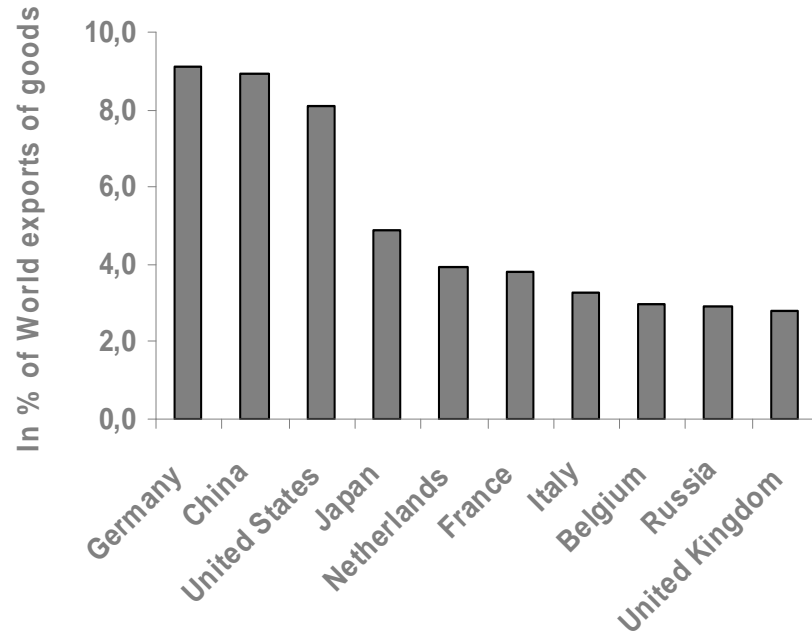




## **Italy Meets Jordan: Opportunities for Trade and Investment**

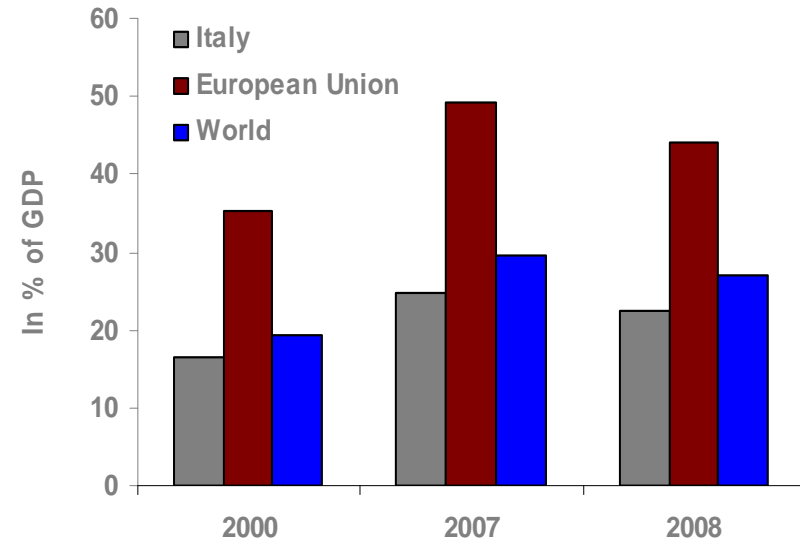
*Alessandro Terzulli – Economist, Economic Research  
Amman, 19th November 2009*

## World top 10 exporters



Italy is a major exporting country: the 7th in the World (3.3%)

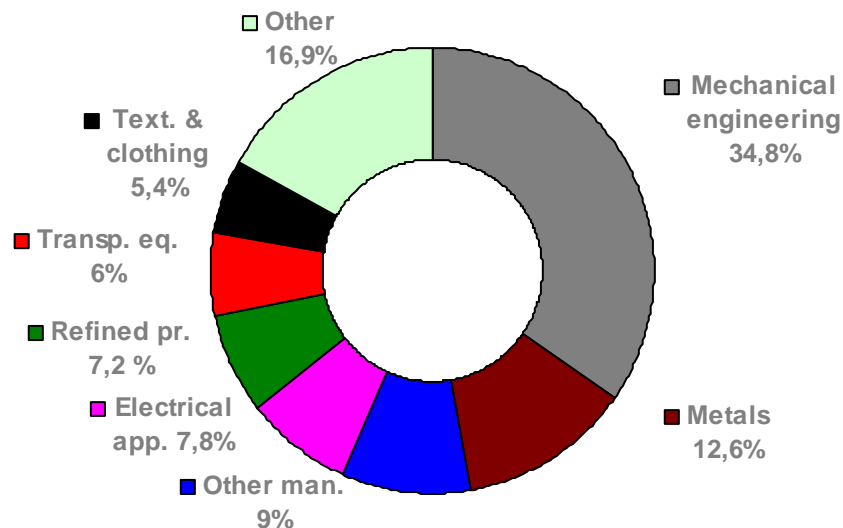
## Outward FDI stocks



Italy is not a major direct investor compared to its main competitors

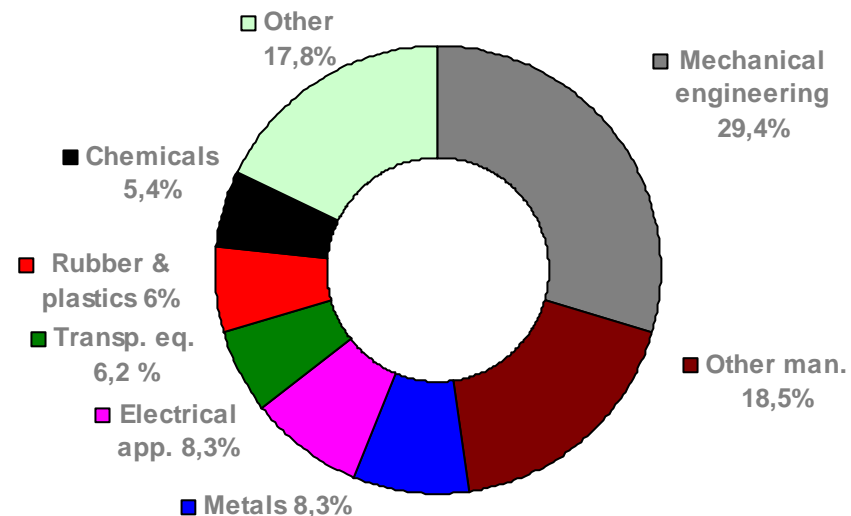
Source: ICE and Unctad

## Exports to Middle East by sector, 2008



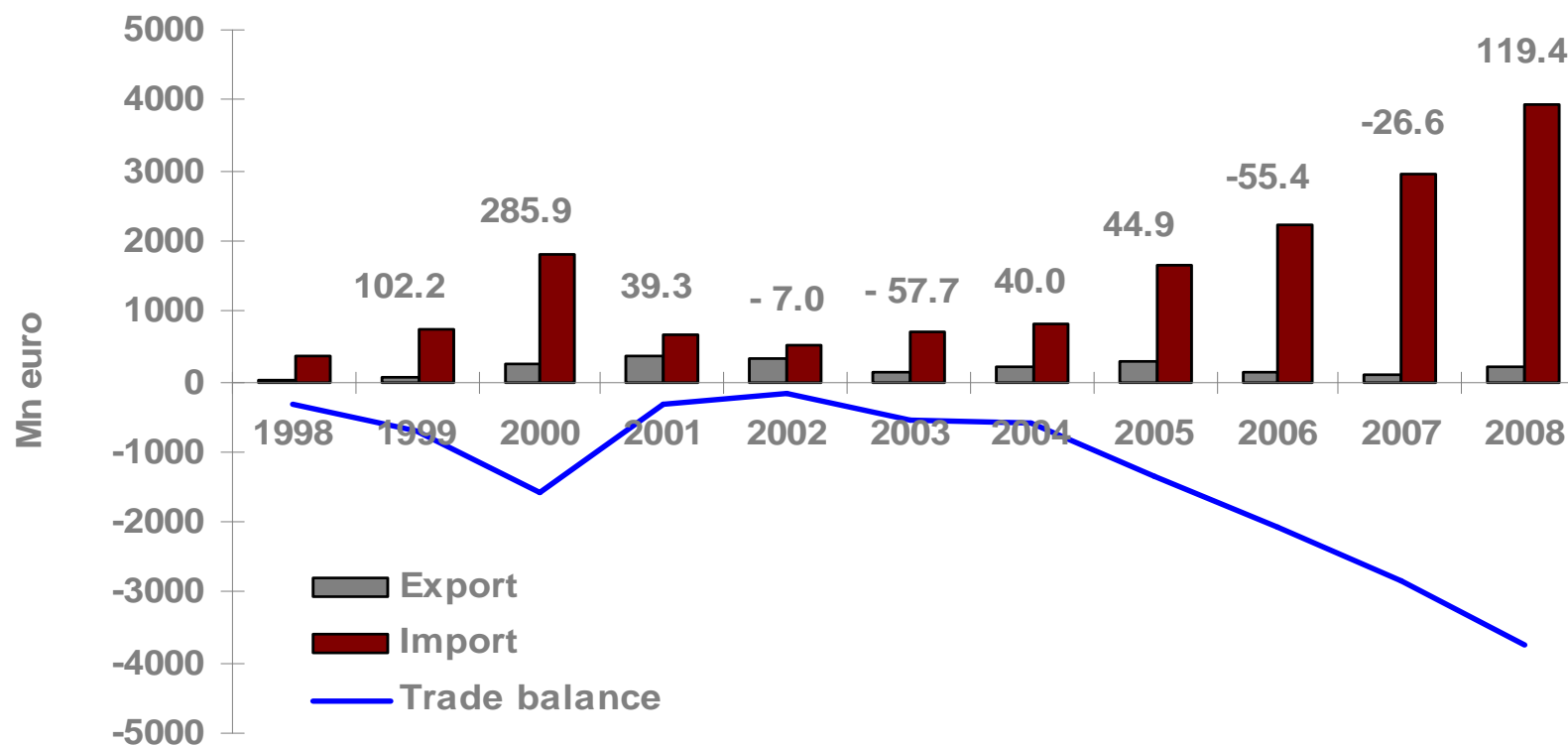
**18.6 Bn Euro** exports (5% of Italian total exports), 50% of which machinery and metals (related to Oil&Gas); **little goes to Jordan**

## Exports to Jordan by sector, 2008



**426 Mn Euro: 2.3% of total exports to Middle East** (3.3% of Jordan imports vs 4.5% of M.E. imports). Mostly investment goods

Source: SACE calculations on Istat data

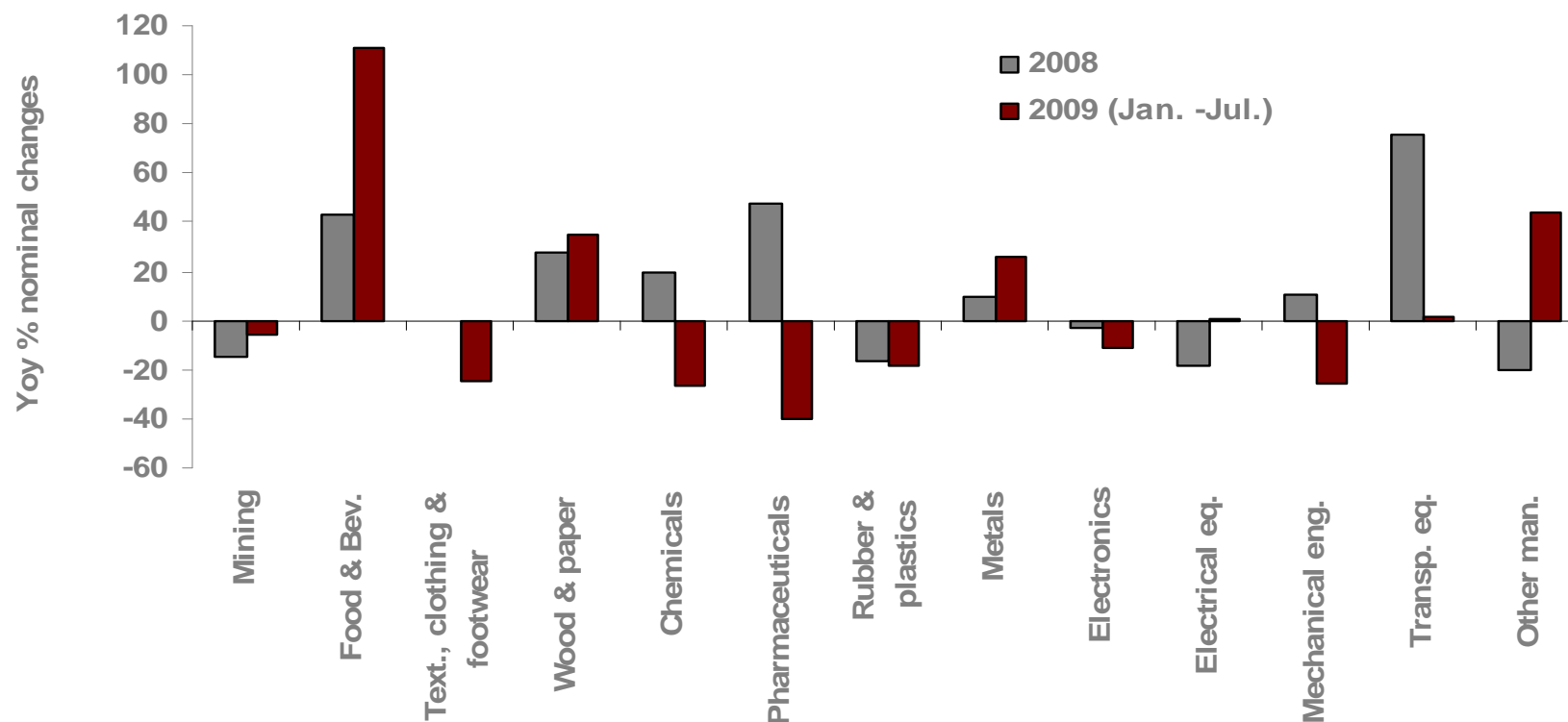


**Annual average growth of exports: +9.3%. Italy: 7th largest exporter, 2nd among the European countries (after Germany)**

\* Numbers above the grey bars are annual growth rates of Italian exports to Jordan

Source: SACE calculations on Istat data

### Value of Italian exports to Jordan



**Best performances for food & beverages, wood and paper and metals, positive ones in 2009, so far, for other sectors, e.g. furniture and jewellery. Mechanical engineering: a bump in the road. Fundamental for industrial development**

\* Excluding refined products due to graph scale issues (+9280% in 2008 and no exports in Jan. –Jul. 2009)

Source: SACE calculations on Istat data

## “Active Internationalisation”...Very Few Investments

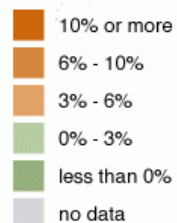
- Italian FDIs in Jordan are negligible; data on FDIs (by country) is generally biased
- The low presence of Italian business in the country is confirmed also by other data (on affiliates of Italian companies in Jordan). In Jan. 2006 there were 10 companies in Jordan controlled by Italian businesses. Total employees: 573; Total turnover: 35 Mn Euro
- *Joint ventures* in the telecommunication (Acotel owns 100% of Info2cell from Dubai but with a Development centre in Amman), information systems and food equipment (Jordan Italian Drums Manufacturing co., OMCE SpA among the shareholders) sectors
- Two fully owned Italian companies in the Al Tajaoumat Qualifying Industrial Zone (gold jewellery production for the US market); more consulting and construction companies working on projects financed by “Cooperazione Italiana”, tourism: (7.1 Mn arrivals in 2008; 3 Bn USD receipts)
- Few companies have in Jordan regional or country representative office. This does not amount to “active internationalisation”

Population: 6.1 Mn (3% of Middle East total)

GDP per capita (PPP): 5,500 USD in 2008 (7,000 by 2014, +27% in line with area growth)

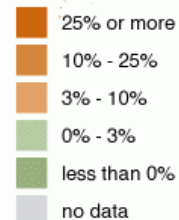
**Weakness: twin deficits but adequate international reserves**

Real GDP growth 2010:  
+4% vs +4.2% M. East



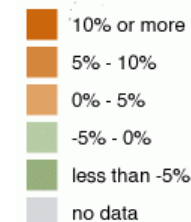
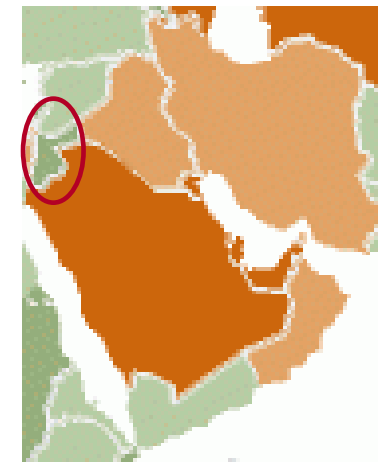
Annual percent change

Inflation rate 2010:  
1.7% vs 6.6% M. East



Annual percent change

CA/GDP 2010: -8.8% vs  
7.9% M. East (oil role)

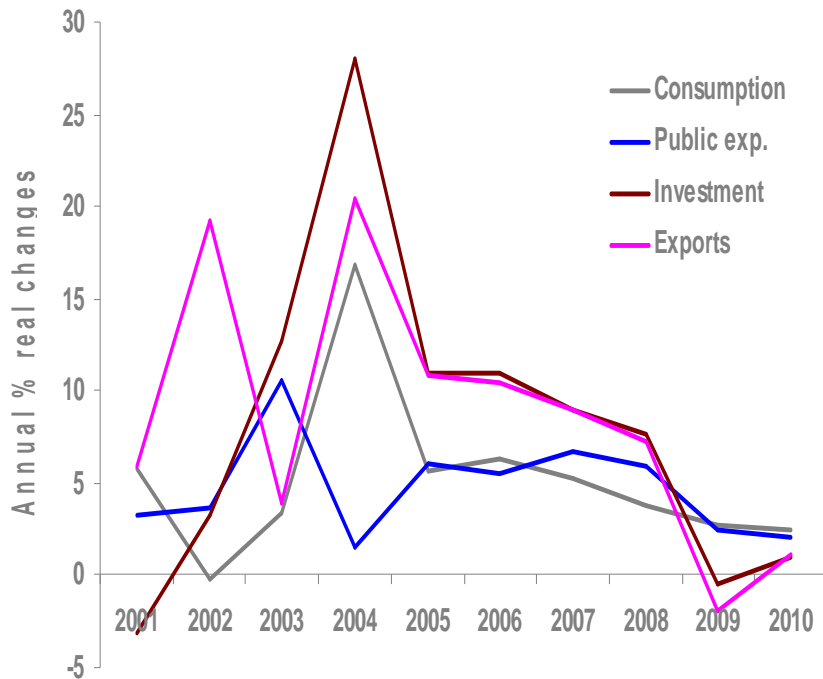


Percent of GDP

Source: IMF

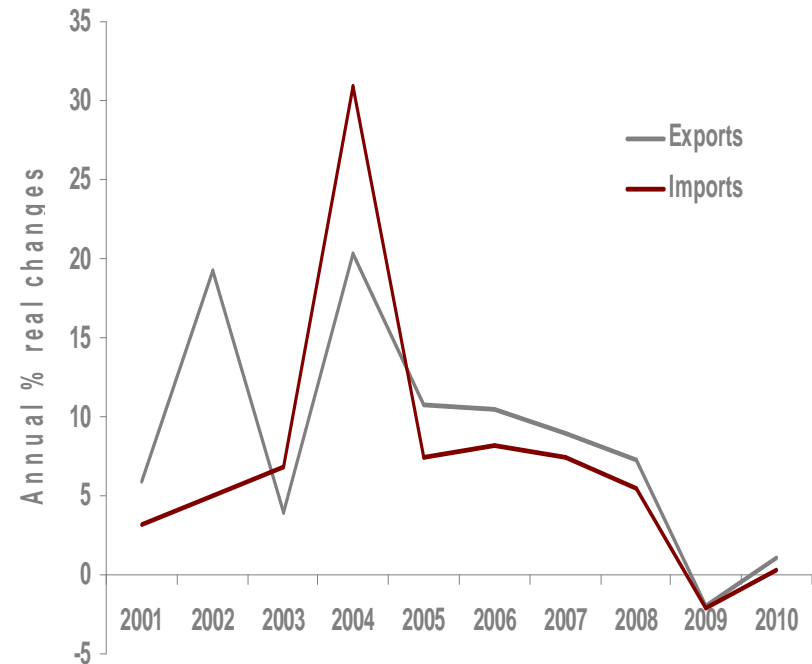
# Drivers of Growth in Jordan: Importance of Exports

### GDP components



High contribution from private consumption (85% of GDP growth)

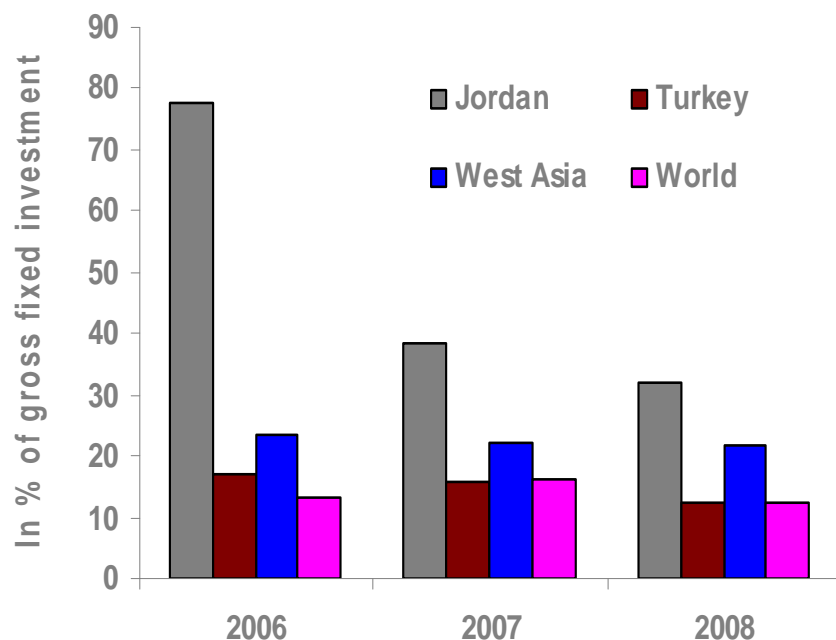
### Exports and Imports



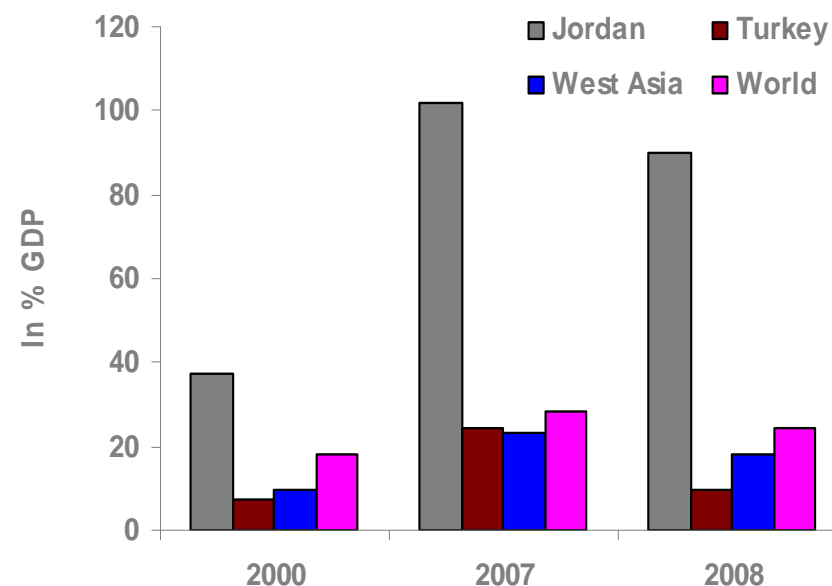
High propensity to import (about 90% since 2005; 20% about oil), lower propensity to export (50%)

Source: Bureau Van Dijk (EIU)

### FDI inward flows



### FDI inward stocks



**Ranked 6th in the world in terms of Inward FDI Performance Index\* (2007); 65th in terms of Inward FDI Potential Index\*. Coverage: 141 countries. Inward FDI flows in H1 2009: + 126% (705 Mn USD)**

\* Performance Index based on FDI actually attracted; Potential Index based on the highest capacity in FDI attraction.

Source: Unctad

## Why Then Italian Companies Invest So Little? Proposed Responses

Perceived difficult geo-political context

**Jordan is a stable and relatively secure country (risks are moderate, according to Global insight, among the lowest in the Middle East region)**

- Small market with no natural resources

**Investing in Jordan does not only pave the way to access the local market but to a wider market with high opportunities. Investment in renewable energy**

- No Italian banks in the country
- **This is a partial limit. The local banking system is one of the most efficient and transparent in the area. 20 banks (of which: 8 foreign banks, 2 Islamic ones)**
- Insufficient understanding of the country

## Maybe Not All Italian Businesses Are Aware That:

- The country joined the WTO in 2000 and signed a Free Trade Agreement with the US (second only to Israel besides the Nafta countries) in 2001
- Labour cost is in line with that of similar countries. Labour force is skilled (Literacy rate, 96%; 20% higher education), 40.000 students graduate from University every year
- Approved Investment Law in 1995 (enforced by the Jordan Investment Board); positive attitude towards foreign investors: tax and custom incentives, no currency restrictions. Tax exemptions up to 10 years according to the area of the investment
- Free Trade Zones with neighbouring countries, Agadir Protocol and EU association (2002)

## Maybe Not All Italian Businesses Are Aware That: (2)

- Jordan is ranked 50th (out of 133 countries, India 49th) in terms of Global Competitiveness Index by the WEF: 25th and 42th (out of 133 countries), respectively in terms of institutions and infrastructure; 43th (out of 133 countries) in terms of goods markets efficiency.
- 51st (out of 179 countries) in terms of Index of Economic Freedom, one of the most “business-friendly” countries in the Middle East
- Opportunities are way higher than risks ( with some issues remain to be resolved in terms of custom procedures and intellectual property rights). Many sectors for Italian investment: tourism, pharmaceuticals, marble and stone working, olive oil production, cosmetics
- Main implication: **Jordan can be an important regional hub**

## Jordan exports: main markets

	H1 2009 Values	% Shares
Iraq	217	13,4
United States	205,1	12,6
India	161	9,9
Saudi Arabia	117,6	7,2
Syria	62,3	3,8
Indonesia	46,9	2,8
Lebanon	39,9	2,4
Japan	39,2	2,4
UAE	36,4	2,2

Lack of detailed data on Inward FDI by country but main investors are: GCC countries, United States and also China, India and Japan.

Total exports in H1 2009: 1.6 bln USD.

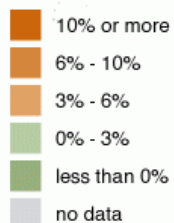
**Gateway to Iraq**

Source: ICE

Population: 30.1 Mn (14,7% of Middle East total)

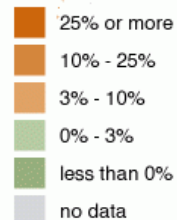
GDP per capita (PPP): 3,500 USD in 2008 (4,900 by 2014, +40% above area growth)

**Real GDP growth 2010:**  
+5.8% vs +4.2% M. East



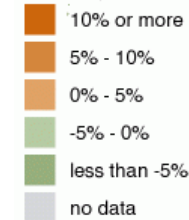
Annual percent change

**Inflation rate 2010:**  
4% vs 6.6% M. East



Annual percent change

**CA/GDP 2010: -15.2%**  
vs 7.9% M. East (oil)



Percent of GDP

Although improved, the political situation remains difficult (elections in January + withdrawal of US troops)

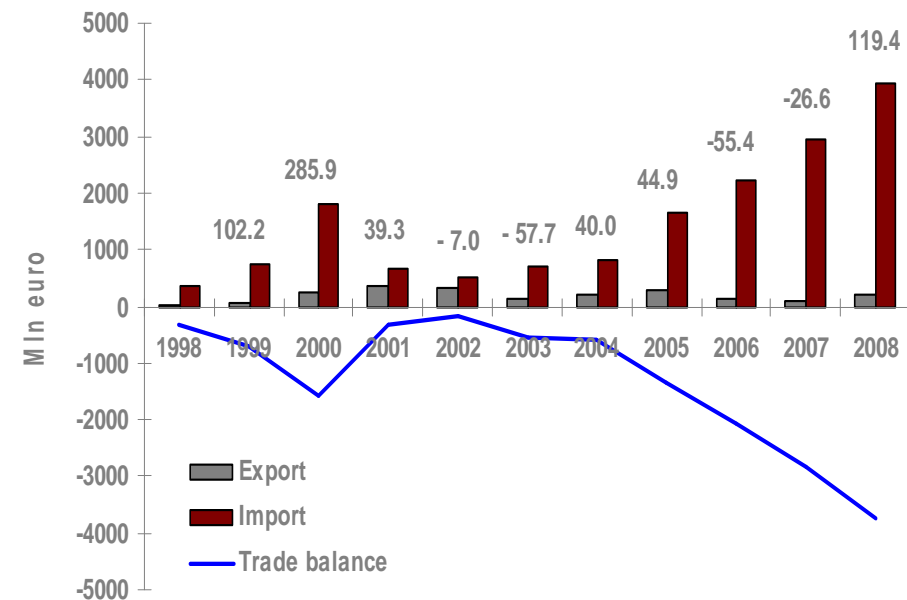
Oil production and exports are fundamental to economic development and business in the country (Oil & gas fields, Zubair). Some opportunities in the Kurdistan area

Confidence in the banking system has been restored but structural improvement is needed

Security is still an issue in terms of operating risks

**Keep an eye on the country now for future opportunities**

### Italian exports and Imports in Iran



Main opportunities in mechanical engineering, engineering, consulting, food

\* Numbers above the grey bars are annual growth rates of Italian exports to Jordan

Source: SACE calculations on Istat data