

AN OVERVIEW OF JORDANIAN MANUFACTURING SECTOR IN LIGHT OF CURRENT REGIONAL POLITICAL SITUATION

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Abstract

The turmoil in the Arab region and the so-called “Arab Spring” have overwhelmed many aspects in the region. The Jordanian economy has been affected mainly by the situation specifically in regard to the manufacturing sector. Several challenges have hindered the economic growth and the profitability of organizations within the sector. Such challenges include the massive immigration of refugees, the instability in import and export, the drop in demand, and the environmental uncertainty. Therefore, it has been suggested that more research is required to investigate the situation and develop solutions that might assist companies to overcome these obstacles. Similarly, companies are required to implement and improve practices such as business strategy and performance management system in order to have a better business conducts.

Keywords: Jordanian Economy, Manufacturing Sector, Environmental Uncertainty, Economic Growth

INTRODUCTION

Jordan has implemented several structural reforms through privatization and liberalization in sectors which included education and health in the past ten years. The Jordanian government has also introduced social protection systems and reformed subsidies with the aim of creating conditions for the public-private partnerships in infrastructure. In 2015, the government identified steps towards enhancing the investment climate and ease of doing business which can lead to better outcomes (“Jordan’s Economy,” 2017). However, the Jordanian economic growth has been hindered during the years 2010 till 2016 due to several reasons. This decline was largely attributed to the turmoil caused by the Arab Spring which started in 2010 (“Jordan’s Economy,” 2017). Furthermore, the unprecedented influx of several thousands of refugees as well as the instability in import and export were the main reasons that burdened the Jordanian economy (“Jordan’s Economy,” 2017). After years of steady growth, the average growth rate in the years of 2010 till 2016 was 2.2% compared to the average growth rate of 7.4% for the years between 2004 and 2009 (“Jordan’s Economy,” 2018).

Similarly, the size of exports has significantly declined by 6.0%, 6.6%, and 4.2% during the period 2014, 2015 and 2016 respectively (“Jordan’s Economy,” 2018). In addition, the unemployment rate increased to 15.3% in 2016 compared to 11.9% and 13.1% during the period 2014 and 2015, respectively (“Jordan’s Economy,” 2018). This drawback was attributed mainly to the political conflict in the surrounding countries. The closure of export routes was also among these influential factors in the Jordanian economic decline.

The high level of unemployment rate and slow economic growth in Jordan are repercussions from the Syrian crisis and the immigration of over than 655,000 Syrian refugees in 2016. Jordan’s main challenge is its inability to open new jobs that stimulate its economic growth (“Jordan’s Economy,” 2017). The tight fiscal and monetary policies are expected to continue, for Jordan is working towards fiscal sustainability and a lower debt-to-GDP ratio. For example, the Central Bank of Jordan (CBJ) increased the policy rates during the period 2016 and 2017, respectively to maintain the JD-USD deposit rate spread and tackle rising dollarization (“Jordan’s Economy,” 2017).

OVERVIEW OF THE JORDANIAN MANUFACTURING SECTOR

The manufacturing sector is the second biggest industrial sector in Jordan after services sector. The manufacturing sector contributes 18.17% to the GDP in 2016, while the services sector contributes 66.76%, the industrial sector contributes 10.77%, and the agriculture contributes 4.3% to the total GDP in 2016 (“Jordan: Economy,” 2018). The main manufacturing exports in Jordan include garments and textiles, pharmaceutical products, jewelry, electrical appliances,

machinery and equipment, furniture, chemicals, minerals and plastic products. The countries which receive imported goods from the Jordanian market are from the surrounding Arab countries (44%), North America (28%), Asia (21%), EU (3%) and other (3%) (“Economy of Jordan,” 2016).

According to the Economic Complexity Index (ECI), the manufacturing sector was the 86th largest export economy in the world in 2015. The top export destinations are the United States, Saudi Arabia, India, Sudan and Iraq (“Economic Complexity Index,” 2015). The manufacturing sector is considered as one of the important economic sectors that support the Jordanian exchange rate and increase the budget of the government with USD 1.4 billion as taxes annually (Jordan Chamber of Industry, 2016). It further contributes 90% to the total national export, and it is also the second most significant source of jobs after the public sector in 2015 (Fanek, 2015). The total number of manufacturing companies reached 2,000, and this sector employed 20% of the labor force in 2015 (Fanek, 2015). Nevertheless, statistics indicated that uncertainty in the region has negatively affected Jordan’s economy in general and the manufacturing sector in particular (Al sharif, 2017).

CURRENT SITUATION OF THE MANUFACTURING SECTOR IN JORDAN

The Arab Spring which has occurred in the Middle East since 2011 has caused a lot of changes to the region (Yoel & Erez, 2013). Specifically, there are high levels of uncertainty that threaten the future of these countries as well as the business organizations that import and export products from and to these countries (Fanek, 2016a). Many researchers (e.g., Fanek, 2015b; Al sharif, 2017; Obeidat, 2014) have described the current situation as challenging, unpredictable, competitive and turbulent.

The Jordan Free Zone Investor Association (2015) has reported that the Jordanian manufacturing sector is adversely affected by the unrest stemmed from countries in the Middle East region. For instance, due to the unstable condition in Iraq and Syria, exports were on a declining trend (Obeidat, 2014). Iraq and Syria are considered Jordan’s largest export partners within the greater Arab trade zone (Al sharif, 2017). For example, the exports to Iraq, one of the main importer countries, have declined. In 2013, the exports to Iraq reached 1.38 billion USD, while in 2014, 2015, and 2016 the exports dropped to 1.28 billion USD, 749 million USD, and 497 million USD respectively. The loss of land routes to the Mediterranean has forced the companies to ship freight via the Suez Canal, rather than transport overland to Syrian or Lebanon ports for transshipment which resulted to weigh heavily on Jordan’s manufacturing sector (“Jordan’s industrial,” 2018).

Accordingly, the turmoil across the Middle East has resulted in an increase in costs and a decline in profits for the manufacturing sector (Fanek, 2015; “Jordan’s industrial,” 2018). There was a sharp decrease in the manufacturing export in 2015, and the government has since been striving to draw down debt and bridge the current accounts deficit (“Jordan’s industrial,” 2018). Under this circumstances, the Jordanian manufacturing companies have experienced a sharp decrease in profits and needed to manage learning, change, and innovation to survive (Fanek, 2015). This is also accompanied by some other sharp reductions in the foreign grants by 28.3% and an increase in the budget deficit by 59.1 % in 2015 compared to 2011 (Fanek, 2016a).

In addition to the fact that the manufacturing sector is primarily affected by the instability in the Arab region countries, the sector has also been affected by other factors such as the intense competition from other countries (such as Turkey and Gulf countries), the increase of cost, and the decrease of demand. The increase in the cost of transportation and delivery of goods has been mainly driven by the use of alternative modes of transportation such as Air Freight. Due to the competition, companies were not able to increase their prices due to the increase in cost. Besides, unstable countries such as Iraq and Syria has also shown a sharp decrease in demand (Obeidat, 2014). All these factors have led the companies to look for strategies that enable them to survive and to reduce the cost in order to stay competitive (Fanek, 2016b).

Manufacturing industry, which is the main source of Jordan's export, has also been strongly affected by the neighboring instability in the region. The manufacturing sector in Jordan expected low sales because of slumping demand which resulted in a sales decrease of 12% in the manufacturing sector in 2015 (Fanek, 2015b). Fanek (2015b) stated that this is a significant decline that not only could reduce industrial profits, but could also reverse the expected profits into definite losses. Furthermore, the industrial output registered a negative growth 1.1% in 2015 and industrialists were obliged under fierce competition to reduce their prices in the same period by an average of 13.6%, yet they were unable to maintain their share of the market (Fanek, 2015a). If the reduction of prices were never a relevant option, the prices would have been raised to increase profits (Fanek, 2015b).

CONCLUSION

This paper has reviewed the Jordanian economic within the current turmoil situation. In specific, the Jordanian manufacturing companies have been facing many challenges resulting from the turmoil in the surrounding countries. These companies have lost a significant market share in the neighboring countries, and the operational cost of transportation has become a bottleneck to their trade work. In such situation, research studies are highly required to find solutions and

improve the current status of the manufacturing sector. Similarly, companies should implement practices that can help them overcome these obstacles. Such practices might include implementing an effective business strategy such as prospector and defender strategies which are suitable strategies in such situation, implementing balanced scorecard as performance management system which has always been a significant tool for monitoring organizational performance.

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