion Corporation of Jordan in the USAID-funded study, the emphasis for the Promotion and Public Relations division is mainly on supporting the overseas efforts of the General Secretary in the initial stages, through effective market research. In tandem, the division will focus on local and regional awareness generation efforts. With respect to the first objective of awareness generation, the division is grossly understaffed and is ill prepared to undertake promotion efforts on a significant scale. There is low level of exposure by staff in the areas of presentations and facilitation of prospective clients.

III. Investment Promotion and Administration Training

These sessions will have a focused agenda dealing with core investment promotion and administration techniques and strategies. The emphasis of each session will be on practical, problem solving rather than on theoretical methods. These sessions will address the following subjects:

Session 1: Individual Skill Building. Presentations during this session will focus on increasing the management and interpersonal capabilities of individual investment program officials responsible for investment promotion and administration. A combination of lectures, videos, and role-playing exercises will provide training in a wide range of skills such as preparing and giving presentations; time management; preparation for site visits; the development of standard operational procedures and forms; and the account executive approach to investment promotion and administration. Participants will be required to take an active role, including taking part in group presentations and completing "homework" assignments and other exercises to ensure that these skills are actively practised.

Session 2: Investment Promotion and Administration Techniques. This session will teach investment program officials the "tried and true" investment promotion and administration techniques that have been effectively employed by successful investment agencies world-wide. The session will focus on the following two key themes:

- Developing the Investment Promotion Product, including how to analyse the investment "product;" identifying competitive and comparative advantages and constraints; building competitive advantage and positioning the country in the global marketplace; and the policy, legal, and physical prerequisites for success.

- Applying Investment Promotion and Administration Techniques and Delivery Methods. This will address basic categories of services (investment monitoring, statistical updates, investor services); evaluating various delivery method options (e.g., public relations, trade shows, promotion materials, using technology in investment monitoring, etc.); developing an optimal marketing and promotion mix; and planning and conducting a successful promotion campaign.

Session 3: Targeting High-Potential Customers. The third training session will teach officials how to target potential investors. The topics to be covered will include comparative and competitive advantage approaches to targeting; the importance of end-user market orientation; and the effectiveness of sectoral, geographic, and company size-oriented targeting approaches. In addition to teaching general techniques, this session will draw heavily upon the results of the FDI Demand Study recently completed, in order to provide concrete and direct targeting skills training in the sectors determined to be the most pertinent for the investment program.

IV. Deliverables

Investment program officials responsible for investment promotion and administration and facilitation will be trained in "best practices" planning, execution and follow up techniques for outward (and inward) investment promotion missions, as well as techniques in investment monitoring.

V. Timing

The proposed start up of the project is September 1 1998.

VII. Resources, Level of Effort & Budget

The proposed consultant is one specialist with previous experience in investment promotion training program.