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Value Chain Analysis Jordan Garments

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Management Summary

The garment sector is one of the principal drivers of economic growth in Jordan today. Jordan places special importance on the garment sector, since it employs 2.5% of the country's total workforce and makes up 21% of Jordan's exports in value, which has great economic and social significance. Exporting to international markets has become increasingly important for Jordan in recent years, since regional markets slowed down due to political and economic instability. The reopening of the Syrian and Iraqi borders offers the potential for reconstructing trade networks and utilising currently unmet export potential. Looking forward to developing its exporting potential, Jordan's stakeholders in the garment sector have shown strong interest in questioning and rethinking the production and trade of garments.

Sector landscape

There is no reliable data available on the current volume of garment production in Jordan. Data from the International Trade Center (ICT) indicates that Jordan's garments exports were valued at 1.6 billion USD in 2017. Ninety percent of this value consists of high-quality sportswear for brands such as Nike and Under Armour, and the majority is destined for North American markets under the US-Jordan Free-Trade Agreement. This value chain analysis (VCA) highlights the clear divide in the Jordan garment export landscape between the approximately 85 large factories having 500–2,500 employees, which make up for approximately 95% of Jordan's current garment exports, and the approximately 150 small and medium factories with 10–500 employees, which generally do not export but have mostly shown interest in doing so.

Business case

The VCA has found that the trade agreement between the EU and Jordan and the relaxed rules of origin has indeed triggered the interest of the private sector in exporting to the EU. However, the complexity of hiring a specific share of Syrian refugees required under the EU-Jordan trade agreement has proven challenging in practice. In addition, the advantages of exporting to EU are not any bigger than exporting to the US, for example, which has a free-trade agreement with Jordan providing similar incentives to exporters. In Any case, Jordan's factories are and should be looking into market diversification, as these trade conditions may change in the future.

For Jordan to diversify its export markets beyond the US and regional markets, it would be interesting to focus on the medium-high or high EU market segments, according to our assessment of trends in the EU and of Jordan's competitiveness in the global market. However, the regional and US export markets also offer unmet opportunities. Therefore, we recommend building a clear EU export business case for added value and FOB production models in order to manage risks. The business case for EU export should be different for each factory, depending heavily on individual characteristics such as current typology of products, business model, target markets, current skill set and investment necessary to meet EU requirements.

Challenges

The company assessments we performed confirmed the impression that SME factories currently not exporting do need to take significant steps in order to optimise and formalise their business processes. At the same time, EU buyers' awareness of sourcing from Jordan is still relatively nascent. In addition, key obstacles to optimising value-added production for the EU market include a lack of understanding of European requirements regarding standards and design, lack of access to technical assistance and, in some cases, lack of financial resources to invest in production line optimisation and certification. Employing Syrian refugees seems interesting as adding value to what buyers seek in terms of branding and corporate social responsibility (CSR), but it poses multiple challenges which prevent it from being a practical solution to labour shortages and compliance with rules of origin in the short term. Companies also mentioned the difficulty of access to skilled labour as one of the key obstacles to the development of the sector.

Opportunities

Some key existing advantages of Jordan's garment factories, which could be utilised to grasp the potential to amplify the opportunities in the EU market include: the excellent compliance with environmental and social standards; the sector's potential to respond to flexible orders and small order sizes, and the high level of education of the factories' management staff. The reopening of the northern borders with Syria would also create a major opportunity for Jordan's factories, reducing one-way transport times to Western Europe from 18 to six days. All of



these qualities should be promoted as USPs to EU buyers looking for trustworthy suppliers offering good quality, sustainable and compliant products.

Product-Market Segment Combinations (PMCs)

Jordan’s garment sector already focuses on products of relative added value for mid and mid-high segments, preferring ‘low-volume, high-price’ production over the ‘high-volume, low-price’ production that manufacturers in countries such as Bangladesh and Vietnam do. Jordan cannot compete in this segment because of its comparatively high lead times, high costs and low efficiency. We have identified, along with EU experts and local stakeholders, the following product groups which have high or moderate potential for Jordan in the EU market. Nevertheless, all these product groups would be worth considering when developing export promotion interventions. The selected PMCs meet Jordan’s capabilities and EU markets demand:

<p><i>High-potential product groups:</i></p> <ul style="list-style-type: none"> • Sportswear • Outerwear • Workwear and corporate Wear • Islamic clothing 	<p><i>Product groups with moderate potential:</i></p> <ul style="list-style-type: none"> • Formal wear • Fashion wear • Hosiery and underwear
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Pathway to EU export readiness

The VCA proposes a roadmap to optimise Jordan’s EU export potential, building on two levels of interventions: factory-level and ecosystem-level solutions. Together, they will provide the garment sector with a strong foundation consisting of market information, skills, production capacity and contacts required for Jordan’s garment exports to the EU to grow. At the factory level, we propose a proactive strategy that requires factories to start optimising their current production efficiency and output quality. This would enable the next step: becoming export ready by targeted training on EU market requirements and ‘look and feel’. This latter step is also strongly recommended for currently exporting companies, due to their current focus on the US market and its alternative trends and standards.

At the same time, we strongly recommend building sector support capacity as well. Setting up a skilled organisational body would be crucial for improved international competitiveness of Jordan’s garment SMEs, which can facilitate the factories’ collaboration efforts towards joint fabric sourcing and sales, for example. A national sector body could solve another critical obstacle, the difficulty of access to information, by offering a digital database of EU market information and an interactive information desk for any type of garment related enterprises. Third, a national sector organisation could provide continued lobbying to ensure the representation of the garment sector’s interests at the government’s table in matters related to labour, trade agreements and manufacturing legislation.

Many public and private sector organisations already currently support the garment sector with a variety of micro and macro-level interventions. Pursuing clear communication and coordination of activities with these existing interventions would ensure added value to additional interventions.



1. Introduction

The Hashemite Kingdom of Jordan is an Arab country in the Middle East bordered by Syria to the north, Iraq to the northeast, Saudi Arabia to the east and south, and Palestine to the west. The country is located at the crossroads of three continents (Asia, Africa and Europe) and the trading routes between the Far East and Europe. Garments and textiles have a long history in the Jordan valley, as Petra was an ancient trading centre for the entire region.

The garment sector is one of the principal drivers of economic growth in Jordan today. Jordan places special importance on the garment sector as a promising industrial sector, given the great economic and social significance of its large volume of exports. The sector is a valuable contributor of foreign currency to the Kingdom. Exporting to international markets has become increasingly important for Jordan in recent years, since regional markets slowed down due to political and economic instability. Looking forward to developing its exporting potential, Jordan's stakeholders in the garment sector have shown strong interest in questioning and rethinking the production and trade of garments.

Key role of trade agreements with US and EU

The export orientation of the Jordanian garment sector took off in 1996 with the signing of the Qualifying Industrial Zones (QIZs) agreement with the USA. In 2001, a free-trade agreement (FTA) with the US followed. Since then, Jordanian manufacturers and US buyers have established reliable supply chains, trustworthy relationships and long-term contracts, while Jordanian products have become more well-known and in demand in the international market in general.

Industry players hope that the coming years will bring about a comparable breakthrough in trade with the EU. In February 2016, the Jordanian government and EU representatives signed the Jordan Compact, whose main objective was to create 200,000 jobs in Jordan for Syrian refugees in three to five years. Under the agreement, Jordan would reduce its regulatory barriers to the refugees' right to work. In exchange, the EU would offer conditional tariff-free access to European markets¹. In addition, the World Bank would for the first time offer a concessionary finance initiative, providing low-interest loans for middle-income countries hosting refugees.

The resulting diversification of international markets is expected to benefit the Jordan economy by opening up opportunities for garment exporting factories. At the same time, it provides a risk management approach for these factories, in light of potential political and economic developments in the global garments market.

Value Chain Analysis

The Netherlands' Centre for the Promotion of Imports from Developing Countries (CBI), in collaboration with PUM Netherlands senior experts, has commissioned a value chain analysis (VCA) of the garment value chain in Jordan. This VCA will focus on garment exports from Jordan, and related EU market opportunities.

This VCA provides a practical overview of current features in Jordan's garment value chain and Jordan's placement in the global garment market. It highlights required interventions by identifying current bottlenecks curtailing Jordan's export potential to the EU. We hope that this VCA will also be an informative tool for garment manufacturers considering exploring or expanding EU export activities. In addition, this report might benefit value chain supporters in developing suitable, complementary interventions that facilitate garment manufactures in their efforts.

CBI will use this VCA as a decision-making and programme design tool, as it considers the potential development of a project focusing on EU export for a selection of Jordan garment producers.

¹ Under the conditions, businesses in Jordan must employ a certain proportion of Syrian refugees and produce in one of 18 Special Economic Zones and in one of 52 product categories. Once these conditions are met, the rules of origin are also adjusted to require only 30% value addition within Jordan.

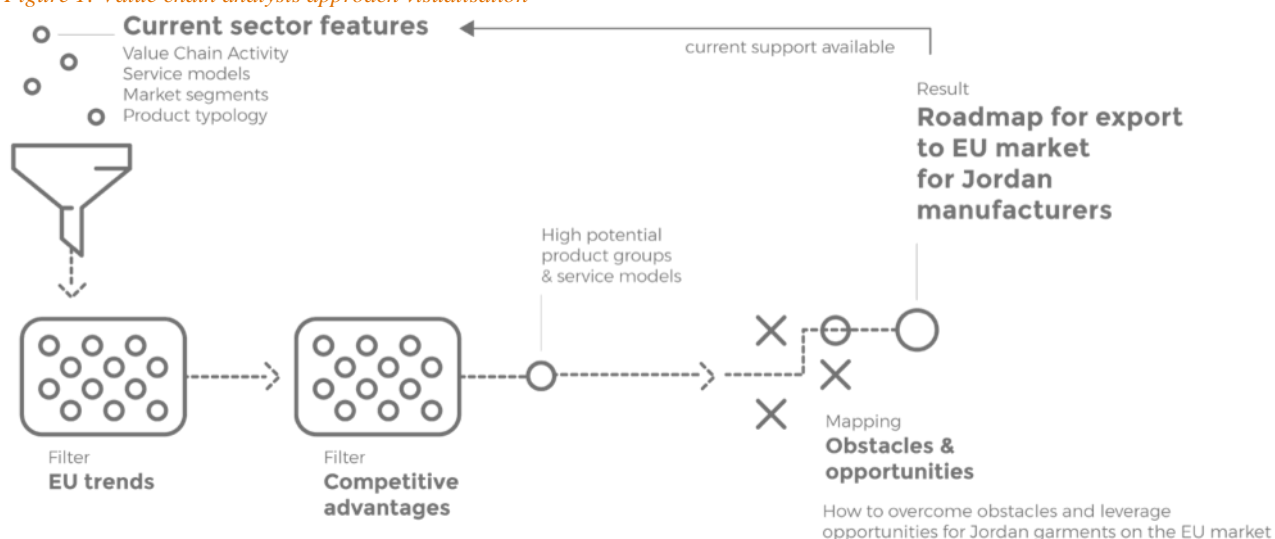
2. Methodology

2.1 Reasoning on export opportunities

Garment export opportunities do not come up just as a result of demand in garment importing countries. They are the sum of a delicate balance between the capacities and skill sets of supplying countries and the placement of a country's sector in comparison to its competitors. Plus, of course, the characteristics of the demand from garment importers.

This value chain analysis depicts the garment sector in Jordan. Current typology of activities, services and products makes up a strong determinant of feasible and cost-efficient future EU export strategies. We will combine the assessment of the current production features with the competitiveness of Jordan's production, looking into its competition and gauging opportunities and challenges. Altogether, these elements will provide an outline of the EU landscape for Jordan's garment manufacturers and show the business opportunities available for export to the EU.

Figure 1: Value chain analysis approach visualisation



2.2 Report structure

This report starts with a short mapping of current sector features. We continue by looking into the competitiveness of Jordan's garment sector compared to other garment producing countries. Then, we conduct a macro and micro level trend analysis of the EU market, which includes leverage points for Jordan manufacturers, building on the sector's current features as well as on the competitive added value identified earlier. Combining all this information, we recommend high-potential business models, product groups and EU market segments. A segment analysis follows, identifying the main obstacles and facilitating factors currently affecting the ability of garment manufacturers to act on these opportunities. We end the VCA by suggesting solutions to overcome these obstacles.

2.3 Research methodology

This VCA was produced by a consortium of experts from Enclude, CMC, PUM and CBI, who collected data through interviews, company assessments and desk research.

- **Key Informant Interviews (KIIs)**

The research team interviewed 25 key value chain actors from a wide range of sources. In Jordan, these

included government ministries with enterprise development functions, international organisations with garment-related support programs, branch organisations and service providers. In Europe, we



interviewed a selection of buyers divided into buyers having an existing contract with Jordan, those considering sourcing from Jordan and those unfamiliar with Jordan as sourcing location. We also interviewed garment buyers' associations, sector development experts, providers of certifications, logistics services, as well as environmental and social (E&S) advisors.

- **Company assessments**

A set of 21 face-to-face structured company assessments provided in-depth insights in factory

operations, business strategy interests and capacity building needs. We complemented this with quantitative data on production capacity, costing and profitability analysis, among others. These interviews covered seven large factories and 14 SMEs active in several sub-sectors in national and international markets.

- **Desk research**

The primary data collection was used to complete and validate existing secondary data available from publications, reports and trade data sets.

3. Element 1: European market opportunities

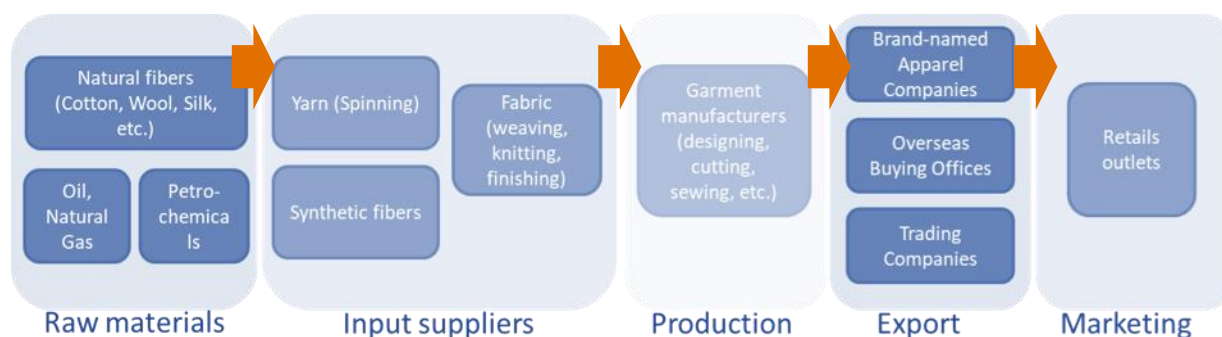
3.1 Value chain overview

As introduced previously, we begin with a brief typology of the key features of Jordan’s garment sector. To this end, we provide a short typology of the key value chain activities taking place, as well as the service models used. Next, we look into the garment producers’ characteristics.

A) Garment value chain activities

The garment value chain can be structured in five basic steps, as presented below.

Figure 2: Generalised garment value chain



Companies in Jordan focus on the garment production node of the value chain. Inputs have to be sourced from abroad — no fabrics are produced in Jordan for lack of domestic cotton production and water shortage. Most manufacturers do not have direct marketing activities, working with international buyers for whom they might arrange the logistics of the finished products.

B) Service models

Garment production can be divided into four main categories², according to their service models (see

Table 1). Cut, make and pack (CMP) or cut, make and trim (CMT) service models are mostly used by small factories in Jordan, by factories which are branches of larger factories or which belong to foreign holding companies headquartered in Hong Kong or China, for example. Orders are outsourced to Jordan for cutting and sewing, while all other activities, including material preparation, are done at the headquarters or another location.

Many large factories work with the free on board (FOB) model, through which the factories also take on the sourcing and financing of raw materials. This is usually three to five times more expensive than the value of comparable CMT orders. In most factories, the FOB model is not applied in the traditional sense, since almost all US and EU buyers bring in nominated suppliers for materials and trims, in combination with fixed prices. This means that the buyers are not responsible for the sourcing of the raw material, but they are still responsible for the financing of the fabrics. This approach also applies for EU markets covered by buyers active in both the US and the

² Source: Gereffi, Gary, Frederick, Stacey, The Global Apparel Value Chain, 2010



EU. The EU buyers delivering only to EU markets tend to be a bit more flexible, generally asking for quality and sustainability certificates for materials rather than nominating specific labels or mills.

Some factories take on some design activities, for example for Islamic clothing and stockings, but this is more of an exception. Most factories have so-called designers who are pattern makers in practice. They generally do not have the skills to make designs to EU standards.

Our international garment experts consider CMP or FOB the most suitable models for Jordan to expand upon. EU buyers in general prefer to work with FOB service models. Factories prefer producing under non-nominated FOB models, as it provides more flexibility and a higher profit margin.

The original design manufacturer (ODM) model and original brand manufacturing (OBM) models are very costly and require a very strong understanding of market trends. These models are generally more suitable for producers in countries with a short lead time, who clearly understand and quickly react to the latest market trends.

Table 1: Apparel value chain service models

Model	Occurrence	Description	Pros and cons
1. Cut, make and pack (CMP or CMT)	Common for large companies	<ul style="list-style-type: none"> Inputs and product specifications are entirely or almost entirely supplied by the client to the manufacturer, which focuses on production alone. 	<p>Pros:</p> <ul style="list-style-type: none"> Brings very little risk for the company; Requires limited financial investment as clients pre-finance all material costs. <p>Cons:</p> <ul style="list-style-type: none"> Margins are lower as profits can only be made on labour costs; Generally not preferred by US or EU clients.
2. Original Equipment Manufacturer (OEM / FOB)	Common for SMEs and occasionally for large firms, usually with nominated suppliers	<ul style="list-style-type: none"> Functional upgrading toward value added production; Supplier is given clear specifications but responsible for sourcing inputs, product finishing, packaging to the retail outlet, and outbound distribution (FOB); Buyer specifications may include <u>nominated suppliers</u>; US buyers tend to nominate suppliers more often than EU buyers. 	<p>Pros:</p> <ul style="list-style-type: none"> Requested by most international buyers, enabling manufacturers to service large clients; More value added. <p>Cons:</p> <ul style="list-style-type: none"> Companies require letters of credit; Requires very strong organisational skills as well as logistical experience; Financial risk for the factory, as delays in production result in higher shipping costs from freight to flight; Nominated suppliers limit factories' margins.
3. Original Design Manufacturer (ODM)	Only very limited. Some pattern making for stocking and own brands for Islamic clothing.	<ul style="list-style-type: none"> Supplier acts as a 'full package garment supplier', which includes pre-production processes such as design in collaboration with the client, and the overall production process. 	<i>Would require long-term interventions for Jordanian companies to adopt this model for additional product groups.</i>
4. Original Brand Manufacturing (OBM)		<ul style="list-style-type: none"> Supplier has post-production responsibilities and can develop its own brand, either in collaboration with the original client for a specific target market or independently. 	<i>Would require long-term interventions for Jordanian companies to adopt this model.</i>



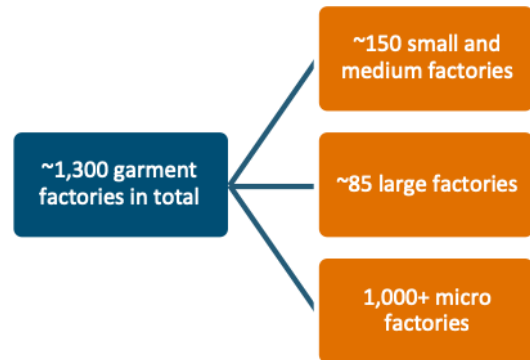
3.2 Production typology

After describing the general typology of the garment value chain activities in Jordan, this section provides further detail on Jordan’s garment production on the following topics:

- Manufacturers
- Location
- Logistics
- Fabrics
- Lead time
- Production capacity
- Product offer
- Value addition
- Pricing
- Profitability
- Access to Finance
- Staff and Management

Manufacturers

Jordan’s garment industry employs approximately 77,000 people, working in a total number of approximately 1,300 industrial and micro size factories.



Large enterprises

Jordan’s garment industry currently has 85 large factories each employing 500 to 2,500 people. They account for 95% of the industrial workforce in Jordan’s garment sector. The majority of these firms are foreign owned, either through joint ventures or holding companies abroad. Forty-five of these large factories export mostly to US markets, covering 95% of Jordan’s total garment exports. Following a government project to enhance employment in rural areas, large factories have established 16 satellite factories with smaller production lines.

Small and medium-sized enterprises

An estimated 150 businesses meet the SME definition, employing between 10 and 500 people. The vast majority of these SMEs are locally owned and typically oriented towards the local or regional market. However, they show strong interest in expanding their horizons towards EU markets.

Micro enterprises

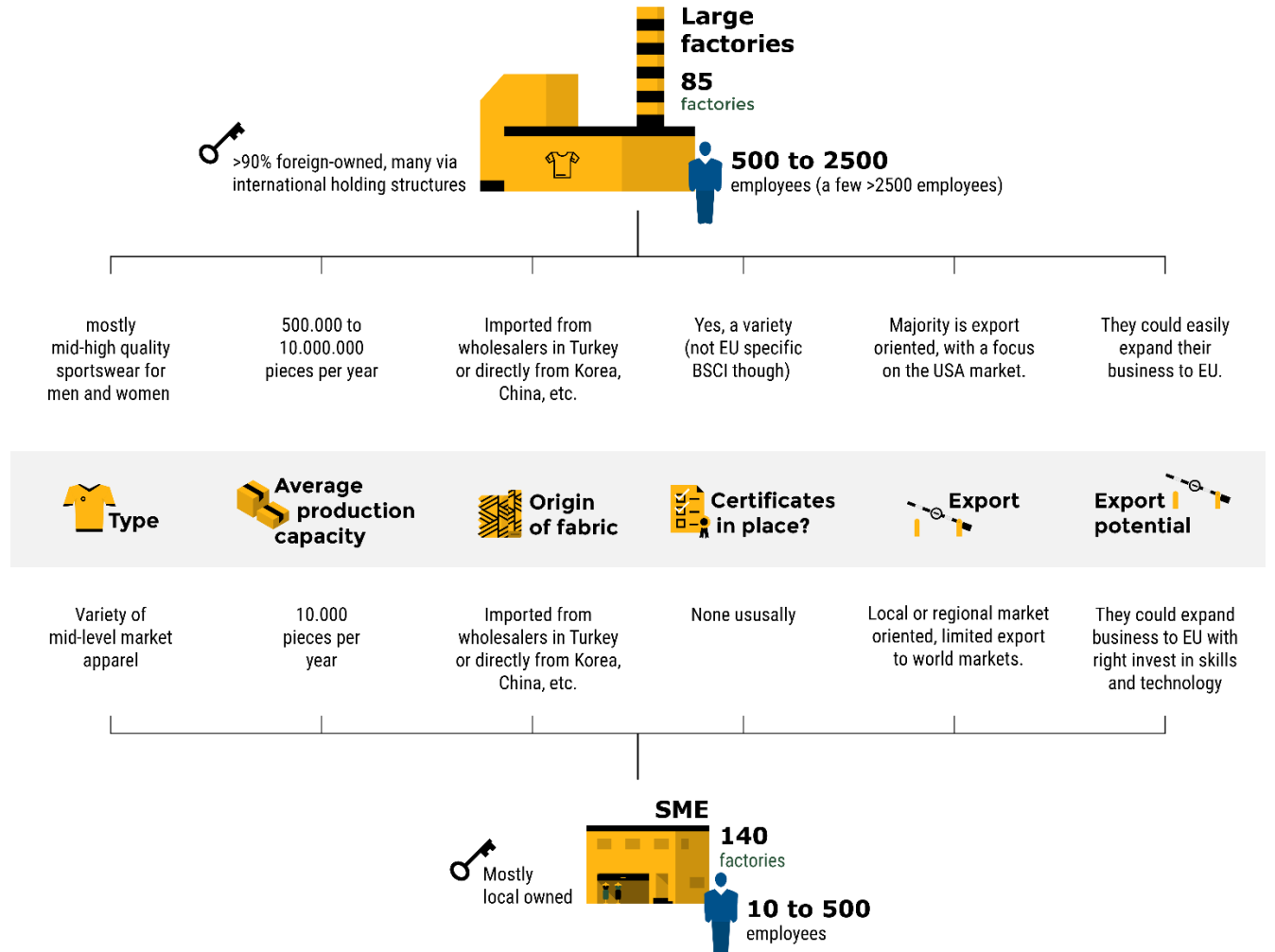
Most of Jordan’s garment enterprises are micro-sized factories with fewer than 10 employees, which sometimes operate in the informal market. These firms normally produce for the local market, and do not have the potential to export to the EU in the short to medium term.

Research focus

The focus of this research is on garment manufacturing companies that have EU export potential but currently do not and those that already do export to the EU but require optimisation. Therefore, in the remainder of this report, we will focus on large enterprises and small and medium-sized enterprises (SMEs), but not on micro enterprises.



Figure 3: Basic data on Jordan's garment factories



Location

Most of Jordan's garment factories are located in the north, followed by the central and southern regions. The north has the most efficient logistical connections for regional and international trade with well-developed road networks for trucking and its proximity to the Israeli port of Haifa.

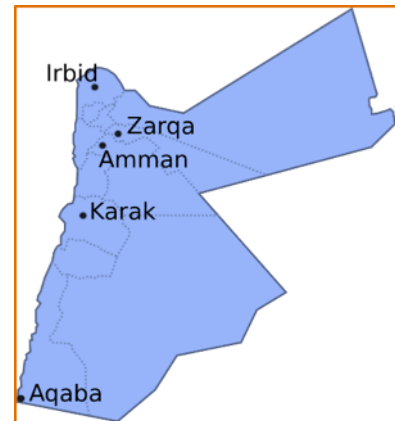
Almost all of Jordan's exporting garment manufacturers are based in the original 14 QIZs spread around the country, the largest being: Al-Hassan Industrial Estate in Irbid, Al-Hussein Ibn Abdullah II Industrial Estate in Al Karak, Al-Tajamouat Industrial Estate in Amman, Ad-Dulayl Industrial Park near Zarqa, and Al-Qastal Industrial Zone in Amman.

These industrial parks provide access to manufacturing infrastructure and centralised services such as water and electricity, as well as tax and employment incentives. Most exporters established their factories in the QIZs due to their original duty-free export incentive. However, now all QIZ-based exporting factories are exporting duty free to the US and other countries under the new trade agreements.

Small and medium-sized factories are located throughout the country, including in rural areas. Production hubs tend to be centred around industrial areas and QIZs (see figure 4 above).

In recent years, bigger manufacturers with export activities — themselves based in northern Jordan's QIZs — established most of the new 12 'satellite' production units built in rural areas.

Figure 4: Key QIZs locations



Logistics

International orders of fabrics and trims, as well as deliveries of garments get shipped via the ports of Aqaba or Haifa (in Israel), or trucked in and out. Transport by truck across the Syrian and Iraqi borders has become seriously challenging in recent years. The Syrian border has been closed since 2015. Part of the road transport was replaced by sea freight via regional ports, but much of the regional trade has since halted because the associated costs and transport times simply were not competitive in the market anymore.

The border with Syria reopened in October 2018. The border with Iraq reopened in September 2017, and a mandatory transfer of shipments to Iraqi trucks at the border is expected to be lifted in March 2019. Reopening the borders allows for the reactivation of the extensive network of roads connecting Jordan with Syria, Lebanon, Turkey, the Persian Gulf, among others. It will significantly shorten transport time for Jordan's international trade, cutting shipping time to and from Turkey from six days down to two days, and for European destinations from 18 days down to six days.

Manufacturers estimate that transporting goods by road can be about three times cheaper than exporting through the Gulf of Aqaba. The current costs of the truck routes via Syria and Iraq are still relatively high as the loading-unloading process requires extra workers, trucks and time. In addition, many transport companies charge 'high-risk fees' which drive farther up the transportation costs of inbound and outbound goods from Jordan.

Fabrics

Jordanian manufacturers import all the fabrics they use, sourcing a wide variety of fabrics and trims in different quality ranges from abroad. Fabric production in general typically takes place in very large factories located in low-income countries such as Vietnam, Bangladesh and China. Jordan is home to only a few small-scale fabric producers, including a wool mill, producing mostly for their own direct use and not selling fabrics to other mills.

Large factories in Jordan focus on mid-high market segments, working with high-quality, trendy fabrics and trims. Most factories buy their high-quality fabrics in Korea, China, Turkey, Taiwan or Indonesia, but a select few source



from Europe, including Italy. Factories under international holdings have their head offices provide them with selected fabric and trims, in close coordination with buyers’ requests for nominated suppliers. Many large factories also employ input procurement managers. Owners and procurement managers visit fairs and exhibitions in China, India, Turkey and Taiwan for direct sourcing and to keep up to date on trends in fabrics and trims. According to our findings, Jordan’s factories use several ways to source information on fabrics and trims. Some visit trade fairs such as Première Vision and Texworld in Paris, while others work with wholesalers mostly based in Dubai, which provide the option of sourcing smaller quantities. Finally, some respondents also indicated to simply use the internet to find suppliers, such as on Alibaba.com.

Turkey is a preferred supplier to Jordan’s factories for providing high-quality fabrics and trims in general. The proximity to the supply source allows for the purchase of material based on production demand, therefore reducing the need for costly inventories.

The SMEs focusing on the low-end market segment tend to source fabrics and trims from countries such as India Vietnam, Bangladesh and China. Small manufacturers which need reduced volumes of low-quality or basic fabrics normally buy them at local wholesalers and at their local commission offices. In Amman alone, there are around 20 such offices. For large volumes of these fabrics, manufacturers need to order directly from the country of production. Exporters also tend to nominate suppliers for the fabrics and trims to be used in the garment, which has slowed down the local wholesale market.

Lead time

The average lead time of Jordan’s manufactures from order placement to final shipping is approximately 100–120 days. A 90-day lead time is only possible for companies with international headquarters that facilitate fabric sourcing and quality testing.

Timeline	Description
Day 0	Order placed
14 days	Pre-production lab dips produced, fabrics checked and approved Trims, labels and packaging materials checked and approved
14 days	Sample produced for clients, sample checked
30 days (China) 5 days (Turkey)	Fabrics produced
15–20 days (China) 15 days (Turkey) ³	Transport of fabrics Testing of fabric for chemicals
14 days	Size set of the fabrics produced and checked
2 days–2 months, depending on factory size	Production of order (example 1,000 pieces)
90–120 days	Lead time

The average lead time is relatively long because fabrics and trims are not readily produced and available in Jordan. The supplier’s location also plays a major role in determining lead times. For example, sourcing high-quality fabrics from Turkey normally takes Jordan’s manufacturers five days (two days when the Syrian border is fully operational), while sourcing from China or Korea can take 15–20 days.

It is interesting to note that CMP and CMT models have a shorter lead time compared to the FOB model, which requires the use of specific materials and fabrics over the normally readily available ones. For example, Bangladeshi manufacturers producing garments under CMT and CMP models tend to have a lead time of 45 days.

The lead-time related requirements of European buyers differ per market segment. Fast fashion brands such as H&M and Zara ask for short lead times to be able to respond very actively to changing market trends and seasonal collections. As a result, these types of buyers are not a good fit for Jordanian production options at the moment. The EU market segments that Jordan is currently targeting are the mid-low and mid-high segments which have fewer collection changes and the ability to work with a lead time of 120 days.

³ Once the border with Syria reopens, transport by truck will be possible in 2–4 days.

Production capacity

Jordan offers options for both small and medium order sizes. Exporting factories work with a large variety of order sizes, but large order volumes are generally preferred. This is more cost-effective for the factory and provides better quality control opportunities for the buyer.

	Production capacity (units per month)	Minimum order size
Large factories	50,000 to 1,000,000 pieces	1,500 to 3,000 pieces
Small and medium factories	Up to 10,000 pieces	50 pieces and up

Minimum order sizes are determined by business models. Companies running FOB production to EU markets — so no nominated suppliers and thus potentially higher margins — are more willing to produce small order sizes.

For new customers, most factories indicate to be willing to accept small order sizes starting from 500 pieces for large factories and 50 pieces for small and medium-sized factories. This is especially the case for buyers covering the European market, which is characterized by small clients requesting repetitive yet small order sizes. In general, small orders are widely accepted but need confirmation of future 50-piece orders or potential to use the same fabric for other products from the same buyer.

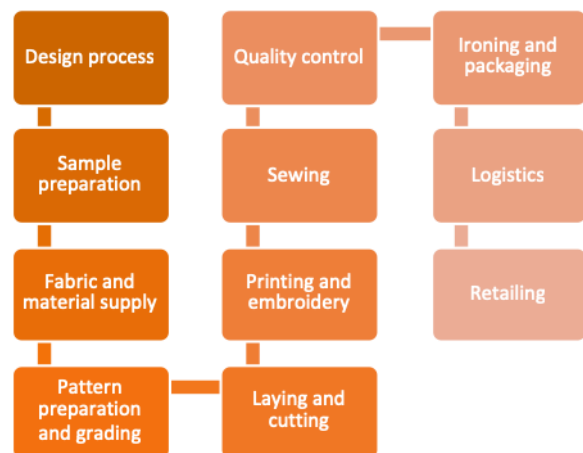
Capacity utilisation

Average capacity utilisation at larger factories is generally higher than at SMEs. The assessed larger factories from our research sample have an average capacity utilisation rate of 82%, with individual utilisation rates ranging between 50% and 100%. For SMEs in the sample, the average was 51%, and personal values ranging between 20% and 75%.

Value addition

The term value addition in general covers every step in the production of garments that adds any economic value to the original input. This is presented in figure 5 below.

Figure 5: Value addition steps



As discussed in the section on service models, Jordan manufacturers cover the most basic production steps excluding designing and retailing. Jordan exporters currently provide mainly production services, operating according to their buyers' needs. As a result, any value addition by local factories should come from:

- Fabric and material supply;
- Pattern preparation and grading;
- Laying and cutting;
- Printing and embroidery;
- Sewing;
- Ironing and packaging.

The steady improvement of technology and application standards leads to a noticeable, gradual rise in consumer demands for value addition.

Product offer

In this section, we look into the product groups that the large manufacturers and SMEs currently manufacture in Jordan. Precise production data covering Jordan's entire garment sector was not available at the time of writing⁴. Jordan's own statistics on the garments sector are either outdated or unreliable. As part of the data collection, we interviewed 21 companies and collected detailed production data. The sample consisted of seven large firms and 14 SMEs targeting a variety of clients in national and international markets. Assuming that this data is somewhat representative of both large factories and SMEs, we have observed the following about key product groups.

- The large factories in the sample have an average production capacity of approximately 2,000,000 pieces per month. Five out of the seven factories in the sample focus on the production of sportswear.
- The SMEs in the sample have an average production capacity of around 120,000 pieces per month. For more high-value products such as Islamic clothing, the average capacity is generally around 50,000 pieces, while factories producing more basic T-shirts can produce around 150,000 pieces.

Overall, the interviewed factories produce a wide variety of products, in a wide range of volumes. The table below provides a brief overview of their outputs.

- Sportswear, including active wear and casual wear, makes up by far the most important category by number of pieces produced, mostly destined for the US market but also for the domestic market.
- For the internal market, in addition to sportswear, Islamic clothing, and stockings and tights also make up relevant product groups.

Table 2: Categorised production based on manufacturers' product typology

Detailed typology	Number of pieces/year	Number of companies
Active wear	65,555,000	2
Casual	18,281,000	8
Dress	24,000	1
Islamic clothing	263,000	7
Jackets	430,000	2
Lingerie	60,000	1
Trousers	780,000	2
Pullovers	300,000	1
Safety wear	300,000	1
School uniforms	600,000	1
Shirts	1,320,000	2
Sportswear	22,010,000	5
Stockings and tights	21,600,000	2
Tote bags	300,000	1
T-shirts	6,000,000	1
Workwear	250,000	1
Suits	180,000	1
Medical wear	120,000	1
denim (in m/year)	450,000	1

⁴ An EBRD-funded, sector-wide VCA including production estimates will be produced in the beginning of 2019.



Pricing

Garment production is a labour and material intensive activity. Jordan’s garment sector has relatively high production costs in general.

Jordan’s exporters currently serve mid-high market segments with value-added products, so its fabrics and trims are of relative high quality. The average wages in Jordan are relatively high compared to other regional competitors, so labour costs account for a fair share of production costs too. Producing basic products, as well high-value products such as outerwear, in Jordan is therefore a lot more expensive than, for example, in Bangladesh or Myanmar. As Jordan’s factories tend to produce value-added products, the additional level of effort associated with these ‘high-value, low-volume’ production models, results in higher labour costs per piece and higher average total production costs when compared to simpler ‘low-value, high-volume’ products such as basic round neck T-shirts.

Customs duty exemptions are most effective when using them to discount the costs of relative higher-value products. Because of the overall higher value of outputs in Jordan, the financial benefits of export tax exemptions are higher than for lower-value products from competing countries. Leveraging the free-trade agreements with the US, Jordan can offer a competitive price in comparison to lower-wage countries. This is illustrated in table 3 below, which presents estimated costing examples for two products.

Table 3: Costing estimate examples

	Jordan	Competitors
Round neck T-shirt Cut, make, pack Basic fabric quality 50,000 pieces	\$0.90	Bangladesh: \$0.20–0.65 Myanmar: \$0.35
Constructed jacket Free on board High quality fabric 10,000 pieces	\$10–15	Myanmar \$6–12 Vietnam \$7–15 China \$9–20

Profitability

In practice, most of Jordan’s garment factories aim for a gross profit on cost price of about 15% and a net profit of about 10%. Many exporting factories actually do reach this on average. On the other hand, SMEs generally have lower profit margins around 5–7%, although exact numbers are not available. Actual profit margins for Jordan’s manufacturers tend to depend on three factors.

The main determinant is the service model used. In theory, FOB would allow for a higher profit margin, connected to a higher financial risk, as long as suppliers are not nominated. However, in Jordan’s case most FOB models have nominated suppliers that do limit profitability. In Jordan, the CMP model also negatively impacts profitability: average production costs in the country limit margins on low-cost products to almost zero in comparison with lower-cost countries.

The second determinant for profitability is the size of the order, which has a direct impact on the profit margin. Costing generally takes into account a 15–18% gross profit, or 7% net profit. For large quantities, manufacturers get a 20% margin, but for small quantities the margin can go up to 300%.

The third determinant is the timing of orders in high or low season, where low seasons providing low margins while factories adjust their pricing strategies. In the high season, profits can surpass 15%, but in the low season they can drop to 11% or 12%. The low season tends to last for only one or two months a year. The timing depends on the geographical markets served and the seasonality of products. Producers exporting to different continents or working with fast fashion usually do not experience a low season at all.

Example of service-model based profitability

- Formal shirts (CMP) can be sold for €1.10. Manufacturers make €0.10 or €0.20 profit.
- Formal shirts (FOB non-nominated) can be sold for €9. Manufacturers make €2 profit but run more risk.
- Formal shirts (FOB nominated) can be sold for €9. Manufacturers make €0.50 profit and run the same risk as CMP.



Access to Finance

There are 24 banks currently operating in Jordan. Sixteen of these are local commercial banks, three of which are Islamic banks.⁵ The other eight are foreign banks with local branches, one of which is an Islamic bank. The Central Bank of Jordan set the national interest rate at 5.75% as of November 2018. In practice, average interest rates for business loans at local banks range between 8.5% and 9%.

Estimates indicate that SMEs receive less than 10% of the total bank lending facilities in Jordan. The banks' reluctance to finance SMEs is due to the high-risk assessment made of these companies and the high administrative costs incurred in processing applications.

The types of credit products available to both SMEs and large corporations from these Jordanian banks include overdraft facilities, commercial discounted bills, commercial and revolving loans, and letters of credit. Most of the garment factories interviewed, of all sizes, confirm that these type of business loans from local banks are generally available. However, they also mentioned that many of them prefer to use their own cash flow to finance capital investments or working capital, avoiding financial institutions.

Capital investments

Companies under international holdings have access to investment financing via their head office, which usually works with selected banks. About 60% of the interviewed factories indicated that they would not consider taking on capital investments, citing that they simply have sufficient additional capacity available in their current premises.

Several SMEs claimed that they are hesitant to take the risk of requesting a loan for capital investments because of fluctuating demand from clients. Others simply indicated that they cannot access credit because they rent their buildings and cannot provide a collateral.

Working capital

Most factories that requested a bank loan are using it for working capital needs. Local banks provide short-term loans for procurement of fabrics and trims and revolving loans for daily operations. Both are available at approximately 10% interest rates. Factories use these credit lines to remain flexible and have the possibility to quickly order materials and accept large orders.

Staff and Management

Most of Jordan's large garment factories are owned by foreigners, usually managed by non-Jordanian managers. On the other hand, many SMEs are family businesses with extensive regional experience and know-how. Almost without exception, the SME owner normally covers the managing director position too. Irrespective of the company size, factory managers and export managers whom we interviewed had a high level of education and good English language skills, many having studied abroad.

Large factories generally tend to work with a majority of immigrant workers, while SMEs have a larger share of Jordanian workers. Many factories employ immigrant managers as well to efficiently deal with cultural and language differences among the large share of immigrant workers.

The management style is generally vertical, with a clear division of tasks and responsibilities. Despite the hierarchical structure, there seems to be enough space for discussion and feedback. Factory floor management responsibilities in large factories are shared with a wider management team as well as with production line managers.

⁵ Both conventional commercial banks and Islamic banks offer financial instruments. Conventional banks make a profit by charging interest and fees for services, while Islamic banks earn their money by profit and loss sharing, trading, leasing, charging fees for services rendered, and using other sharia contracts of exchange.



3.3 Competitiveness

As introduced previously, this value chain analysis is structured under the assumption that Jordan’s export opportunities in the EU market are determined by the country’s current export activities in combination with its competitiveness in the global market, as well as experienced opportunities and challenges.

Methodology

The selection of critical factors that define which markets match the current characteristics of Jordan’s garment sector depend on the requirements of each market or buyer. The decision points differ per buyer. For example, large retailers aiming at the low end of the markets tend to prioritize price. Buyers targeting the mid to high-end markets in Europe tend to look at lead times, quality, sustainability and potential for small order sizes.

Building on direct input from international buyers and existing research, we developed the following two-level list of critical decision indicators.

- Country level: changing performance on these indicators requires systemic change and/or strong government involvement.
- Enterprise level: performance relates to the individual performance of each factory, which can be influenced by capital and capacity investments.

Country level:

- Political stability;
- Free-trade agreement with US or Europe (GSP or FTA);
- Logistics (geographical location and logistical structures);
- Availability of fabrics and trims;
- Availability of labour;
- Price of labour.

Factory level:

- Compliance risk;
- Current level of technological innovation;
- Potential for large order sizes;
- Potential for small order sizes (including variety of production range);
- Potential for value-added production.

A 2008 World Bank funded survey focused on identifying critical factors international garment buyers consider in determining a country and factory to source garments from.

The research concluded that sourcing managers surveyed scored (in order of importance) ‘labour standards’, ‘access to international materials and supplies’ and the ‘country’s trade preferences’ among the top reasons to source from a given country. For factories, they emphasised the importance of ‘compliance with labour law’, ‘price’, ‘product quality’ and ‘reliability’.

These indicators were used as input for our shortlist of competitiveness indicators.

Jordan’s factories with export potential can be split into two categories: SMEs focusing on small order sizes with sub-optimal export capacity and larger factories currently exporting to the US or EU. We will make two separate assessments on factory competitiveness to reflect this reality.

Competitors

Jordan’s sector compares internationally with competitors that target the EU market, in the same market segments identified earlier in this value chain analysis: mid-low to mid-high market segments. This study focuses on the EU market, where the vast majority of mid-high segment garments is imported from countries outside the EU. Jordan’s competitors in this context are the Maghreb countries and most Eastern European countries.

For analysis reasons, our key experts have selected a sample of these main competitors, which currently consist of mid to large-sized factories. Yet, we have also performed an assessment of SME competition for future reference.

The table below details only large factory competitiveness, while in the coming section we will benchmark both large and SME factory competitiveness. For large factories this benchmarking sample includes Bangladesh, China, Turkey, Pakistan and Vietnam. For SMEs, the sample of competitors consists of Morocco, Egypt, Turkey, Poland and Portugal.



Table 4: Benchmarking Jordan on competitiveness indicators for large factories

	Jordan	Bangladesh	China	Turkey	Pakistan	Vietnam
Political stability	High, but needs to improve image amongst buyers to reflect reality	Unstable, especially during election	Stable but controlled, all businesses and communications are monitored by government	Unstable	Pakistan has a very bad image as a red zone	Stable
Free-trade agreements	EU (limited)	EU (GSP)	None	EU	EU (GSP)	USA ⁶
Shipping time (EU via Rotterdam)	18 days <i>Road: 6 days⁷</i>	30–35 days	35 days	3–5 days	30 days	28 days
E&S compliance risk (formal standards)	Relatively low, high involvement of government and NGOs	High, low implementation rate despite high awareness	Medium to high	Low, high risk of child labour and Syrian refugee workers without contract	Medium due to neglect of environmental regulations	Medium-low
Price of labour (minimum wage)⁸	\$320	\$95	\$348	€380	\$104	\$80
Availability of skilled labour	Shortage of semi-skilled labour with sector experience; mostly migrant labourers and many foreign managers	Good availability of basic-skilled workers and relatively low-skilled management	Lack of workers, good availability of skilled managers	Good availability of workers	Good availability of workers	Good availability of workers
Availability of fabrics and trims	All imported, local wholesalers present	Locally produced, increasing availability	Locally produced, high availability; cotton locally grown	Locally produced, high availability; cotton locally grown	Natural fabrics locally produced; cotton locally grown	Imported
Assortment of Product Availability	Wide range of possibilities, including processing techniques	Knitwear, denim, jersey, children's clothing, wovens, tops and bottoms	Knitwear, denim, children's clothing, wovens, tops and bottoms, including outerwear	Knitwear, denim, jersey children's clothing, wovens, tops and bottoms, outerwear not included	Knitwear, denim, children's wear, wovens, tops and bottoms, outerwear not included	Knitwear, denim, children's wear, wovens, tops and bottoms, outerwear not included
Current level of technological innovation	Low-medium	Growing	High	Medium	Low	
Potential for large order sizes	Limited, maximum capacity at factories	High	High	High	Medium-high	High
Potential for small order sizes	High due to size of SME workshops and factory design	Small due to focus on high quantities.	Small due to focus on high quantities.	Medium due to different sizes of enterprises.	Medium due to different sizes of enterprises.	Small due to focus on high quantities.
Potential for value-added production	High	Low-medium	High	Medium-high	Low-medium	Low-medium

⁶ Free-trade agreement between the EU and Vietnam is expected to be effective as of 2019. The agreement provides for garment exports to be completely exempt of export taxes.

⁷ Once transport by road across the Iraqi border is possible without delays and high security costs, Jordan will be able to deliver to Europe in six days.

⁸ Reliable data on actual wages paid in the factories is not available. In Jordan, SMEs tend to pay slightly higher average wages, up to 600 JOD, but assigning more responsibilities to workers, while larger factories pay minimum wage to migrant workers with no management responsibility.



Benchmarking

To provide a clear overview of how Jordan scores against other garment producing countries, we will benchmark Jordan’s performance. First, each country is assigned an objective score in the range of 1 to 5, where 5 is the highest end of the scale, meaning an optimal score on this indicator. A score of 1 means the lowest possible on the indicator. After all countries are assigned a set of scores, Jordan’s score can be ranked against its competitors. Highlighting Jordan’s added value against its competitors provides an overview of strengths and weaknesses that should be used to determine Jordan’s export strategy.

Country level competitiveness — all factories

Indicator	Jordan	Bangladesh	China	Turkey	Pakistan	Vietnam
Political stability	5	3	3	2	2	5
Free-trade agreement with Europe	3	5	1	5	5	1
Logistics	4	3	4	5	3	3
Price of labour	3	4	2	1	4	3
Availability of skilled labour	2	4	3	4	4	3
Availability of fabrics and trims	3	4	5	5	3	1

Competitive advantages

- In terms of political stability, Jordan scores high compared to competitors such as Turkey and Pakistan. Jordan has long remained political stability despite regional turmoil, yet the image of Jordan’s politics is more negative than the actual situation.
- Jordan scores mid-high on logistics. It has a good geographical location and access to both sea and air freight, although expensive, allowing for efficient connections to the European and Middle Eastern markets — a benefit that Asian competitors do not have. Turkey, however, is more competitive on logistics, both in terms of transport time and related costs of logistics, since freight is a very feasible option. Once road transport via Syria and Iraq stabilises, Jordan will reap the benefits of efficient sourcing from Turkey and exporting to the EU as well.
- Jordan benefits from free-trade agreements with the EU and the US, which many competitors do not, except for Vietnam. The free-trade agreements and the relaxation of rules of origin allow for duty-exempt exports to North America and the European Union, although the EU still requires certain employment and sourcing targets.

Neutral or competitive disadvantages

- As there are limited materials available in Jordan, the supply chain is delayed by 30 to 60 days, as fabrics and trims must be produced and transported. Most competitors that have access to ready-made fabrics and trims have a competitive advantage over Jordan in terms of lead time and transport costs.
- Migrant workers from competing Asian countries are used to lower wages than Jordanians, an important factor in a labour-intensive business where Bangladesh and Vietnam are key competitors. Jordan’s garment industry, on the other hand, has relative low production costs compared to key competing exporters such as Turkey, Morocco and Tunisia.
- Manufacturers in Jordan in general face relatively high production costs. In addition to the high costs of sourcing materials and labour costs in comparison with its competitors, other negative issues for Jordan’s manufacturers include high overhead costs, such as energy and water, and low efficiency due to lack of skilled or experienced labourers.

Factory level competitiveness — larger factories

Indicator	Jordan	Bangladesh	China	Turkey	Pakistan	Vietnam
Compliance risk (E&S)	4	2	3	3	2	4
Assortment of product availability	3	4	5	4	4	4
Current level of technological innovation	3	3	4	4	2	3
Potential for large order sizes (<200,000)	2	5	5	3	5	5
Potential for flexible order sizes (<10,000 pieces)	4	3	2	5	3	2
Potential for value-added production (quality, transformation)	4	3	5	5	3	4

Competitive advantages

- Jordan's large factories perform better than their main competition both at compliance and at the quality of certifications and national regulations and E&S standards. Buyers are hesitant to increase order intensity in countries with already high compliance risk, such as Bangladesh.
- Jordan's garment sector has specialised in high-value items, carrying high customs duties, for mid-high end markets, such as sportswear and garments made of man-made fibres. Trade agreements with the US and EU increase the respective cost benefit on duties and thus competitiveness.
- Jordan has a competitive advantage on order size options. Low-price, high-volume competitors such as Bangladesh and Vietnam cannot easily supply flexible order sizes or a variety of products in small order sizes as part of large-sized orders. The majority of local factories in these countries are big and not flexible enough for small and varied orders.

Neutral or competitive disadvantages

- Jordan does not actively focus on supplying low-end markets because it is challenging to compete with the economies of scale in Asian countries such as Bangladesh and Vietnam. The current production of Jordanian factories focuses on mid-low and mid-high end market segments.
- The sector does not score strongly on the potential for large order sizes, as much of the Asian competition scores higher on process efficiency (cost efficiency).
- Although Jordan scores relatively well on the potential for value-added production, factories do not fully utilise this potential yet.



Factory level competitiveness — small and medium-sized factories

Competitiveness indicator	Jordan	Morocco	Egypt	Turkey	Poland	Portugal
Political stability	5	4	3	2	5	5
Free-trade agreements with EU	3	4	4	5	5*	5*
Logistics (to the EU market)	4	5	3	5	5	5
Compliance Risk (E&S)	4	3	3	3	4	4
Price of labour (minimum wage)	3	4	4	3	3	3
Availability of labour	2	4	3	4	3	3
Availability of fabrics and trims	3	2	2	5	3	4
Assortment of product availability	3	4	3	4	3	3
Current level of technological innovation	3	3	3	4	4	4
Potential for large order sizes	2	4	3	4	3	3
Potential for flexible order sizes	4	3	3	5	4	4
Potential for value-added production	3	4	3	5	4	5

Neutral or competitive disadvantage

Competitive advantage

- In comparison to regional and European competitors, Jordan scores equally strong on political stability, a clear advantage over key regional competitor Turkey.
- With the opening of the Syria and Iraq borders, transport to and from Europe will be easier, shorter and cheaper, increasing increase Jordan's competitive position. The high score is therefore mostly based on this expected improvement. It would score a 3, worse than the competition, should the border openings not follow through.
- Jordan's SMEs have a high potential for flexible order sizes, and are also willing to produce very small, yet recurring order sizes.
- Comparatively to larger factories, Jordan's SMEs do have a high potential for value-added production, which is in line with current production lines and working methods.
- Jordan's SMEs generally encounter more challenges with regards to capacity than their larger counterparts, facing tough regional and European competition.
- Very few Jordanian SMEs are located in the 18 required industrial zones under the agreement with the EU, so most do not benefit from its incentives.
- Jordanian SMEs do not usually have the staff and technological ability to process large order sizes, which translates into slightly smaller capacity than larger factories in terms of quality and transformation capabilities, making them less competitive than factories in other countries in these aspects.

3.4 Current Trade Dynamics

In this chapter we will describe the current garment trade dynamics in Jordan. We begin describing the current export of garments from Jordan, which will be followed by descriptions of the US and the EU markets, the main market dynamics and our conclusions.



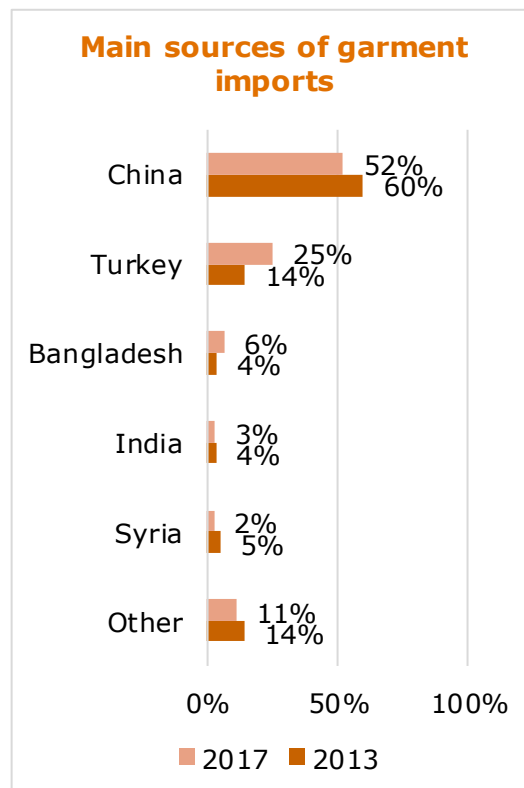
Jordan's garment imports

Garment imports into Jordan have seen a modest but steady increase from \$300 million in 2013 to \$325 million in 2017 (ITC, 2018).

Most imported garments come from China, but a smaller share is imported from Turkey and Bangladesh. Imports from neighbouring countries have suffered from regional political instability. In Syria's case, it shrank in half to 2% of Jordan's total garment imports. The market share of imports from China has also been reduced and is being replaced by imports from countries such as Bangladesh and Turkey.

The Jordanian market has recently been receiving a bulk of low-end, low-price products from Turkey, which reduces the competitiveness of Jordanian manufacturers in the domestic market. Imports from Turkey have tripled since 2013 to \$80 million in value, equivalent to a market share of 25% of all garment imports (ITC, 2018). Jordan is currently revising its trade agreement with Turkey and could increase customs duties on some garment imports from Turkey to protect local SMEs.

	Value of garment imports (in USD)
2013	\$300,731,000
2014	\$281,290,000
2015	\$301,098,000
2016	\$340,523,000
2017	\$324,986,000

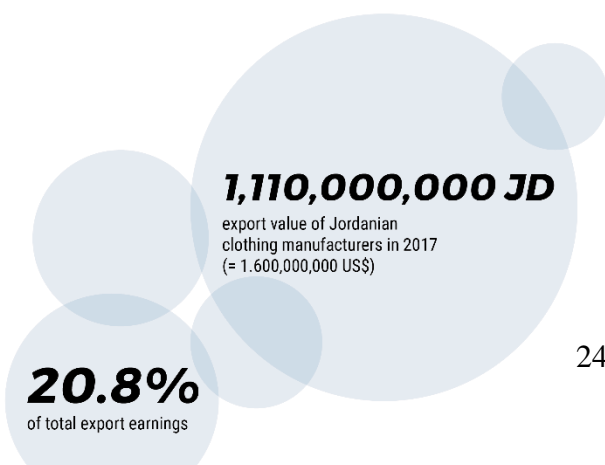


Export from Jordan

Jordan's garment export has been experiencing a healthy growth over the last years, and the vast majority concerns high quality sportswear aimed at North American markets.

Jordan has experienced slowing growth in general, which is not considered an anomaly in the MENA region which has suffered from ongoing regional conflicts and the adjustment to cheap oil in 2016.

Jordan's total export value across all sectors declined in 2015 and 2016 from a high of JD5.2bn (\$7.3bn) in 2014, as a regional conflicts and economic softening took their toll.



According to the Department of Statistics. ITC trade data confirms a comparable figure at \$1.55 bn.



Export to the US

Trade developments

Given the success of the original, well-known QIZs, Jordan and the US signed a wide-reaching Jordan-US Free Trade Agreement (JUSFTA) in 2001. This JUSFTA brought similar benefits to industries outside the QIZs as it creates advantages for U.S. exporters. It enables them to sell high-quality products at more attractive prices, as tariff barriers on the majority of goods traded between the

In 2017 Jordan exports

88% → 

of all garment exports to the US.

That means that the US imported for

1,36 billion US\$

of Jordan garment, which is 8.5% (\$133 million) more than in 2016, and up 27.0% from 2007.

That is an increase of

These garments consist for

79%

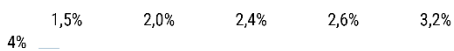


Export to the EU



**Jordan
focussed**

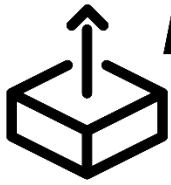
**Export to the EU
as share of total export from Jordan**



Trade developments

Under the Association Agreement that came into force in 2002, Jordanian exports of garment are allowed to enter the EU countries duty and quota free given that EU fabrics are used. Jordan signed the Agadir agreement in 2004 with Egypt, Morocco, and Tunisia. This agreement allowed Jordanian garments exports to enter the EU markets





Export to the EU



CBI
Ministry of Foreign Affairs



General overview

Import statistics

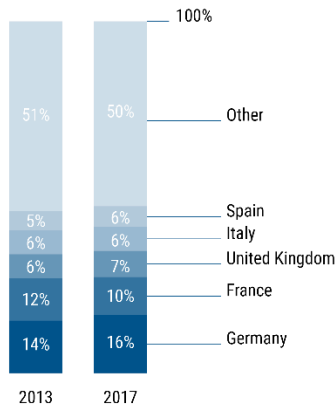
Year	Import of garment in the EU	Growth
2013	157,560,751,000 €	N/A
2014	171,831,293,000 €	9%
2015	157,537,068,000 €	-9%
2016	160,479,390,000 €	2%
2017	168,848,214,000 €	5%

Import of garments has experienced a little dip around 2015, but is currently up to a 5% growth for 2017.

https://ec.europa.eu/growth/sectors/fashion/textiles-clothing/international-trade_en

The EU is one of the largest importers of textiles and garments in the world. In 2017 the import value was 168 billion EUR.

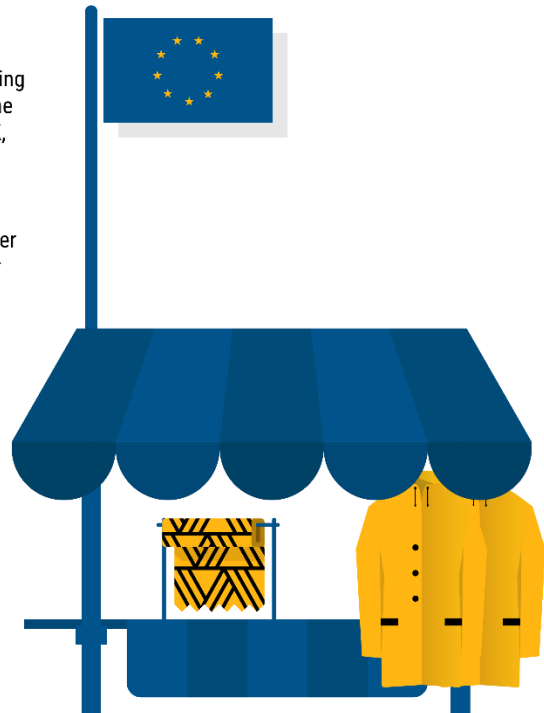
Main importing countries



The most important garment-importing EU countries have remained the same over the last five years: Germany, UK, France, Spain and Italy.

Growing markets

While Western Europe performs better overall, in Eastern Europe, the sector has seen a 28% increase in market value since 2013, accounting for approximately 80 billion euros of garment import in 2018.



EU Import

Biggest suppliers of garments

Exporters to EU	2013	2017	Change
China	25.1%	21.1%	-10%
Bangladesh	9.7%	12.5%	39%
Turkey	8.6%	7.7%	-4%
Viet Nam	1.9%	2.5%	45%
Pakistan	1.6%	2.4%	58%
Jordan	0.14%	0.35%	150%

China ranked as the main clothing supplier, with export to the EU valuing at approximately 27.2 billion euros in 2017. Yet, China's share of EU markets is rapidly decreasing due to the increasing minimum wage closing of several thousands of factories with poor environmental performance. EU buyers are observed to be looking for new sourcing countries.

While a significant portion of the market is dominated by the largest exporters, smaller countries have recently succeeded in capturing greater market share. Countries like Bangladesh, Cambodia and Vietnam have seen a relatively large increase in their garment exports to the EU over the last five years (see figure below with examples of trade developments for a selection of suppliers the European Union (EU-28) (ITC)

Over 77 percent of EU-28 imports came from Asia. Clothing imports from Asia have nearly doubled over the past decade (CBS, 2018).

3.5 Market trends

Opportunities for garment exporters in the European market result from many social, economic and political developments. This section introduces some key relevant dynamics for Jordanian garment exporters. For ease of reading, we have split 10 market developments into three categories of trends related to: EU consumers, EU buyers and EU trade politics.

Each of these market trends was scored by how much potential (high, medium or low) they currently hold for Jordanian garment factories, and by its possible realisation timeframe (short, medium or long).

Table 5: Key trends and Jordan's leverage points

	Observation	Trends	Jordan's leverage points	Potential	Term
EU consumer demand	Increased awareness and interest in CSR	Sustainable and transparent production with a 'story'	Strong performance on E&S, high capacity for niche products	High	Short
	Increased consumer income and unmet demand from existing clients	High value-added products for the mid-high segments	Scaling up current production, leveraging existing capacity	High	Short
	Healthy lifestyle	High-quality sportswear	Scaling up current production, leveraging existing capacity	High	Short
EU buyer demand	Buyers prefer centralised sourcing strategies	One-stop shops offering a range of products	Wide range of product and fabric options possible due to factory typology, requires cooperation	Medium	Medium
	Preference for nominated suppliers and short lead times	Expansion of service model by offering local sourcing	Remodelling of business models required, but in line with existing target markets' potential demands	High	Medium
Political developments	Re-opening of borders with Syria and Iraq		Resulting decrease in lead times and transport costs will improve competitive position	High	Short
	Relaxation of rules of origin (RoO)		Requires high-intensity interventions in reaching employment criteria, which limited factories can meet.	High	Medium
	Generalised scheme of preferences (GSP)		Jordan is not included in the GSP. Yet, historical competitors in the EU mid-high market no longer benefit from duty free, but low-end market producers (not competitors) do benefit.	High	Short
	Replacement of China as preferred supplier		Focus on trade missions, diplomacy aimed at Chinese manufacturers and traders, as well as promoting Jordan to EU and US buyers.	Medium	Medium



A. EU consumer demand trends

Sustainable and transparent production with a 'story'

Western consumers are increasingly concerned about the conditions under which the products they purchase are manufactured. Labels, particularly so-called 'fast fashion' brands, have come under increasing pressure to ensure their products are sourced from ethical manufacturers. As a result, corporate social responsibility (CSR) requirements and expectations in Europe are getting tougher. Suppliers that can match the buyers' legal and non-legal requirements, as well as their required service levels and speed, are rare, especially in developing countries. Buyers are looking for new suppliers who can offer a fully transparent supply chain to guarantee sustainable production matching their requirements.

As consumers care more and more about how their clothes are made, it is the story behind the product that sells. Storifying is a great way of connecting with shoppers on an emotional level, thus creating customer loyalty. Nike's Equality campaign is a good example of this. This type of storytelling is a powerful way to convince and attract consumers. It means using a compelling story in words and pictures to appeal to the consumer's emotions. For manufacturers, it means making effective use of their own unique selling points, storifying appealing characteristics of their products, including their origin, region, family ownership of the company, design, or an environmental or social project that the business is involved. Social influencers such as online bloggers, vloggers and brand ambassadors play a big role in this trend.

This trend is confirmed by the average turnover growth numbers for the world's biggest sportswear brands.

Average 2017 increases in turnover for Nike (5%), Adidas (12%), Puma (9%) and Under Armour (5%) are all significant. Nike and Under Armour both source from Jordan already.

Continued high-value, niche products for mid-high markets

Despite rising awareness on the unsustainability of fast fashion, there is no sign of European markets dwindling. EU markets consist mostly of middle-class segments and European economic growth has resulted in a regional consumer price index rising at 3.3% in 2017. The demand for value-added products for mid-high markets is expected to continue at its current pace, as Europe's middle class expands, for instance in Eastern Europe. This growth is connected to an expected increase in demand for niche products as an expression of consumers' wishes for uniqueness and individuality, at a time of increased attention to one's self-image and social image.

Rise of healthy lifestyles

The average consumer's willingness to pay (WTP) for garments has recently decreased though, specifically with regards to fast fashion products. An extensive 2016 survey⁹ on WTP for garments indicated that one of the exceptions to this development was 'athleisure', which covers the product groups of sportswear and active wear. The results align with a wider trend of dressing according to comfort and function. The performance qualities of activewear are part of what have made the trend attractive to shoppers, whether they are buying gym clothes or performance-fabric dress shirts. The survey said it expects more growth in athleisure, 'and an overall emphasis on incorporating performance technologies into workwear and streetwear.'

In Jordan, some of Better Work's accomplishments include:

- 19% reduction in forced labour;
- 77% reduction in verbal abuse, such as yelling at workers, and an 18% drop in reports of sexual harassment;
- 22% increase in productivity, achieved by training female supervisors
- Requirement that government officials inspect migrant workers' housing to ensure their health and safety

⁹ Fung Global Retail & Technology and First Insight, Women's wear report (2016), <https://coresight.com/wp-content/uploads/2016/10/Fung-and-First-Insight-Womenswear-Report-October-26-2016.pdf>



B. EU buyer preference trend

One-stop shops for combined orders

EU market experts identify a clear shift in the buying processes of EU buyers from fragmented shopping towards one-stop shops. This means that buyers prefer to place orders for a variety of garments, such as trousers, shirts, jackets and belts, and different raw materials, such as cotton, leather, rubber, metal, etc., with one central supplier. This is more time- and cost-efficient for buyers. To meet this buyer demand, garment producers need integrated factories that provide a complete service and product package. This is a capital-intensive model for producers, providing a clear advantage over the competition at this point in time — especially for small and medium factories — but, in the future, it will be a key requirement to remain competitive.

Demand for internal fabric and trims sourcing

The ordering dynamics in the garment sector have seen some major changes over the years. With many buyers becoming globally active, season-specific orders are usually placed throughout the year. In addition, most brands no longer work with just two collections for summer and winter but have now shifted to shorter collection windows, offering multiple collections along the year. In addition to the ordering timelines, the nature of distribution is also changing. The distinction between e-commerce, or online sales, and offline commerce, is blurring. Apparel brands are fusing physical and digital stores and integrating all their activities in a centralised IT infrastructure. Using the internet, including social media, brands can create continuous volume with higher profit margins than those in the conventional, offline channels. These vertically integrated channels and faster fashion result in changes to the demand profile of buyers into short lead times for small and flexible orders. As a result of these developments, buyers are looking for flexible producers that can react quickly to market trends in terms of design, fabrics and trims. In addition, suppliers need to be willing to work with smaller yet frequent order sizes. This process also affects fabric sourcing, leading buyers to prefer working with factories that have an existing stock of fabrics and trims from un-nominated suppliers with guaranteed quality for short lead times.

C. Political developments

Reopening of the borders with Syria and Iraq

A key political development in the last year has been the reopening of the Syrian and Iraqi borders for the transfer of people and goods. The border closures over the last years severely hurt the Jordanian economy, impairing the abundant regional trade. The Naseeb border crossing between Jordan and Syria opened to people and goods in October 2018 after being closed for three years.¹⁰ The border with Iraq has been open and operational as well for the last year, although truck shipments must be transferred at the border due to safety precautions. It is expected that Jordanian trucks will be allowed to cross the border from March 2019 onwards.¹¹

Reopening the borders allows for the reactivation of the extensive network of roads connecting Jordan with Syria, Lebanon, Turkey, and the Persian Gulf, among others. It will significantly shorten transport time for Jordan's international trade, cutting shipping time to and from Turkey from six days down to two days, and for European destinations from 18 days down to six days. The reduction in transport time and costs for both the import of fabrics and the export of manufactured goods will shorten lead times for Jordanian manufacturers, leading to an expected growth in regional trade as well as trade with the European Union in coming years.

Relaxation of rules of origin (RoO)

In July 2016, the EU and Jordan signed a 10-year deal on the relaxation of rules of origin (RoO). Rules of origin are the technical criteria which determine the country of origin of a product, making it eligible for duty free or other preferential treatment under a given trade agreement. The original RoO allows manufacturers in Jordan to import up to 70 per cent of the raw materials used in production and still label the finished products as 'Made in Jordan'. As a result, these products qualify for duty-free access into the EU. In order to be eligible for duty-free access while importing over 70% of raw materials, as all manufacturers do, they need to be located in one of 18 selected industrial zones and employ a workforce consisting of at least 15% of Syrians (25% after 2019).

Yet, two years on, the actual export outputs under the deal are very modest. At the end of 2018, sixteen Jordanian factories had met all the requirements under this joint decision and were granted an authorisation number allowing

¹⁰ Reuters, October 2018, 'Jordan and Syria reopen Nassib border crossing'

¹¹<https://www.albawaba.com/news/trucks-start-crossing-jordan-iraq-border-starting-march-2019-1226652>



them to export to the EU. From this group, six factories have been successful in exporting €1.9 million worth of goods under this scheme to four EU countries. Jordan has called for a more lenient version of the deal, as many factories — of all sizes — have difficulty in meeting the requirements.

Only one of the exporters under the relaxation of the RoO is a garment factory. Most of the small and medium garment factories are not located in the special economic zones and therefore do not qualify for duty-free export. In addition, many factories had major difficulties finding qualified and willing Syrian workers, in manufacturing in general as well as in garment production more specifically. The RoO deal will only be truly beneficial once all garment factories — small, medium and large — can benefit from it.

In November 2018, the EU and Jordan have agreed to increase the flexibility of the rules of origin scheme¹². The amended deal extended the scheme until December 2030 to allow for investment in production capacity in Jordan as well as to attract buyers with the extension of the incentives, after the original 2026 deadline. The amendment extended the scheme to companies in all regions of Jordan, not only the ones established in the special economic zones. The enhanced agreement also specifies that when 60,000 legal and active job opportunities have been created for Syrian refugees, all businesses will be able to benefit from relaxed rules of origin, regardless of whether they employ Syrian refugees. At this moment, around 42,000 Syrians are already working in factories from several sectors in Jordan. It is expected that the 60,000 mark might be reached in 2019. The further relaxation of the RoO increases the chances of SMEs meeting their requirements and benefitting from the free-duty incentives. However, the employment quotas as well as the general investment needed for EU export readiness still pose serious obstacle for SMEs to enter the EU market.

Generalised Scheme of Preferences (GSP)

Although European buyers will continue to sourced apparel from Asia, they are widening their horizons in relation to alternative sourcing locations. In some countries, exporters to Europe can benefit from the European Union's Generalised Scheme of Preferences (GSP). Jordan is not eligible under this scheme. Effective since 2014, the scheme allows developing countries to pay less or no duties on exports to Europe. The GSP has caused some shifts in global supply chains. Countries that in the past did not have to pay import tariffs in Europe — such as China, Morocco and Tunisia — no longer have that advantage under the most recent version of the scheme, which has improved the competitive position of countries still benefiting from the GSP, such as Cambodia, Bangladesh, Myanmar and Pakistan.

Replacing Chinese production

An opportunity lies in the garment production currently leaving China. The Chinese minimum wage has been increasing and the government is closing several thousands of factories that have a negative impact on the environment. Many EU buyers currently sourcing from China will look for alternative locations to move their production. China is currently responsible for 70% of the outerwear exports to the EU. For more than five years, international holdings with key production locations in China have been moving production to other locations, including Jordan.

¹² EU Jordan Association Committee, Report December 2018, http://trade.ec.europa.eu/doclib/docs/2018/december/tradoc_157588.pdf



D. EU requirements

After discussing three types of market trends, this fourth section introduces a market trend that is more of a standard than a trend-based opportunity: EU buyer requirements on standards. Most European buyers have a supplier manual containing all legal and non-legal requirements. When exporting to Europe manufacturers have to comply with the following legally binding requirements:

Product safety — applicable to all products	Some EU countries have custom legislation that applies to that specific country only, but most adhere to the European General Product Safety Directive that requires all products marketed in Europe to be safe to use. It provides a framework for all legislation regarding specific products and issues. If no specific legal safety requirements have been established for certain products and their uses, the General Product Safety Directive still applies.
Chemicals — specific for textiles, leather and accessories	Many European buyers provide their suppliers with a Restricted Substances List (RSL). The European Union has restricted a great number of chemicals in products that are marketed in the Europe. Most restricted chemicals are listed in the REACH regulation (Regulation (EC) 1907/2006). Manufacturers using certain flame retardants or waterproof materials are also affected by the legislation on Persistent Organic Pollutants (POPs) under (EC) 850/2004. In addition to these European legal requirements, many European countries have national laws restricting chemicals in textile products. Some national laws can be stricter than the European requirements.
Labelling — specific rules for textiles	Textile products must be labelled with the fibre composition and using the fibre names in accordance with European rules (EC) 1007/2011. The European Commission is working on mandatory origin labelling (the ‘made in’ label) in Europe for all non-food products, including textiles. Currently, made-in labelling is voluntary. There is no EU-wide legislation on the use of symbols for washing instructions and other care aspect of textile articles. Consumers consider care information the second most important information on a product’s label, after size. It is therefore advised to follow ISO standards on this matter (ISO 3758:2012).
Intellectual property rights	When selling your own collection to European buyers, you must verify that you are not violating any intellectual property (IP) rights. These rights may apply to the design of the product, as well as to any trademarks or pictures. If the client provides a design, the client will also be liable if it turns out that the design belongs to a third party.

In addition to Europe’s legally binding requirements, manufacturers must also comply with non-legislative requirements to be able to attract buyers. Different buyers apply different requirements. Buyers in Europe, especially those in the west and the north, are increasingly keen on corporate social responsibility (CSR) and their social and environmental impacts. Common requirements related to CSR include signing on to a suppliers’ code of conduct, in which you declare that you conduct your operations in a responsible manner. Generally, European buyers have sharpened their focus on requirements concerning:

- Environmental production standards;
- Traceability of fabrics and trims;
- Health and safety in the workplace;
- Fair wages;
- Waste management;
- Physical requirements.



4. Element 2: Structure, Governance and Sustainability of the Supply Chain

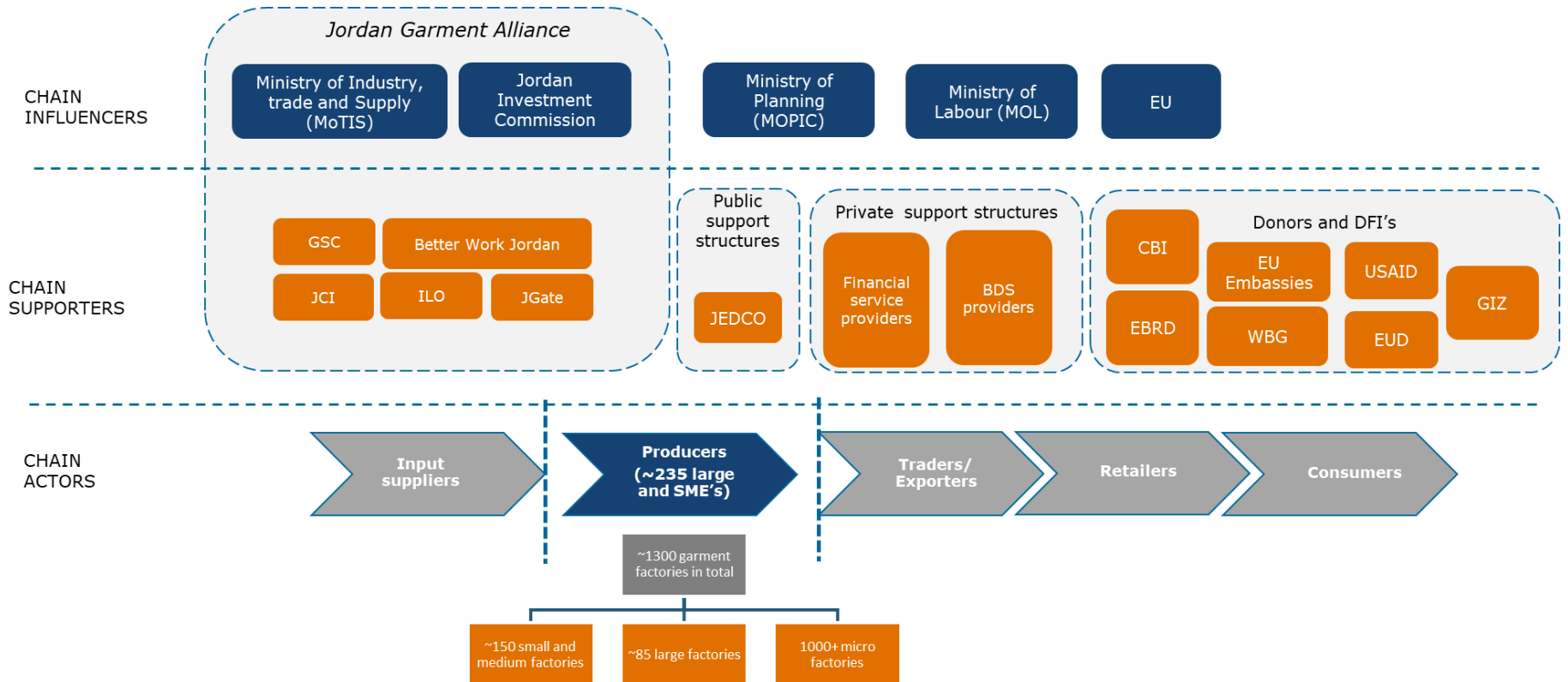
4.1 Structure and Governance

This section will introduce the key players in Jordan’s garment export value chain. Garment factories do not only work with a range of suppliers and clients, but are also affected by the support and activities of various public and private sector actors. We will introduce these relevant players on the sidelines of the garment production, and discuss how they could play a role in the export sector development.

Table 6: Key value chain stakeholders

Typology value chain actor	Specific stakeholders
Governmental organisations	<ul style="list-style-type: none"> • Ministry of Trade and Industry • Jordan Investment Commission • JEDCO
Private sector organisations	<ul style="list-style-type: none"> • GSC: The Garment Design & Training Services Center (GSC) • JGate: Jordan Garment Accessories and Textile Exporters Association • JCI: Jordan Chamber of Industry • ACI: Amman Chamber of Industry • The Garment Alliance
Trade unions and labour unions	<ul style="list-style-type: none"> • The General trade Union of Workers in Textile, Garment & Clothing Industries (JTGCU) • Textile and Readymade Clothes Syndicate
International organisations	<ul style="list-style-type: none"> • ILO: The International Labour Organisation & the Better Work Programme • The World Bank • USAID • Netherlands Enterprise Agency • PUM • GiZ • EBRD • The Confederation of Danish Industry (DI) • ITC

Figure 6: Garment Value chain influencers, supporters and actors



a. Government organizations

Government organization	Description	Additional information	Leverage points in stimulating export
Ministry of Trade, Industry and Supply	The Directorate of Industrial Development at the MoTIS facilitates development of the industrial sector by providing the following services. i) Providing technical support in areas of product development, marketing, technology, HR management, etc. ii) Monitoring industrial capacity building, foreign aid programs, planning and organising specialised training programs to enhance competitiveness among SMEs. iii) Introducing the concept of comprehensive quality management and quality performance. iv) Issuance of export licenses and studying and resolving issues related to the rules of origin. v) Prepares guides for SMEs about targeted markets and international trade facilitation.	MoTIS established an advisory committee from the government and the private sector (representing the garment sector) to set an action plan to overcome the sector development obstacles and enhance communication with the sector alliance. MoTIS is willing to support the political arrangement of trade missions to related countries.	<i>In November 2019, the Prime Minister of Jordan announced the government priorities for the period 2019–2020. These plans include a focus on enhancing the garment sector and support for it, since it is labour intensive and will help to reduce unemployment in Jordan. It is expected that MoTIS will support any initiative to help achieve the government priorities.</i>
Jordan Investment Commission	The Jordan Investment commission (JIC) is handling export promotion activities through the Exports and Exhibitions Department (EED). The main functions of the EED Department are to identify targeted and most promising markets, and most wanted products in the Arab and world markets, then to develop and implement strategies to export to these markets. Another role of JIC is to encourage foreign direct investment (FDI).	JIC is planning to establish an export hub (Export House), which can potentially benefit the sector, but it is not clear yet when and how they will establish and run it.	<i>JIC can be an interesting partner for export promotion activities.</i>
JEDCO	JEDCO is the technical arm of MoTIS focusing on SMEs development from start-ups to export. They provide technical assistance services to SMEs. Examples of its partner initiatives to promote exports include: <ul style="list-style-type: none"> • The EEN (European Enterprise Network) helps businesses innovate and grow on an international scale. It is the world’s largest support network for small and medium-sized enterprises (SMEs) with international ambitions. It brings together 3,000 experts from more than 600 member organisations. • The Virtual Market Place (VMP) aims to increase exports of SMEs from Jordan, Morocco, and Tunisia through virtual market places as a new effective channel to expand export markets and benefit from new business opportunities, creating jobs along the way. 	JEDCO and JIC with the support of the Netherlands Embassy, the private sector and the EC have finalized a paper for the GenEx project, which is a comprehensive approach to catalysing Jordanian exports to the EU and beyond. Implementation has not started yet.	<i>JEDCO is under restructuring and is currently not very active in SME support. The ENN project and the VMP project are still active but on very small scale.</i>

b. Private sector organizations

Private sector organization	Description	Additional information	Leverage points in stimulating export
Jordan Garment Accessories and Textile Exporters Association (JGATE)	<p>The main objective of JGATE is to provide a forum to:</p> <ul style="list-style-type: none"> Promote investment opportunities to both international and domestic investors; Develop SME management capabilities that improve standards of performance; Drive innovation and collaboration in design and production methods by overseeing research initiatives, showcasing technologies, and establishing cooperative enterprises; Provide linkages to relevant service providers in finance, logistics, etc.; Create guidelines and training seminars that address trade agreement compliance, international quality standards, labour laws, and customs requirements; Minimize regulatory, legal, and trade restraints by lobbying for policy development and promoting necessary reforms. 	<p>The Jordanian Garments, Accessories and Textile Exporters' Association (JGATE) is the main organisation for companies active in the sector. JGATE lobbies on behalf of its member companies and promotes the sector's activities.</p>	<p><i>A new chairperson of JGATE has been assigned at the beginning of 2019. The new head, Mrs. Dina Khayat, is expected to be very supportive of EU export initiatives.</i></p>
The Garment Design & Training Services Center (GSC)	<p>The Garment Design & Training Services Center (GSC) is a non-profit establishment dedicated to providing specialised technical assistance and fashion training courses through local and Italian expertise.</p> <p>GSC aims at thrusting the development of SMEs in the clothing industry, especially those that have good prospect of growth both on the national and international markets, through providing specialised technical and training programs for the benefit of the garment industry in Jordan.</p>	<p>The GSC has implemented many initiatives towards the sector (see table below on these initiatives and the source of funds implementing them).</p>	<p><i>GSC is willing to cooperate in different aspects such as providing garment companies with trained designers to enhance the added value of the sector.</i></p>
Jordan Chamber of Industry (JCI)	<p>Jordan Chamber of Industry acts as a national body which consists of all other chambers of industry in Jordan, focusing on ten key sectors from various manufacturing and extractive industries, including the leather and garments sector. It seeks to represent the interests of these chambers and to enhance cooperation and full coordination among them. JCI objective is to contribute to the development of the national industrial process through participation in the formulation of the industry's public policy, international promotional events and trade fairs and the promotion of cooperation with international chambers of commerce and their members.</p>	<p>The garment sector is well represented as the sector representative in the board of directors is a garment factory owner and willing to support the implementation of a long-term plan to support the sector.</p>	<p><i>JCI has to represent multiple industrial sectors, but it does organize garment specific events. Despite active representation of the garment sector in the board of directors, it will be challenging for JCI to dedicate additional capacity to specific garment export activities.</i></p>
Amman Chamber of Industry	<p>The Amman Chamber of Industry is the Amman office part of the Jordan Chamber of Industry. With regard to garment factories, their support services include providing partial financial support on E&S certifications to allow export and subsidies up to 1,000 JOD on participating in international exhibitions. This also included a Jordan stand on the international garment trade fair.</p>	<p>At this moment they do not actively work with sector specific associations, because they want to be an independent medium offering these business support services.</p>	<p><i>They are interested in playing a role in actively sharing EU market information for garment factories, but indicate to require support and training in offering such trade data portal.</i></p>

Garment Alliance	A new garment sector alliance in Jordan aiming to create economic opportunities in the country, improve the lives of Syrian refugees and help their host countries. The Jordan Garment Sector Alliance, backed by the World Bank Group, has been formed by various partners including the International Labour Organization, Better Work Jordan, and the Jordan Chamber of Industry and Trade, along with government parties such as Ministry of Trade, Industry and Supplies, Ministry of Labour, etc.	The garment alliance has been playing a central role in the ongoing garment sector export initiatives and the VCA so far.	<i>The Alliance is expected to continue facilitating export sector development initiatives, and its relevant network of public and private partners will be of key importance in mobilising the sector.</i>
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c. Trade unions and labour unions

Private sector organization	Description	Additional info	Leverage points in stimulating export
The General trade Union of Workers in Textile, Garment & Clothing Industries (JTGCU)	<p>The union is working to achieve a better life for workers and raise their standard of living as well as support the democratic approach and the protection of the rights and freedom of association. It also works to raise awareness and cultural level among the members and improve their health and economic status.</p> <p>They have four offices near garment companies in Dulail, Tajamuat, Alhassan industrial area, and Irbid, plus the head office in Amman.</p> <p>One of its main responsibilities is to draft the unified worker contract, which is produced in 10 languages — each contract is done in English, Arabic and the worker’s language. The JTGCU produce awareness brochures about worker rights and distribute it to workers, and workers representatives.</p>	The JTGCU is well connected and communicates with the 55 workers committees in the garment sector. It collects data through its offices, relating to individual and group cases raised by workers, number of strikes and number of jobs found for new workers each month. It shares statistics with relevant parties, such as Better Work, and they are willing to share these statistics with concerned stakeholders.	<p><i>This is very important to stimulating exports specially to the EU, where they see as very interesting in terms of labour standards.</i></p> <p><i>They are very enthusiastic about the project and willing to cooperate to raise awareness among workers, if the project funds these activities.</i></p>
The Textile and Readymade Clothes Syndicate	The Syndicate was established to take care of the interests of textile and clothes traders, organise their affairs, coordinate their efforts and create areas for cooperation among themselves and with other trade unions. They provide support by resolving disputes between traders and other parties, lobbying to represent traders’ interests in policy making, creating awareness of resulting policies and laws amongst traders, and facilitating interactions with customers and clearance departments.	They are conducting continuous meetings between the clothing and textiles sector and the Chamber of Industry and Commerce in order to keep them constantly updated of all the new regulations, laws and activities related to the sector.	<i>Taking into account this VCA’s findings on the importance of efficient fabric sourcing, the syndicate is a potentially interesting partner. They are willing to cooperate by mobilising traders and ensuring they are well informed of any project or update that needs to be shared.</i>

d. International organizations

The garment sector has received a variety of technical assistance and export-focused support by various donors and international organisations in Jordan, including the EU, the Dutch Government and the Embassy of the Kingdom of Netherlands, GiZ, the German government, USAID, DfID, IFC-World Bank and more. This section introduces the public and private international organisations that have played a key role in the development of Jordan’s garment sector over the last couple of years.

Organizations	Description of relevant activities	Leverage points
Better Work	<p>Better Work is a collaboration between the United Nation’s International Labour Organization (ILO) and the International Finance Corporation (IFC), a member of the World Bank Group. It is a comprehensive programme bringing together all levels of the garment industry to improve working conditions and respect of labour rights for workers, and boost the competitiveness of apparel businesses.</p> <p>As a result of their participation with Better Work, factories have steadily improved compliance with the ILO’s core labour standards and national legislation covering compensation, contracts, occupational safety and health, and working time. This has significantly improved working conditions and, at the same time, enhanced factories’ productivity and profitability.</p>	<p><i>Better Work is an important partner in the continued efforts to integrate CSR principles on labour conditions on the factory floor, especially taking into account the importance of this topic for EU buyers.</i></p>
The World Bank	<p>The Garment Sector Consolidation and Matchmaking Advisory managed by the World bank was initiated in November 2016, and is financed by the UK Department for International Development (DFID). The Advisory focuses on supporting the government of Jordan in generating employment opportunities for Syrian refugees and Jordanian host communities through promoting investments and stimulating exports within the garment sector. The Advisory provides programmatic Technical Assistance (TA) and advisory service to sector stakeholders (government and private sector), as well as organisation of trade fair participations and sector meetings in the US (2016), United Kingdom (2017) and a visit to the Paris trade fair (2017).</p>	<p><i>The WB has been facilitating the establishment of the Jordan Garment Alliance (JGA). Their role in concrete access-to-market activities is also a key leverage point. In addition, their focus on the creation of job opportunities for Jordanians and refugees is of key relevance to any sector development activities, specifically for any EU-RoO related business support.</i></p>
USAID	<p>USAID through one of its projects called Jordan Competitiveness Program (JCP), had implemented export coaching programmes for different sectors, including foods and cosmetics, with trade missions to USA through AmmCham (the American Chamber of commerce in Jordan), but they did not support the garment sector specifically. JCP was supposed to end in 2018, but has been extended. They are currently preparing the Economic and Development Program for the coming five years, beginning in 2020.</p>	<p><i>Their Economic and Development Program for the coming five years, beginning in 2020, could include the garment sector, with export coaching projects. Some efforts and interventions may be needed from the garment stakeholder at this preparatory stage.</i></p> <p><i>On another issue, the Garment Alliance approached USAID to help them financially to support upgrading a number of SMEs in the garment sector to become ready for subcontracting to medium and large companies to complement the ILO’s Better Work programme.</i></p>

<p>CBI and Netherlands government via Netherlands Enterprise Agency</p>	<p>The Centre for the Promotion of Imports from Developing Countries (CBI) from the Netherlands implements export training and coaching programmes whereby they help companies get ready for exporting to the European market. This includes coaching on marketing, sales and on meeting the requirements of European buyers. In addition, these programs facilitate concrete matchmaking linkages with European buyers, as well as capacity building for public and private business support organisations. Concretely, CBI has funded this 2018 VCA. In addition, the Netherlands Enterprise Agency has funded a March 2018 EU Business Orientation Trip for Jordanian companies.</p>	<p><i>The VCA has been commissioned as a tool to inform CBI in its considerations of a potential EU-focused garment export programme for 10 Jordanian SMEs. CBI is well placed to take on the role of such program, and will liaise with Jordanian and international partners to ensure complementary programme design to maximize impact.</i></p>
<p>PUM</p>	<p>PUM Netherlands senior experts is a volunteer organisation committed to the sustainable development of small and medium-sized enterprises in developing countries and emerging markets. They provide grants under which senior exports offer practical expertise within the most important sectors of the economy, including the garment sector.</p>	<p><i>PUM, in coordination with the Government of Netherlands and CBI, is providing experts to support the sector through sharing knowledge and experience.</i></p>
<p>GiZ</p>	<p>GiZ Trade for Employment Program. GiZ is designing a comprehensive trade programme that aims to increase private sector exports, improve availability and quality of demand-driven, trade-related services to the private sector, and facilitate trade across borders. The GiZ effort focuses on the enhancement of government policies in general. After defining the export challenges, they will focus on one challenge and try to solve it.</p>	<p><i>A workshop was to be held on 3 December 2018 to provide the opportunity to introduce T4E's proposed operational plan for 2019 to the main partners, and to exchange views with them on the proposed activities in order to reach a final consent plan that is aligned with the partners' missions and strategies, and hence ensure better implementation and maximising outcomes of the T4E project.</i></p>
<p>EBRD</p>	<p>EBRD is implementing a study related to the garment sector starting 1 December 2018. The overall objective of this assignment is to strengthen the SME support infrastructure by preparing a comprehensive baseline study of the Jordanian garment industry. The specific objectives of the assignment are to first provide a detailed overview of the industry with the aim of identifying areas for future support and capacity building to sustain its competitiveness and sustainability. Second, to help identify opportunities to create large numbers of workers, both refugees and Jordanians in the host communities under the EBRD's Refugee Response.</p>	<p><i>The study has started and is expected to help and support the garment sector especially in identifying advisory and finance opportunities for the EBRD and other FIs. The study is expected to be completed in June 2019.</i></p>
<p>The Confederation of Danish Industry (DI)</p>	<p>The Danish Government is implementing the Jordan Garment Sector Alliance's 'European Export Passport Development Programme', which consists of three interdependent modules. The modules will equip participating companies with the needed knowledge and tools to successfully penetrate new European markets and establish a stronger foothold on existing export markets, enabling participating companies to take advantage of the Jordan Compact. The primary target group is made of companies that are ready to engage with the European market, including companies from the garment sector. Using a hands-on approach and frequent follow-ups between the interventions, the participating companies will develop an action plan that allows them to start exporting to the European Union.</p>	<p><i>The Danish government is going to support eight companies with a similar approach to CBI's, from ERA until participation in trade shows, in addition to paying the salary of the executive officer for the Alliance. It is expected to start by early 2019. This is a short-term project, but other phases may be added later, including trade missions to the EU market. Close communication to prevent overlapping activities and participants is recommended.</i></p>
<p>ITC</p>	<p>ITC has expressed the intention to start up a garment export programme for SMEs interested in exporting to the US market, with funds from the Swedish government. They have visited the country and met with many stakeholders to identify the most relevant scope of work.</p>	<p><i>Important to align with other stakeholders with comparable projects being planned, such as CBI and DI.</i></p>



4.2 Employment and Sustainability

This section provides an overview of the employment and sustainability of the value chain. Employment creation is a key concern of Jordan’s government, especially in light of significant national unemployment numbers and sustainable economic growth. Labour conditions and sustainability of factory processes are furthermore a key interest of both international buyers, Jordanian factories and other local stakeholders.

Current workforce typology

Despite Jordan’s high unemployment rate officially reaching 15.8% in 2016, with estimates of up to 28% among youth, the garment industry continues to struggle to attract Jordanian workers. Government-mandated local hiring ratios and employment initiatives over the last 20 years have managed to change little about the sector’s employment demographic, which is noteworthy for its high number of female and foreign workers. Sri Lanka, India, Nepal and China continue to be major sources of labour.

Table 7: Introduction to workforce statistics

Indicator	Value
Total workforce in Jordan	2,446,260
% of total workforce employed in the garment sector	2.7%
Employees in the garment sector in 2017 ¹³	65,000
Share of migrants	75%
Share of garment workforce consisting of women	69%
Standard salary (incl. bonuses)	250 JOD

Much of the prevailing employment profile is explained by cultural aspects, the average education level of Jordanians, which is relatively high, and additional costs of employing Jordanian citizens.

- Stitching and needlework are traditionally female roles in many societies. In some, there are social conventions against married women working. It comes therefore not as a surprise that the majority of those working in the sector are single, expatriate women, generally young and at the lower end of the educational scale.
- Most Jordanians are well educated, and the quality of education in the country is very good. As a result, Jordanians tend to not work in manufacturing, and when they do so, they are active in supervising roles or cutting, finishing and warehouse activities. Manual labour in production lines is usually left to foreigners. Factories in rural areas with lower education rates and higher unemployment have fewer problems recruiting Jordanian workers.
- In general, manufacturers prefer dealing with migrant workers as they are more willing to work overtime and have lower absenteeism. Migrant workers also come already skilled in the garment and textile industries, reducing the need for on-the-job training and increasing cost-effectiveness. For all of these reasons, manufacturers favour migrants over locals.

¹³ Better Work Jordan (BWJ), 2018



Labour conditions

A 2008 World Bank study on the garment sector identified buyers’ main compliance concerns in Jordan. Buyers indicated to be most concerned about illegal use of migrant labour, forced labour, human trafficking and wage deductions.

The current working environment is considered well regulated under government and international labour regulations, particularly in large factories. Jordan was already years into a reform campaign when the recent concerns about the global fashion industry arose; its efforts are farther advanced than those of other developing producer nations like Vietnam or Ethiopia.

According to Better Work Jordan, labour conditions and compliance have indeed improved over the last few years. The Jordan government obliges each garment manufacturer in Jordan to register with Better Work and all factories that export to the US must be assessed annually, directly by Better Work Jordan.

There are two key actors in the labour scene: the Ministry of Labour and Better Work.

Ministry of Labour. The Government of Jordan has taken serious measures to improve overall labour administration and social dialogue systems in the country, as well as compliance in the garment sector. In this respect, the Ministry of Labour has developed an action plan, which reflects a three-pronged approach for direct action to improving working conditions, institutional reform and increasing employment opportunities for Jordanians. Activities being implemented under the plan include the reform of the Ministry of Labour and the Labour Inspectorate, the establishment of a tripartite advisory committee and different skills development programmes. Organisations such as the World Bank, the European Union and USAID collaborate on a number of these activities but the Ministry also undertakes activities independently. The Ministry published the action plan on its website, where it also publishes regular updates on progress made in the implementation of the different activities.

ILO Better Work Jordan. In 2008, the Jordanian government invited the UN’s International Labour Organisation (ILO) and the International Finance Corporation (IFC) to launch its Better Work Jordan campaign. Consultation committees were set up in factories, bringing together workers and management. In 2012, a national minimum wage committee was established and agreed to raise the minimum wage. Collective bargaining processes, the right of migrant workers and Jordanians to join unions, and other ILO core conventions were also implemented. Better Work Jordan is continuing a pilot project funded by the World Bank’s Jobs Multi-Donor Trust Fund with the aim of improving productivity in SME garment factories that mainly employ rural, Jordanian workers.

JGATE is working closely with the ILO, the unions and the government to ensure a safe and well-regulated work environment.

The **six ecosystem domains** studied and key questions for each of these domains are:

- **Culture:** is the culture supportive and enabling for exports to the EU?
- **Human capital:** are the human resources that local manufacturers require available in the market?
- **Markets:** do garment producers have sufficient business opportunities? Is the infrastructure enabling their operations?
- **Policy:** do policies enable and facilitate garment production and trade?
- **Finance:** can producers gain access to loans, equity and other financial products to invest and grow their business?
- **Support:** do manufacturers have access to support services, such as to grow their business and export support ?



Labour contracts

In 2015, Jordan finished the development of a standard work contract for all those employed in the industry, regardless of their country of origin.¹⁴ Foreign workers typically come to Jordan on formalised, written three-year contracts.

Factories are not allowed to force workers to work more than ten hours a day, six days a week. In case of an exception due to delay, approval needs to be requested from the workers and the government in advance. Workers typically work six eight-hour days, with 125 percent minimum wage pay for overtime and 150 percent for holidays. Refugees generally work for five hours per day due to logistical constraints related to camp gate opening times and commute times.

As far as the working environment is concerned, buildings within the industrial zones are considered safe.

Salary

Garment workers are paid at least the national monthly minimum wage in Jordan, set to raise from JOD205 (\$290) to JOD220 (\$310) in 2018. Jordanian workers receive an additional JOD80 per month for their living expenses.

Foreign workers are currently paid almost JOD120 (\$169), while the remainder goes to accommodation costs standardised through collective bargaining agreements. They can opt not to stay in dorms but living costs will be generally a lot higher, so this is not a preferred option.

Bonuses of up to JOD35 are paid for specific machine-related activities, as well as attendance. The latter tends to be a challenge as unionised contracts allow workers to be absent for a certain number of days, which tends to be abused in some occasions.

Jordan's minimum wages for garment factory workers are relatively high when compared to other regional competitors such as Pakistan, yet lower than Turkey (see section on competitiveness for a concrete comparison). They are generally representative of higher living costs in Jordan than in other countries.

Like any capital, Amman is more expensive, so a salary of JOD250 or even JOD300 is generally not considered to be sustainable for a family without an additional income. In rural areas the minimum salary is considered acceptable for the educational level required, covering basic living costs.

Gender

Official statistics show that for years, the general labour market participation of Jordanian girls and women aged 15 and above has stagnated at around 12.6%, compared to 60.3% of men in the same age bracket.

Jordan is a relative male-dominated society. The garment sector is considered one of a selected few in which women can take on leadership roles relatively easy compared to traditional male-dominated sectors such as construction and engineering. Women fill many of the management roles in both large and SME garment factories. This happens mainly on the factory floor in supervisor roles, but in some occasions also in senior-level management. For example, the executive manager of Jerash is a woman. There have been no confirmed observations of wage differences between men and women, as these are well regulated by the government.

Many large factories are known to support working parents through childcare, which is not common practice for SMEs.

¹⁴ <https://oxfordbusinessgroup.com/analysis/tailored-solutions-garment-and-textiles-segment-represents-economic-success-story-kingdom>



Representation

Many workers are members of Jordan's General Trade Union of Workers in Textile Garment and Clothing Industries, which in 2013 saw a landmark collective bargaining agreement on wages, employment conditions and seniority issues take effect.

Discrimination

There seems to be limited racism or other misbehaviour of Jordanians against migrant workers or refugee workers. In general, Jordanians are historically used to co-habiting with other nationalities — the historic link with Israel and Iraq are good examples of this. The only friction that was mentioned is the difference in working hours for refugees, creating an unequal advantage. Interestingly, some of the manufacturers indicate that this is the result of interference of the international community.

Forced or child labour

There is no evidence of forced or child labour in garment production factories in Jordan. Local labour laws are quite strict and government is active in checking on compliance. Jordan's consistent strengthening of its legal framework seems to suggest that the political will exists to continue improving the working conditions for all workers, with specific attention to migrant workers.

In 2009, Jordan ratified the UN Convention against Transnational Organized Crime, which includes two anti-human trafficking protocols and is one of the world's foremost documents to combat the smuggling of migrant workers across international borders¹⁵. However, given the essentially precarious structure of migrant labour, protections on paper do not always translate into practical guarantees for many workers. Migrants are particularly vulnerable when it comes to their legal work status. For example, Syrian migrants remain legally vulnerable if they modify or terminate their employment prior to a contract end date, since residency and work permits hinge on employment status. Additionally, although Jordan has enacted policies to prevent the undue collection of recruitment fees, migrants often arrive with significant debt, a circumstance that may be compounded in Jordan if garment factories fail to issue timely payments or provide adequate compensation.¹⁶

Health and Safety

The majority of larger factories have a clinic with a doctor or nurses for emergency treatment. In addition, many have health and safety team managers who monitor implementation of health and safety regulations. SMEs generally do not have fixed health and safety protocols in place, apart from government requirements.

Certification

The interviewed SMEs generally do not see the need for investing in certifications, as they are not required by their buyers. This covers both local buyers as well as regional buyers from the Middle East.

Only companies exporting to Westerns countries including the EU and the US tend to have certain international certification standards in place. This is a firm requirement on the buyers' side. The list below introduces the key national and international certification requirements for export.

National standards:

- CTPAT — anti-terrorism;
- Golden List — Ministry of Labour;
- Better Work Jordan ILO — labour standards;

¹⁵ <http://carnegieendowment.org/sada/66598>

¹⁶ Better Work Jordan: Garment Industry 7th Compliance Synthesis Report



International standards:

- **ISO 14001** — environmental management system;
- **HIGG index** — a self-assessment tool to measure the environmental impact of textile companies;
- **SEDEX** — social auditing certification system, mostly for UK markets;
- **Amfori** — previously BSCI, a social auditing system that is used by most EU buyers.
- **Fairwear** — based on eight labour standards derived from ILO Conventions and the UN’s Declaration on Human Rights;
- **WRAP** — platinum, gold or silver, mostly for US markets;
- **ISO 9001** — quality management system.

Environmental management

Biodiversity, use of water and chemicals are not topics of concern within the sector at this moment, due to the factor that very little fabric production takes place in Jordan. Almost 100% of fabrics and trims are imported and therefore factories have little direct impact on environmental risks. They do, however, have the power to choose to buy sustainable inputs. As many US and EU buyers already bring in nominated suppliers and have a preference for responsible inputs, this issue is inherently integrated in the sourcing strategy of larger exporting factories.

Employment of refugees

There were 736,396 UN-registered refugees living in Jordan in mid-2017, some 659,600 of which are from Syria. Many live in poverty, unable to work legally until now, with little or no savings. The garment industry is now also looking to employ more Syrian refugees to deal with skilled labour needs.

Trends and developments

In 2016, Jordan and the EU signed a ten-year agreement that allows factories to export certain products tariff-free to the EU, with simplified rules of origin if they employ at least 15% Syrians in their production units for the first two years and 25% in the following years. In November 2018, the EU and Jordan have agreed to increase the flexibility of the rules of origin scheme. The amended deal extended the scheme until December 2030 to allow for investment in production capacity in Jordan as well as to attract buyers with the extension of the incentives, after the original 2026 deadline.

In response to this agreement, the Jordan government put forward a proposed intervention for the creation of new special economic zones in which a target of 200,000 Syrians could be employed. As part of this plan, the Jordan government decided to block working permits for many Egyptian labourers. As a result, many left the country, creating a large demand for semi-skilled labour.

JGATE has initiated a project, in collaboration with the UN High Commission for Refugees and the Jordanian Ministry of Labour, to employ some 2,000 Syrian refugees in the segment’s factories. The success of this plan is likely to hinge on the EU market being or becoming a feasible option for manufacturers.

At this moment, it is estimated that around 200–300 Syrian employees and trainees are employed in five large garment factories, including Jerash and Maliban, as well as in several SMEs. See table below shows three examples. Most of them have received training under the LUMINOS programme on operating machines and general production activities with the aim of employing them at factories. Only Jerash is currently fully compliant with the requirement of 15% employees in at least one production line. Jerash has 2,500 employees, but each production line consists of 100 people.



Some factories have been working with refugees for many years. These are usually employees that have settled in Jordan with their families and have built a life there. This is in contrast to the refugees employed under the new refugees' employment initiatives, which focus on men and mostly women from refugee camps such as Al Zaatari.

Challenges

One of the key challenges identified during our research is the fact that the international community seems to have misjudged the needs and the type of refugees. The Jordan Compact agreement was designed for refugees in camps, fully dependant on aid, but only 1% of Syrians in Jordan are staying in refugee camps. The majority already had informal jobs. As a consequence, the employment initiatives dishing out work permits are not interesting for them. Most of the refugees in camps see little benefit in leaving their current informal occupation to get a work permit, pay taxes and social security premium.

Most Syrians skilled in garment production tend to travel to Turkey or Greece, as they perceive to have better economic and political prospects there. Most currently employed refugees from camps work in the packaging department, not on the line, due to their lack of experience and skills in garment manufacturing. This creates additional difficulty on the manufacturers' side to reach the quota.

Another challenge is the continuous preference of factories to employ migrant workers. Some of the factories indicate that they have doubts about the financial business plan of hiring refugees without guaranteed business in the EU. Factories working with refugees lose a percentage of support from Ministry of Labour for hiring the quota of 65% Jordanian workers. It has been suggested for the Ministry to look into registering refugees as Jordanians to solve this problem. In addition to potentially losing the earlier mentioned subsidy, factories have to incur additional costs on continued training and transport after the first introductory training covered by donor funding. Additionally, the output and efficiency of refugees is generally lower than the entry-level migrant workers who usually do have a background in garment production. Now that the political situation seems to be moving towards stabilising in Syria, some refugees are considering going back. This results in a different mindset on employment as their situation is considered temporary.



5. Element 3: Opportunities and Obstacles in the Value Chain: selection of promising product groups, markets segments and strategy development

5.1 Conclusions from Elements 1 and 2

Based on Elements 1 and 2, this section selects several promising product market combinations (PMCs) after careful consideration of Jordan's current production, EU market trends, Jordan's competitiveness and its USPs. In the paragraphs below, we present the final selection and argumentation. The list was validated in a workshop with the research team, including the European and Jordanian garment experts.

The assessment of the EU market opportunities, structure and operations of the value chain reveals opportunities for products groups rather than specific products, six-digit HS codes. The same holds for markets. Our research findings have not enabled a distinction between specific buyers or countries in Europe, but an indication of the market segments in the range of low-end to high-end markets. We will still refer to them as PMCs.

Current production

The Jordan garment supply chain has an estimated 1,300 manufacturers of which 85 are large exporting factories and approximately 150 smaller factories, SMEs, with export potential. Manufacturers have to source their input materials — fabric, trims and accessories — from abroad, and therefore the sector focuses on the final assembly and packaging of garment, which has given the sector strong sourcing skills. Factories have the flexibility to handle small order sizes or combine large and small orders.

Most international buyers prefer controlling a large part of the manufacturing process, including outbound logistics. The most common service models are therefore CMT and FOB with nominated input suppliers. The vast majority of exports is aimed at mid-high market segments. In terms of products, sportswear is one of the most important garments produced and exported. The sector is producing sportswear at maximum capacity, so further investments are required to increase this segment. Other important product groups at the moment are Islamic clothing and formal wear, that is men's and women's suits.

Market trends

International trade statistics show that the garment sector in Jordan is growing overall. Export is overwhelmingly directed to the US, the destination of 88% of all garment exports. Exports to the EU make up just 3% of the country's total, but it is growing fast, following the trend towards more EU interest. EU buyers are moving away from China and Bangladesh because of rising minimum wages and to avoid social and environmental issues. They are looking for new sourcing locations and the stability of Jordan and its social story makes it worth considering, especially since it can help meet CSR strategies.

In terms of products, the EU market demand for Islamic clothing is growing as brands are increasingly building up Islamic and modest product lines. Western world demand for high-quality sportswear continues to be very high with healthy lifestyles becoming increasingly popular.

With respect to the market itself, an important trend is the increasing focus on sustainable and organic production. Jordan is not a frontrunner in this field, but could invest to develop it further. The high scarcity of water triggers waterless or water efficient production and dyeing techniques.

From the perspective of the Jordanian factories, the EU market is interesting because of the financial advantages as a result of the relaxation of the RoO. Also, factories are looking to diversify their export markets.

Competitiveness

The competitive position of Jordan on macro aspects is affected by its location. The Kingdom is a stable country in an insecure and unpredictable region. However, the image amongst buyers needs to improve to reflect this reality. The increased attention from the EU on Jordan as a stable country that can host refugees from the region offers increased opportunities, also for the garment sector, whether under the agreement with the EU, or through other financial support programmes.



Other important factors that affect Jordan's competitiveness as a garment exporter to the EU include the lead time being relatively long and the necessity to source fabric and other inputs from abroad. Fast fashion is not an interesting segment for that reason. In terms of costs, minimum wages are comparable to Turkey and much higher than competing Asian countries. Jordan's factory capacity is also smaller on average, making it hard to reach the competition's efficiency level and economies of scale. As a result, Jordan is not competitive in the low-price, low-end market segment, for example for supplying to H&M and Zara.

Combining the findings from Elements 1 and 2, we can conclude that if Jordan wants to diversify its markets, then the European market is an interesting market to focus on. The current production does meet some of the trends in the EU market. More specifically, there are some product groups and market segments that are most promising considering the strengths and weaknesses of the garment sector in Jordan, which we will discuss in more detail in the next sections.

5.2 Selection of Product Market Combinations

One of the objectives of this VCA is to identify product market combinations that have high potential in the EU market. Throughout the research, it appeared not relevant to link specific products, such as outerwear, to specific countries or EU market segments. Instead, the research showed us that in general, and for all products, there is a specific EU market segment where the potential is the highest. The key factors describing this market segment are shown in Figure 7.

The potential for garments from Jordan in the EU market is mostly in value-added and niche products in the mid–high to high market segment. In line with that, garments should be made with high-quality fabrics. Garment manufacturers can be competitive in the EU market when exploiting their ability to treat small and medium order sizes, and when they are flexible to process both small and large order sizes. In addition, the potential is most visible when producing and selling on an FOB service model, where factories are responsible for sourcing of raw materials, packing and transportation. The adoption of sustainable production methods and the use of organic and fair-trade raw materials could further increase the value added of the products.

Also with respect to high-potential product groups, it has been difficult to select one or two specific product groups. By comparing the current production and the market trends, through consultation with European and Jordanian garment experts, we have selected the seven most important product groups presented in Figure 7 below. Each of these product groups offers potential for both large factories and SMEs. The product groups with high potential and with moderate potential, which we recommended not be excluded, will be discussed in more detail below.

Figure 7: High-potential market segments and product groups





A) Product groups with high potential

Sportswear

Sportswear entails a broad group of products including casual wear, streetwear, tracksuits, technical sportswear and beachwear. It includes sportswear and beachwear for Muslims. It is important to mention that the potential mostly lies in the added-value products — basic sportswear should not be considered. Garments are mainly polyester based, since cotton is too competitive. Both knitted and woven fabrics can be used for the production of sportswear.

Jordan already has a solid experience producing in this product segment, which makes up approximately 90% of total exports, growing 150% since 2010. It is also a product group where Jordan can be competitive in terms of technical skills, since many sportswear items have technical components. In addition, demand for sportswear and casual wear in the EU market is constantly growing.

Typical sportswear buyers	Product examples and prices	Typical order size
<ul style="list-style-type: none"> • Mid to large size customers with an international focus; • Certifications are leading; • Examples include Nike and Odlo. 	<ul style="list-style-type: none"> • Odlo fleece jacket €129.95; • Nike performance T-shirt €120.00. 	1,000—20,000

Outerwear

Outerwear refers to clothing worn over other clothes, especially outdoor jackets. This segment offers an opportunity for Jordan, as the EU currently depends too much on China for outerwear and buyers are looking at other markets to source from. Outerwear is typically based on synthetic materials, using down or polyester fillings. Outerwear without padding is also suitable for small factories with less-advanced production equipment. Current production of outerwear is done by large companies for North Face and Peak Performance. This could be relatively easy to expand to serve other EU clients.

Typical outerwear buyers	Product examples and prices	Typical order size
<ul style="list-style-type: none"> • Medium to large size customers, with an international focus; • Buyers focus on quality first; • Customers sell in EU and US; • North Face is a good example. 	<ul style="list-style-type: none"> • North Face and Peak performance; • Outdoor jackets have prices ranging between €250 and €500. 	500–5,000

Workwear and corporate

In the product group workwear and corporate wear, different sub-groups can be distinguished, depending on the level of technology involved. High-tech workwear refers to firefighter and military uniforms. Low-tech workwear includes medical wear, uniforms for airline staff and corporate suits. For high-tech workwear, a number of certificates is required, for example EN 1149 Electrostatic properties, EN 13034 Protection against liquid chemical products, and EN 14058 Protective clothing: Garments for protection against cool environments.

This product group requires a high service level and MOQ flexibility. Typical for the workwear product group involves orders that go through tendering processes, which makes it only suitable for large firms or grouped SMEs. The potential for Jordan in this segment lies in its existing experience. A Dutch workwear company has recently committed to sourcing €1 million worth of workwear from Jordan producers, partly driven by a philanthropic goal to support employment of Syrian refugees. The development underlines the technical and financial potential for Jordan to meet EU requirements in this product group.



Typical workwear buyers	Product examples and prices	Typical order size
<ul style="list-style-type: none"> • Mid-high segment; • Examples include Havep and Tricorp. 	<ul style="list-style-type: none"> • Denim trousers €75–195; • Technical outerwear €199–799. 	500–1,500

Islamic clothing

Jordan is home to quite a large number of successful Islamic clothing producers. They produce different ethno-models, including both traditional and fashion styles. Companies produce special-occasion products with high added value, as well as daily wear. The potential in the EU market comes from a growing demand for Islamic clothing by Muslim diaspora — large brands such as Zara and H&M have recently expanded their offer of Islamic fashion products by offering specialised product lines. The current production of Islamic clothing is still limited in comparison with other product groups such as sportswear due to the limited number of firms, but the sector has confirmed the scope for expansion. The level of design of models and concepts is very developed in Jordan. Producers use WhatsApp, for example, to share large numbers of new models and concepts with clients to get their feedback. However, more research is required to identify which products have more potential on EU markets.

Typical Islamic clothing buyers	Product examples and prices	Typical order size
<ul style="list-style-type: none"> • Medium and small size stores and brands, and online retailers. • Examples include aabcollection.com and inayah.com 	<ul style="list-style-type: none"> • Dresses €120 • Long knitted sweaters €75 	50–200

B) Product groups with moderate potential

Fashion wear

Fashion wear can be defined as garments that follow the latest trends of a distinctive style. The opportunity for Jordan is not in the so-called fast fashion segment, which means inexpensive clothing produced rapidly and in large volumes by mass-market retailers in response to the latest trends. Jordan will not be able to compete in this segment due to its high lead times and high production costs. Jordan’s opportunity to be competitive lies in the mid-high quality fashion segment, focusing on workmanship, innovative materials, design interpretation and inputs. Jordan has the opportunity to produce fashion wear both for women and men in the EU market. Islamic fashion wear also offers opportunities for Jordan, which is discussed in the separate product group Islamic clothing.

Typical fashion wear buyers	Product examples and prices	Typical order size
<ul style="list-style-type: none"> • High-quality fashion focusing on workmanship; • Examples include Claudia Strater, Terre Blue, Zilton (mid-level) and See by Chloë, Marlene Birger and Michael Kors (high level) 	<ul style="list-style-type: none"> • Dress €299; • Fashionable T-shirt €199. 	50–3,000

Formal wear

Formal wear products consist mainly of women’s and men’s suits, blouses and formal overcoats. Approximately 5% of Jordan’s garment products exported in 2017 were formal wear, compared to less than 1% in 2010. In line with the high-potential market segment, Jordan’s focus in formal wear should be in high-quality suits which require highly specialised skill, high-quality fabrics and high service level. Fabrics are mostly imported and are usually high-quality silk, wool and polyester.



Typical formal wear buyers	Product examples and prices	Typical order size
<ul style="list-style-type: none"> • Example of buyers include Vivienne Westwood and Armani; • Suitsupply is an example of medium-high brand. 	Suits can range from €799 to €1,500	20–200

Hosiery and underwear

Hosiery and underwear is the product group that includes socks and stockings, underwear and lingerie. Local production is present in Jordan as revealed by the company assessments: 20 million pieces produced. Part of the production may be for the local market, since less than 0.25% of Jordan’s total garment exports comes from this product group. As in other product groups, the opportunity in this segment for Jordan lies mostly in the specialised high-quality hosiery, underwear and shapewear, not the basic products that require high volumes, low value and low margins. Different fabrics are required for these products: stockings are made of nylon, underwear made with cotton and silk. For socks, a high potential was noted in high-quality products made of wool.

Typical hosiery and underwear buyers	Product examples and prices	Typical order size
<ul style="list-style-type: none"> • Medium-high quality and price level with mid-low minimal order quantities (MOQ); • Examples include La Perla and Spanx. 	<ul style="list-style-type: none"> • Stockings €13–16; • Body €275; • Spanx body €159. 	50–1,000

5.3 Key opportunities and obstacles to Jordan’s garment exports to the EU

For the product groups, we have identified the key opportunities for growth of exports to the EU as well as the obstacles that hinder export to the EU. Our observations are based on the primary data collected during a wide set of stakeholder interviews and company assessments. Most of these opportunities and obstacles have been introduced in the analysis in Elements 1 and 2.

Opportunities and obstacles are presented on different levels (see also figure 8 below):

1. At the *factory* level
 - a. Large factories and SMEs
 - b. Suppliers of inputs and buyers
2. At the *ecosystem* level: the environment in which the factories operate, organised in six domains, namely policy, finance, markets and infrastructure, human capital, culture and support.

We discuss the findings on these two levels in more detail below. Many of the findings apply to all PMCs. When an obstacle is PMC-specific, that is indicated.

Figure 8 Structure used to map opportunities and obstacles for small, micro and medium-sized enterprises to export to the EU

The **six ecosystem domains** studied and key questions for each of these domains are:

- **Culture:** is the culture supportive and enabling for exports to EU?
- **Human capital:** are the human resources that local manufacturers require available in the market?
- **Markets:** do garment producers have sufficient business opportunities? Is the infrastructure enabling their operations?
- **Policy:** do policies enable and facilitate garment production and trade?
- **Finance:** can producers gain access to debt, equity and other financial products to invest and grow their business?
- **Support:** do manufacturers have access to support services (e.g. to grow their business, to support with exports)?





Factory level opportunities and obstacles

Factory level opportunities

We describe the key opportunities for growth of exports to the EU, for large and SME factories in the table below, which shows factors at company level that can stimulate trade and exports to EU. We indicate whether they are mostly applicable to large or SME factories. The summarised table allows us to conclude that most of the identified export stimulants at factory level apply to all PMCs.

The most important opportunities identified include:

- In terms of production capacity, factories are generally modern, have a high level of skill from foreign workers and the capacity to grow are important conditions for trade and export.
- In terms of export capacity, both large factories and SMEs show interest and willingness to invest in EU markets. The relaxation of the RoO lowers the barrier for factories to be eligible, helping them become price-wise more competitive.
- Many large manufacturers work with large US buyers, providing them with relevant experience and adapted operational systems that make EU markets a feasible option. Jordan's existing relationships with buyers offering brands covering both the US and EU markets, provides an advantage to enable easier access to the limited set of distribution channels in the EU.
- The pathway to setting up successful sales channels in the EU is longer for SMEs than for large factories. There is a cost disadvantage for new exporters, as these companies have to invest in the required skillset and formal requirements, including certification, to be able to deliver to the targeted mid-end EU markets.
- 'Made in Jordan' products could be an important selling point when considering the possible social impact on refugee employment, an important factor mostly for SMEs.
- The high growth rate of export value within the garment sector indicates that competition among local Jordanian factories is relatively low. There are many garment manufactures active in Jordan, yet only about 85 currently have the ability to focus on exports. Multiple factories indicate that they cannot meet increased demand from their buyers without investing in additional production capacity.

Table 8: Factory level opportunities

Opportunities at factory level			PMC relevance	SME	Large
Production capacity	OPF1	Factories are able to respond to small orders, generally very flexible to respond to different order sizes, as 95% of the companies assessed considered to be flexible or very flexible.	All, very relevant for fashion wear	X	X
	OPF2	Factories can employ foreign workers resulting in higher efficiency than Jordanian workers. High level of skill found during company assessment, including 17 out of 21 companies being EU compliant.	all	X	X
	OPF3	The current maximum production capacity is underutilised. An average of 60% of total capacity is used among companies assessed. Machinery is generally modern, not outdated, according to company assessment.	all	X	X
	OPF4	Developed design skills, some testing new designs with clients through WhatsApp.	Islamic clothing	X	
	OPF5	Large foreign owned companies have a distinct advance due to access to international investments.	All		X
Export capacity	OPF6	Factory sales officers and management are well educated and have the right language skills in English.	all		X
	OPF7	Willingness to collaborate with other factories by clustering, collaborative sourcing and selling.	all	X	
	OPF8	Firms have export experience to the US and EU.	Sportswear		X
	OPF9	Experience and skills to source fabrics and other inputs from different countries.	All	X	X
	OPF10	Willingness to invest in EU market.	All	X	X
	OPF11	CSR and ILO compliant factories.	All	X	X
Image and reputation	OPF12	'Made in Jordan with pride' — Proper branding of products and Jordan as a production location can add competitive value	Islamic clothing		
	OPF13	'Sell' employment of Syrian refugees as a story	All		
Access to markets	OPF14	Relaxed rules of origin (RoO) can make export to EU financially attractive for factories.	All	X	X
	OPF15	Experience with focus on medium-high product segment which is an interesting segment in the EU market	Sportswear, formal wear		X

Obstacles at factory level

We present the key obstacles at factory level below. When an obstacle is relevant for a specific product group, this has been indicated in the table, as well as whether the obstacles apply to large factories, SMEs or both. From the table below we can conclude that most obstacles apply to all product groups. The key impediments include:

- The lack of export capacity is mostly relevant for SMEs. They are not 'EU fit' both in terms of compliance with certifications required, but also design capacities. No clear export vision or strategy exists. These are all critical issues that can be solved, many through a CBI programme.
- Regarding production capacity we could identify some systemic factors threatening competitiveness, such as difficulty of access to skilled labour, water scarcity and increasing energy costs. Some of them are quite critical, threatening the competitiveness of both large and SMEs. Solutions to overcome these issues have to be sought.
- In terms of availability and access to specialised machinery and skills, this is mostly an obstacle for the manufacturing of outerwear.
- Access to information is a barrier, but more so for SMEs. Information about EU trends is critical, especially for the fashion wear segment.

Table 9: Obstacles at factory level

Obstacles at factory level			Which PMC	SME	Large	Critical?	Solvable?
Production capacity	OBF1	Scarcity of water	all	x	x	n	n
	OBF2	Efficiency is not optimal (technology, lean processes, output of workers), yet efficiency is most important determinant of price	all	x	x	y	y
	OBF3	Lack of skilled labour	Outerwear and sportswear mostly	x	x	y	y
	OBF4	Lack of specialised machinery for outerwear (investment required)	Outerwear		x	n	y
	OBF5	Lack of qualified Syrian workers to comply with RoO	all		x	n	n
Profitability of EU market	OBF6	High and increasing salary levels	all		x	n	n
	OBF7	Energy costs are high and rising	all	x	x	n	n
	OBF8	Government push for local workers affects efficiency	all		x	y	y
	OBF9	Lack of raw materials which increases costs but also lead times. In-time delivery can be an issue.	All, mostly fashion wear	x	x	y	y
	OBF10	Strong competition from foreign-owned companies, foreign investors that dominate the current export market.	Not: Islamic wear	x		n	n
Export capacity	OBF11	BSCI certification and other EU-specific certificates	all	x		y	y
	OBF12	Lack of know-how of the EU market: 80% of the companies assessed do not know the EU requirements and demand	all	x		y	y
	OBF13	Missing design capacities for EU look-and-feel and sizes, for example, the demand from second and third-generation Muslim consumers	All except sportswear workwear?	x	x	y	y
	OBF14	Lack of EU marketing skills	All	x		y	y
	OBF15	Companies do not have a clear export vision or strategy	all	x		y	y
Access to information	OBF16	Low awareness of export process for SMEs; re-active mentality	all	x		y	y
	OBF17	No knowledge of sustainable materials	all	x	x	n	y
	OBF18	No fashion forecast data and low awareness of EU trends	Fashion wear mostly	x	x	y	y
	OBF19	Lack of knowledge and info on pricing	all	x		y	y

Opportunities and obstacles in the ecosystem

Opportunities in the ecosystem

The research has also indicated opportunities and obstacles in the environment in which the factories operate: the entrepreneurial ecosystem. We have divided the ecosystem in six domains¹⁷: policy, finance, markets, support, culture and human capital. The opportunities and obstacles that defined in each of these domains apply to *all* PMCs.

Table 10 shows important opportunities to leverage in terms of market dynamics, as elaborated in Element 1. In the global market, trends such as a declining sector in competing countries such as Turkey and China, as well as increasing duties and unpredictable government in the US, make it more relevant for Jordan factories to diversify their markets and consider the EU market. In terms of policy, we see that in general the government is committed to the development of the sector, and the Garment Alliance has an important role in upgrading and growing the sector as well. The business culture is well aligned with the EU business culture. The garment sector offers employment opportunities, including for Syrian refugees. Achieving social impact in this aspect can be leveraged as a unique selling point for Jordan, providing an opportunity to sell ‘products with a story’. Important supporting functions that are well developed in Jordan include the accredited design training centre GSC and the financial service providers.

Table 10: Opportunities at the ecosystem level

Ecosystem domain	code	Opportunities; factors that can stimulate trade and exports to EU	PMC	SME	Large
Culture	OPE1	Ongoing initiatives like Jo! promote the garments sector in Jordan	all	x	
	OPE2	The way of doing business in Jordan is well aligned with the EU business culture	all		x
Human Capital	OPE3	Unmet demand for labour provides opportunities for employment of Syrian refugees	all	x	x
	OPE4	SMEs managers are able to communicate easily in English with potential EU buyers	all		x
	OPE5	Relative high minimum wage in Jordan increase social impact to workers	all	x	x
Policy	OPE6	Political stability in the country despite regional turmoil	all	x	x
	OPE7	The Government of Jordan plays a pro-active role in improving overall labour administration and social dialogue systems in Jordan, as well as compliance in the garment sector.	all	x	x
	OPE8	The newly established Jordan Garment Sector Alliance enhances public-private dialogue and coordination within the sector.	all	x	x
Markets and Infrastructure	OPE9	Jordan has a clear and significant regional advantage in terms of preferential trade arrangements.	all	x	x
	OPE10	Geographical location and infrastructure allows for efficient logistical connections from supplying countries and to EU market by freight and flight.	all	x	x
	OPE11	Chinese minimum wage is increasing and environmental regulations forcing factories to close — EU buyers are looking for new sourcing countries.	all	x	x
	OPE12	Increasing duties and unpredictable government in the US	all	x	x
	OPE13	Political situation in Turkey forces manufacturing fashion wear to move to Jordan.	Fashion wear		x
	OPE14	The current process of reopening the borders with Iraq and Syria, decreases transport time and costs to Turkey. When the road is	all	x	x

¹⁷ Following Babson’s Ecosystem model



		open, Jordan factories will be able to deliver in very short lead times if they focus on raw material from Turkey.			
	OPE15	Employment of Syrian refugees can be sold as a story.	all	x	
Support	OPE16	The sector receives support from various local stakeholders, including government.	all	x	x
	OPE17	Jordan has a standardised Design Training Center (GSC)	all	x	x
Finance	OPE18	The financial landscape in Jordan is well developed.	all	x	x

Obstacles in the ecosystem

Following the same structure we have also mapped the obstacles in the environment of the factories, which are currently hampering exports to the EU. With respect to culture, we observed that Jordanian people are not interested in working in the garment factories. We also saw that it is culturally established that the low-skilled jobs in the factories are mostly filled by women, and that women do not fill management positions to the same extent as men. Technical garment production skills and semi-skilled workers are scarce and the sector therefore fill 75% of its positions with migrant workers. Although many large factories are compliant with ILO norms, there seems to be a continued concern about labour conditions and migrant workers’ rights. It is a fragile element of the sector and linked to the reputation of the country. Increased certification and close monitoring could classify Jordan as ‘low risk’ for buyers. Looking at the policy domain, we have seen that indeed the QIZs and FTAs are important driving factors for the garment sector, but they mostly benefit the large factories which operate on a larger, more professional scale and are already fit for export. SMEs are facing challenges in terms of production and export capacity as we have seen earlier, which needs to be solved first.

Obstacles related to the markets domain include the fact that Jordan is not well known as a garment producer in the global market. In addition, Jordan has a negative image among some buyers due to regional unrest. Other obstacles that may affect the willingness of Jordan garment factories to start focusing on the EU market include the currency fluctuations that make the euro not as attractive as an increasing demand from the US market. Since they have good access to the US and well-established networks, it may be considered easier for Jordan’s factories to keep focusing on, or at least prioritising exports to the US.

In terms of support, important obstacles include the absence of a shared printing facility, which is especially needed for sportswear. Also, and this is relevant for all product groups, Jordan currently has no independent quality testing centre for fabrics to test for chemicals. This is something that will be required by EU buyers. For the SME factories, it was noted that in Jordan the offer of affordable business support services and technical assistance is limited.

Table 11: Obstacles at the ecosystem level

Ecosystem domain		Obstacles	SME	Large	Critical?	Solvable?
	OBE1	Culturally-defined unwillingness among Jordanians to work in manufacturing and factory work. There is an ongoing struggle to hire local staff due to conservative social values in the kingdom such as women tend to withdraw from work upon marrying.	x	x	n	n
	OBE2	Limited number of women in leadership positions	x	x	n	n
Human Capital	OBE3	Jordanian entrepreneurs in garments tend to have strong business skills but need to bring in technical expertise from abroad, for example, from Syria, Egypt and Lebanon.	x		y	y



	OBE4	There is a lack of semi-skilled local labour in the sector, requiring factories to bring in migrant workers with the willingness and the right skill set.	x	x	y	y
Policy	OBE5	QIZs and FTAs are beneficial to enterprises with access to foreign finance and international networks but provide fewer opportunities for local SME companies.	x		y	y
	OBE6	Government income tax on garment production will increase to 10% in 2019 and 14% in 2020.	x	x	n	n
	OBE7	The link between the Ministry and the Alliance is currently weak.	x	x	y	y
Markets and Infrastructure	OBE8	Regional unrest has resulted in buyers having a negative image of Jordan's current situation and production possibilities.	x	x	y	y
	OBE9	Absence of local fabric production increases lead time	x	x	y	n
	OBE10	Demand from the US market will grow fast, reducing the interest to develop exports to the EU	x	x	y	y
	OBE11	Jordan is not known in the global market, no image yet of 'Made in Jordan with Pride'	x	x	y	y
	OBE12	Currency fluctuation makes euro payments unattractive	x	x	n	n
Support	OBE13	Limited offer of affordable local BDS and TA service providers	x		y	y
	OBE14	No shared printing facility which is especially required in sportswear	x	x	y	y
	OBE15	No independent quality testing centre for fabrics, including knitwear and chemical testing	x	x	y	y
	OBE16	Government is not taking charge in the provision of technical and vocational training for garment workers	x	x	n	n
Finance	OBE17	Local banks are hesitant to provide loans to SME factories in the garment sector, or they provide non-industrial loans at relatively high interest rates with no grace period and with substantial collaterals.	x		n	y

6. Element 4: Possible Interventions and Support Activities in the Value Chain

Based on our assessment of the value chain obstacles and opportunities in Element 3, we will now continue our analysis with the possible interventions and support activities. In the following paragraphs, we first present the interventions required to remove the most critical obstacles and utilise the key opportunities at the factory level (6.1) and the ecosystem level (6.2). In section 6.3, we show how the different proposed activities can be combined in a sector development programme and the suggested sequence of activities. This will be followed by strategic recommendations to CBI and other stakeholders on overall sector export development (6.4).

6.1 Possible interventions — factory level

The table below indicates the key obstacles, the coded opportunities at factory level, and the interventions that we suggest to address those. In Element 3, we identified that the most important obstacles and opportunities at factory level are in the realm of (i) production capacity, (ii) export capacity and (iii) access to information. We indicated below whether the interventions apply to large or SME factories. As table 12 shows, although a larger number of interventions have been identified to increase the capacities of SME factories, still many support actions are relevant for large factories as well.

Table 12: Support needs and stakeholder focus – factory level

Opportunity/obstacle code ¹⁸	Possible interventions – factory level	SME	Large
Production capacity			
OBF2, OPF2	Technical assistance to factories on how to increase their efficiency (technology, lean processes, output of workers)	X	X
OBF4	Facilitate the investment in specialised machinery (e.g. for outerwear)	X	
OBF17	Inform and train factories on the use of sustainable, organic, fair-trade raw materials	X	X
Export capacity			
OBF15, OPF6	Assist companies with developing a clear export vision and strategy	X	
OBF11, OBF12	Support to meet quality and certifications requirements for the EU market, such as BSCI	X	X
OBF13	Capacity building on EU ‘look-and-feel’	X	X
OBF14	Training, coaching and mentoring on EU marketing skills	X	
OPF7	Stimulate collaboration among small factories for sourcing, marketing and sales	X	
OBF15, OBF16	Matchmaking with EU buyers	X	X
Access to information			
OBF18, OBF19	Access to information on EU market requirements, pricing, trends, requirements	X	X
OBF11, OBF17	Support integration of CSR in factories	X	X
OBF16	Increase factory awareness of export process and stimulate a proactive mentality		

¹⁸ Codes as presented in Element 3

6.2 Possible interventions – ecosystem level

We have performed the same exercise at the ecosystem level. Following the most critical obstacles and key opportunities at the six ecosystem domains, we have identified a number of possible interventions we feel are required to prepare the sector for a sustainable and continuous focus on the EU market.

Opportunity/obstacle code	Possible intervention- Ecosystem level	SME	Large
Human Capital			
OPF2, OBF3, OBF5, OBF8, OPE3, OBE3, OBE4	Support companies in finding skilled personnel, and in finding skilled Syrian refugees to employ	x	x
Support			
OPF7, OBE9,	Development of a central national fabric sourcing and sales platform	x	
OBE13, OPE16, OPE17	Strengthen and increase the capacity and scope of the Garment Alliance to support exports to the EU	x	x
OBF12, OBF16, OBF17, OBF18, OBF19	Ensure centralised access to EU market information (Digital database + information desk)	x	x
Culture			
OPE1, OPE6, OBE11	Develop and promote the image of Jordan as a reliable and flexible garment manufacturer. Providing garments with a story.	x	x
Markets and infrastructure			
OPE1, OPE6, OBE11, OBF15, OBF16	Promote Jordan among EU buyers	x	x
OPF7, OBE9, OBE14	Stimulate and facilitate collaboration among small factories for collective sourcing, marketing and sales. Could also include establishment of a shared printing facility	x	
OBE15	Independent quality testing centre for fabrics	x	x
Finance			
OBE17	Facilitate access to finance for SME factories so that they are able to make the required investment to access EU market	x	
Policy			
OBE7, OPE16, OPE17,	Facilitate the linkage between the Alliance and government	x	x

6.3 Conclusion on possible interventions and support activities

The previous sections have provided insight into the key proposed support interventions. Using this as the basis for design of a sector export promotion programme, it is important to consider how the interventions at factory and ecosystem level can be integrated and what would be the implementation like. As discussed during the validation workshop in Amman on 10 December 2018, local stakeholders are and should be concerned about this. EU matchmaking activities and promotion of Jordan manufacturers with EU buyers at a point where they are not yet export ready can have an adverse effect. Figure 9 below provides an overview of the key interventions and how these could be structured.

As a general pathway, the visual shows two pillars of support that require simultaneous implementation:

First ensure optimised production capacity, then build export capacity

As has been discussed throughout the VCA, the difference between SMEs and large companies is significant. Although SMEs that do not exporting yet may have higher interest in exporting to the EU, the large factories are already export ready and could sell on the EU market with relatively low investments. As the visual shows, the SMEs require considerable investments to get the production capacity at such a level that the business model is



viable for exports. Our suggestion is a programme aiming to support this group, taking considerable time to assess and capacitate companies, prior to building export capacities. We will further elaborate on this issue in the next paragraph.

Simultaneously ensure sector support capacity

Any donor intervention should be a temporary action to achieve sustainable changes. In this case, we think that the garment sector has quite a large number of qualified local stakeholders that could be empowered to become centralised platforms for garment export support. Such relevant stakeholders include the Garment Alliance, JGate and JCI. We propose that the empowerment activities, including capacity building, setting up systems and tools to support garment exporters, should start simultaneously with the direct support to factories. By the end of the programme, the centralised sector organisation should be able to provide many of the factory level support activities that were provided through the course of the programme.

Figure 9: Mapping of proposed interventions

The VCA identifies the following ecosystem & factory level interventions required to utilize EU export market potential



6.4 Recommendations for CBI and other donors

The previous section introduced a set of rather practical interventions that, in our opinion, will help Jordan garment factories to start up or expand their exports to the European market. The proposed interventions are formulated with certain strategic recommendations. These should be considered before venturing into designing and implementing any garment sector interventions.

1. Factories' interest and resulting expectations is something that needs to be carefully managed at the start of any support and interventions developed

The business case for EU export is different for each company, and strongly depends on individual characteristics like typology of products, business model, target markets, current skill set and investment required to meet EU demands. Factories' motivation should be clearly understood before interventions are developed and implemented to prevent unrealistic expectations. Exporting to the EU might not necessarily result in higher profits than making domestic or local sales. It can also be a means of risk management to expand the client portfolio.

SMEs that do not export to the EU yet should be properly educated on the potential benefits of exporting to the EU over producing for the domestic and regional markets. It might be helpful to develop a tool or roadmap to calculate SME readiness for the EU market and what the costs of getting there would be. This could be used to provide a go or no-go advice to SMEs interested in participating in the EU export support programmes.

Some of the large factories are currently not interested in exporting to the EU at all. They are satisfied with their current US buyers and would like to expand their range of US buyers rather than adding EU buyers. Others indicate to be willing to add EU buyers for risk management purposes to mitigate dependency on the US.

2. Successful export-oriented support programmes require a customised approach to fit the different needs of the two types of factories

As the VCA takes its final form, an important split in the potential export landscape of Jordan's garment sector becomes clear. Small and medium-sized enterprises and larger factories have very different characteristics when it comes to current production, export activities, needs and interests.

At the start of the design of any intervention aimed at garment sector development and garment export in specific, these differences should be considered. Although many of the interventions we propose are relevant to both SMEs and larger factories, their actual implementation should be a two-level customised approach that fits the different needs of the two types of factories. Some key export elements that require customisation for each of the target groups include:

- Advice on the type of buyers and the characteristics of their demand;
- Methodology, content and level of difficulty in technical training — unsuitable designs result in quick loss of interest;
- Content, level of difficulty and centralised channels for information sharing.

Here, we do see options for a peer-to-peer learning system, where SMEs and larger factories work together to understand and meet EU buyers' requirements. Sharing experiences and contacts is a very relevant tool to speed up this process. From an operational perspective, large factories could act as lead suppliers, working with SMEs on client orders that are not directly suitable for themselves based on order size or diversity.



3. Understanding the reasons behind buyers' interest in sourcing from new production locations, and Jordan more specifically will allow Jordanian public and private sector actors to come up with a suitable value proposition.

Understanding the interest of potential new buyers is equally important. New demand for Jordan garments can come from different sources:

- Buyers are moving production for different reasons, including minimum wages going up in their current suppliers' countries, environmental regulations becoming stricter or governments deprioritising garment exports;
- Buyers want to spread supply chain risks by spreading sources of production, which is mostly related to current producers high-capacity utilisation;
- Buyers are looking for factories that can work with new production technologies or produce 'niche' products that are not available from their usual suppliers.

4. Sector-wide initiatives to facilitate more extensive business models that includes additional services will have added value for European buyers and increase factory profitability

All actors in the value chain should cooperate to allow factories to expand their business model to include more services in order to expand the service range to attract buyers and increase profitability for all supply chain actors involved. Jordan's current focus on CMT-CMP and FOB with nominated suppliers limits factory profitability and related investment capacity. Sector-wide initiatives to facilitate more extensive business models that include additional services in design, input sourcing, packaging, shipping, etc. will have added value for European buyers.

There are several options for vertical value chain integration that we recommend exploring:

- Expansion of free on board model with local fabric sourcing and developing of fabrics and trims;
- Expand existing brand production with support from local designer, starting with Islamic clothing;
- Offering one-stop shop solutions that combine a variety of product lines on a collaborative platform of factories.

All of the above options will increase the suppliers' bargaining power, allowing for companies to increase their scale and their ability to respond relatively easy to large and varied orders. In addition, the larger share of added value retained by the factory or local sector allows for inclusive sector development.



5. The key to developing a successful strategy on export to the EU does not solely depend on what Jordan's garment sector can supply, but also on the existence of European demand for garment imports from Jordan.

Before any factory-level interventions are deployed, the key sector stakeholders need to come up with an action plan to create European awareness about and interest in what Jordan has to offer. Jordan needs to be put on the map and into the minds of European buyers. Specific Jordan image brand promotion and awareness activities need to be deployed, showcasing products and fabrics from Jordan. This could be done via a local representation in the EU or by working with a trendsetter or ambassador from the targeted mid-high markets, such as Scotch & Soda. Developing garment production countries such as Ethiopia have also used this strategy by engaging H&M.

6. Donor coordination is central to cost and time effective export programme development.

During the VCA a mapping of the Jordan garment sector's value chain influencers and supporters was done. All of these actors support local private sector development using a range of information, training and other services. Applying a careful mapping as a first step for any type of export sector programme development is strongly recommended, especially in Jordan where the amount of support programmes from different donors is growing quickly. The local sector support organisation is expected to coordinate the various support activities in the sector. In Annex 4, we present the initial mapping of the Jordan garment sectors' value chain influencers and supporters, linked to the proposed interventions. This needs additional desk research and primary data collection.



ANNEX 1: List of key informants

Organisation	Name	Position
Amman Chamber of Industry	Dr. Nael Al-Husami	CEO
CBI	Koos van Eyk	Country Manager Jordan
CBI	Melanie van de Baaren-Haga	Programme Manager, Garments
CBI	Tove Antonissen	Research and market information expert
EBRD	Khaled Alsaheb	Principle Manager, Small Business development
Embassy of the Kingdom of The Netherlands	Faouz Ibrahim	PSD Officer
	Cedric van Oene	Trade Counselor
Fashion Production Solutions	Serge Leon	Owner, senior garment expert
Forward in Fashion	Giovanni Beatrice	Owner, senior garment expert
Garment Design and Training Services Center (GSC)	Eng. Ameer Abdel Qader	CEO
	Eng. Adel Tawileh	Chairman
ILO/Better Work Jordan	Tareq AbuQaoud	Programme Manager
JEDCO	Eng. Rami Hammad	Acting Director of Exploring Technological Development
JGate	Husam Saleh	Chairman
Jordan Chamber of Industry (JCI)	Eng. Adel M. Tawileh	Board Member/Secretary General Leather and Garments Industry
Jordan MoITS	Hassam Salem Al-Nsour	Head of Business Environment Development and QIZ Unit
	Hala Tamini	Head RoO
Jordex	Kim Mulder-Romeijn	Business Development Manager Middle East
Local Company for Fabrics Textiles and Garments Ltd	Madji Al-Sharief	General Manager
Modint	Antonio Barberi Ettaro	Senior Consultant
Noorway	Yaseen Abu Alrous	General Manager
PUM	Gie van Cauteren	Senior garment expert
Qadri Hijab	Ihab M.A. Qadri	Manager and Partner



ANNEX 2: List of companies assessed

No.	Company name
1	Jerash Garments Group
2	Hi Tech textile
3	Galaxy Apparel
4	El Zay
5	Aseel Universal Garments
6	Needle Craft
7	Classic Fashion Apparel Industry
8	Qadri Company
9	Alsamah company
10	Jordanian Modern Textile
11	Kemat AlAsalah
12	Madenat Al Salam Garment Manufacturing
13	TAWILEH TRICO CO
14	Algharzal for manufacturing and trading of clothes company
15	National Garments and Denim mills
16	Mawaffaq Iriqsaasi Clothing (flying girl)
17	Hadayana Clothing Manufacturing and Trading co
18	Haifa Apparel Company
19	Modern Company for Clothes Manufacturing
20	Noorway Clothing Est
21	Osamah & Khalid Fashion



ANNEX 3: Participants in the validation workshop in Amman, 10 December 2018

Organisation
JGATE
Madinate Alsalam Factory
CMC
Prestige Apparel
Palladium
Zarqa Chamber, J Gate
Mas Al Safi
Garment Workers Union
USAID - JCP - MOITS
CBI
JCI
Ministry of Industry
Modern Company for Clothes Manufacturing
Trico Tawileh Company
Hadayana Clothing Manufacturing & Trading
CMC
JGSA
Alsamah Company
EBRD
CBI
USAID - JCP
Palladium
AlGharzaz for Production
G12 - T4E Project
GSC
ILO Better Work
JGATE
Qadri
Noorway

ANNEX 4: Initial donor activity mapping for recommended interventions.

Needs additional desk research and primary data collection

Key support needs	MoITS	JEDCO	JGATE	JCI	Alliance	CBI	PUM	EBRD	Danida	ILO	JIC
Factory level											
1. Production capacity											
Technical assistance to factories on how to increase their efficiency (technology, lean processes, output of workers)							yes				
Facilitate investment in specialised machinery (e.g. for outerwear)								yes			Yes
Inform and train factories on the use of sustainable, organic and fair-trade raw materials							yes				
2. Export capacity											
Assist companies with developing a clear export vision and strategy						yes			Yes		
Support to meet EU market quality requirements and certifications, such as BSCI		Yes				yes	yes				
Capacity building on EU 'look-and-feel'						yes	yes		Yes		
Training, coaching and mentoring on EU marketing skills						yes	yes		Yes		
Access to information (EU market requirements, pricing, trends, requirements)						yes			Yes		Yes
Support the integration of CSR in the factories						yes			Yes		
Increase factory awareness of export process and stimulate a proactive mentality						Yes			Yes		
Stimulate collaboration among small factories, for sourcing, marketing and sales					yes	Yes					
Matchmaking with EU buyers		Yes EEN)				yes					
Ecosystem level											
Human Capital											
Support companies in finding skilled personnel, and in finding skilled Syrian refugees to employ					Yes						
Support											
Establishment of a shared printing facility				Yes							
Independent quality testing centre for fabrics				Yes							
Development of a central national procurement platform				Yes	Yes						
Culture											



Key support needs	MoITS	JEDCO	JGATE	JCI	Alliance	CBI	PUM	EBRD	Danida	ILO	JIC
Develop and promote the image of Jordan as a reliable and flexible garment manufacturer. Providing garments with a story.					Yes	Yes					Yes
Markets											
Further develop a system in which labour conditions and migrant workers' rights in the garment sector in Jordan are guaranteed	Yes (with ministry of labour)									Yes	
Promote Jordan among EU buyers		Yes			Yes	yes					
Finance											
Facilitate access to finance for SME factories so they are able to make the required investment to access the EU market (short term financing of fabrics (s), capital investments in factories (c))								yes			
Policy											
Facilitate the linkage between the Alliance and government	Yes				Yes						
Strengthen and increase the capacity and scope of the Garment Alliance to support exports to the EU						yes					



ANNEX 5: Relevant initiatives

GSC's Projects and Activities	Source of Funding
<p>JMODA 2009-2012</p> <p>Providing technical assistance services in the fields of product development, production planning, marketing, quality control, finance and HR to 18 SMEs working in the garment industry in Jordan</p>	<p>Italian Ministry of Foreign Affairs</p>
<p>GSC aims at improving the capabilities of the clothing industry through providing short specialised courses that cover all the technical and administrative areas of the clothing industry such as: Marketing, Retailing, Management, Merchandising, Costing, Quality Assurance, Embroidery, CAD training, etc.</p> <p>Courses are delivered by local experts from the industry.</p>	<p>E-Tvet Fund</p>
<p>'Creating Sustainable Employment in the Garment and Textile Sector in the Karak Governorate' Project</p> <p>The Garment Design & Training Services Center (GSC) partnered with the Deutsche Gesellschaft fuer Internationale Zusammenarbeit (GIZ) GmbH to create sustainable employment and ensure good working conditions in the textile and garment sector in the Karak Governorate in Jordan.</p> <p>Main Project objectives include:</p> <ul style="list-style-type: none"> - Support textile and handicraft Community Based Organisations (CBOs) in Karak working in the local community. - Improve CBOs operation and performance with particular focus on employment creation. - Create jobs for job seekers in the garment and textile sector in the Karak Governorate. - Ensure job sustainability through the "decent work" approach. 	<p>GIZ (German Government)</p>
<p>UNIDO- CCI CREATIVE JORDAN: THE PROJECT</p> <p>JO! Collection is part of CREATIVE JORDAN project and represents a new important step for Jordanian garment industry.</p> <p>CREATIVE JORDAN is part of the regional project 'CREATIVE MEDITERRANEAN - Resilience Through Creativity'; Funded by the EU and the Italian Development Cooperation and implemented by the United Nations Organization for Industrial Development (UNIDO).</p> <p>The aim of 'Creative Jordan' is to improve and foster the design and manufacturing process in the garment industry and facilitate the access to local and international markets.</p> <p>JO! By Creative Jordan is developed in collaboration with the Garment Design & Training Services Center (GSC) in Amman, and engages a team of Jordanian designers and a local manufacturing factory (Noorway Fashion)</p>	<p>EU and Italian Cooperation</p>
<p>UNIDO- Creating jobs to enhance economic resilience and social stabilisation in the Northern region of Jordan</p>	<p>Japanese Government</p>
<p>"SAFI CRAFTS, Empowering Rural Women and Increasing Resilience in the Jordan Valley" (3 phases):</p> <p>GSC's experts have teamed up with the women behind the Safi Crafts brand and have developed a new collection inspired by the beautiful nature in the Jordan Valley. GSC ensures to develop</p>	<p>UNESCO</p>



the styles and upgrade the products in order to meet the market needs following technical quality standards. GSC’s technical team also introduced an updated managerial and financial system to strengthen their structure.	
Supervising garment training in several tailoring workshops and garment manufacturing companies in Madaba, Tafileh and Zarqa	Business Development Center (BDC)

Other relevant initiatives (see also annex BCI)

Initiative	Description	Leverage points for export promotion
Development of Clusters in the Cultural and Creative Industries in the southern Mediterranean [CCI] project.	UNIDO assisted the sector establishing an export cluster consisting of sector members, universities, laboratories, local suppliers, etc. This export cluster aims to help in promoting the sector collectively to the EU market. Launched at the end of 2015, Jordan’s CCI project entails the development of the Amman Fashion Cluster, the first creative cluster in the textile sector in the Kingdom. The cluster aims to support small and medium enterprises [SMEs] in the local market in need of higher productivity, provides these companies with technical assistance to help them produce high quality textile products, making use of the unique Jordanian knowhow. The cluster led by JGATE and already assigned distributor in Italy to promote the new brand and designs (JO!) who ordered only 80 pieces up to date.	First cluster with a focus on design in addition to production. It also assists SMEs in getting access to new markets both locally and internationally.
	JGATE has initiated a project, in collaboration with the UN High Commission for Refugees and the Jordanian Ministry of Labour, to employ some 2,000 Syrian refugees in the segment’s factories. The success of this plan is likely to hinge on the EU. At the London Support Syria Conference in February 2016, Jordan put forward a proposal for the creation of new special economic zones in which the Syrians could be employed. These zones have the advantage of low export tariffs to the EU, encouraging many businesses to locate there.	
	There have been recent government initiatives regarding the latest EU simplified rules of origin in general. A DfID/USAID pilot project was completed under the USAID-funded Jordan Competitiveness Programme(JCP) where technical assistance was provided to 21 factories to meet EU standards and specifications, obtaining certification, advising on labelling and branding, providing trade and logistics analytics ¹⁹ . The project included matching export ready factories with EU buyers.	
	A ‘Technical Exporter Guide’ which includes information on EU standards and specifications, technical regulations, EU custom duties and export procedures has been developed as a project supported by the Dutch Government.	
Program for Results	The sector will continue to integrate refugees while also trying to increase employment of Jordanians. The World Bank Group is supporting these dual purposes by conducting a Program for Results, which includes a strategy to create about 100,000 new jobs.	
ILO: The International Labour	Better Work, an IFC–International Labour Organization (ILO) partnership, mobilises factories, buyers, and brands in the apparel	

¹⁹ CBI Report (Garments – Jordan Business Case Idea), Appendix 2



Organisation & the Better Work Programme	<p>industry to boost competitiveness through improved working conditions. In Jordan, 73 factories take part, representing 30 international brands and retailers and assisting 65,000 workers by providing labour assessments, training and advisory services .4 A stipulation in the European Union Rule of Origin granting favourable trade status to factories employing Syrian refugees also requires that such factories be subjected to a Better Work assessment.</p> <ul style="list-style-type: none">• ILO’s Better Works will do light assessment and create aggregated report on 30 SME factories on CSR issues, followed by training on major topics that need support (HR, labour law, grievances).	
Jordan Investment Commission (JIC)	<p>Working with the Jordan Investment Commission (JIC), a new Garment Sector Consolidation and Matchmaking programme compliments the World Bank Project for Results (P4R) in Jordan by addressing the need for jobs to employ Syrian refugees. Matchmaking connects global buyers with Jordanian factories. Finding suitable trading partners, the program conducts the following activities:</p> <ul style="list-style-type: none">• Researches the characteristics and motivation of global apparel retailers that source from Jordan• Promotes factories by encouraging leading retailers to begin or to increase sourcing from the country• Enhances public-private dialogue and coordination within the sector to strengthen the newly established Jordan Garment Sector Alliance	