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**Enhancement of the Business Environment in
the Southern Mediterranean**

National Seminar for Country

<< International Partnerships and Networks >>

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1. Introduction

The subject of this paper and presentation is Innovation Networks and Partnerships in the context of promoting participation in such initiatives by Jordanian SMEs and business support organisations. The paper conceptualises an endogenous approach to regional economic growth through building collaborative and sustainable networks that encourage knowledge flow and creativity. This allows policymakers to consider internal stimulus and facilitation processes for economic support the main investment aspect of which is in Human Capital. Jordan is in the process of applying to join the European Enterprise Network (EEN) which opens access to technology transfer and research collaboration, access to supply chain partners and market channels and also knowledge sharing , capacity building and training.

In an increasingly globalised and fiercely competitive economic environment regional economies even those previously perceived as peripheral will not only be open to global competition but also have the opportunity to compete effectively on the world stage and this is occurring in Jordan. This opportunity recognises that in the "Conceptual Economy" age it is insight, imagination and ingenuity that will determine competitive advantage and value creation rather than the factors of production of skills, raw materials and technology. The Knowledge Economy has created an almost level playing field where information dissemination and knowledge transfer through instant media and the World Wide Web ensured that developing economies could deploy sophisticated technical capabilities with only small time lags. No longer are lower costs, high quality or technical excellence, sources of competitive advantage but merely the baseline for entry into global markets. Competitive effort now is in the arenas of ideas, learning and delivering value. Regions and nations which have a great deal of information and technology, or know how to manage it, will not necessarily achieve competitive advantage. Rather, it will be those who bring the most creative solutions utilising knowledge, information and technology.

Wealth creation will be therefore a product of judgment, intuition, creativity and insight. The ability to transform and reformat markets, maintain a leading edge in technology creation and integrate creatively knowledge, technology and information will be deciding factors in who wins and who loses in the 'Conceptual Economy'. This presents a 'level playing field' for regional development opening up global opportunity for peripheral regions.

What are the implications of this for policy makers', economic actors and other stakeholders in the arena of Regional Development? With innovation increasingly important to economic development, regional policy-makers face a distinctive challenge in developing appropriate policies which draw on local advantages and situations which are relevant in a globalised competitive environment. This paper will evaluate the role of innovation in regional development in the new "Conceptual Economy" and propose some new innovative models that may encourage and facilitate global competitive advantage through innovation at the regional level

In our increasingly globalised world economy knowledge intensive products and services do and will in the future dominate in the world economy. Transition and developing economies therefore need to raise their capability to compete within the global knowledge economy on an equal footing if they are to achieve their aspirations

for economic and social development. For transition and developing economies, real economic growth will be predicated on their ability to create an environment which stimulates and supports creativity, innovation and differentiation for competitive advantage within both the private and public sector and throughout the economic value system.

Jordan and its policymakers recognise this also and are pursuing a vision of a knowledge-based economy leveraging on its strong human capital resource base. It is well recognised globally that the importance of human capital developed by investment in education and training produces constant returns. Increasingly Jordan is focusing on improving the commercialisation for economic return of its education, research capabilities and programmes. It is placing more emphasis on commercialised opportunity bringing the associated economic and social benefits to the Jordanian people. The focus now must be on creating strong and dynamic interactive links between public institutions and the private sector enterprises and creating the networks and partnerships, nationally (Clusters & Industry Associations), regionally (MEDA) and Internationally (EEN) that represent the conduit to markets and wealth creation.

2. What we mean by International Networks and Partnerships

Definition

“Intellectual assets that collaborate and coordinate to solve problems, generate ideas and exploit solutions as competitive advantage & growth in the market place”

Dimension 7.2 of the Small Business Act (SBA) is primarily about improving access of SMEs to the opportunities afforded by the Single Market. Within the Euro-Mediterranean Charter it is about supporting SMEs to benefit from Euro-Mediterranean networks and partnerships so that they can access markets, improve collaboration in technology transfer and supply chain partnerships and improve competitiveness. According to the recent OECD report¹ on the implementation of the SBA in the MEDA while many countries have at least one pilot project to promote business clusters and networks very few including Jordan have no specific initiatives for the promotion of Euro-MED networks and partnerships. “These economies have partially or fully donor-funded programmes aimed at the development of domestic clusters, with no obvious Euro-MED connection” There is a need for these types of networks to be developed not only South-North

In reality these types of networks are critical to the advancement of SMEs from developing economies wishing to grow and who are facing increasing competitive pressure as a result of globalisation. In this context, increasing competitive pressure is one of the key drivers encouraging some SMEs in OECD countries to look for international partners in order to reduce costs and/or to facilitate the development of higher order competitive advantages, by focusing on those types of activity where the potential flexibility that small size offers can be exploited to best advantage. They are

¹ Implementation of the “Small Business Act” for Europe in the Mediterranean Middle East and North Africa 2014

generally formal or informal groupings, exchanges and organisations that share, exchange or coordinate information, knowledge and resources to stimulate and facilitate business development, innovation and internationalisation. They can be peer-to-peer enterprise or academic based, supply chain based, public private partnerships, firm & non-firm organisations, and in the developed economies have led to the emergence of “coopetition”, where firms collaborate as partners in certain markets or sectors,

Traditionally firms sought advantage (innovation) internally within the value chain of the firm. Now the realisation is that advantage (innovation) is within the value system of the industry and therefore the other traditional approach of controlling the whole value chain internally for absolute advantage has been replaced by outsourcing for comparative advantage through collaborative efforts up and down the value system. This means that enterprises are entering into partnerships, joint ventures, supplier buyer agreements and networks of channel partners to facilitate, growth, research and innovation, international expansion and globalisation.

The types and structures of networks and partnerships are many and include Industry to Industry, Industry to Academic, Academic to Academic, Innovation Centres. Clusters, Poles of Competitiveness, Poles of Excellence, Distributed Networks, Social Networks etc and if implemented effectively can lead to such benefits as:

- a) Increased Scale & Scope; through networks such as sector associations and joint ventures larger projects can be attempted
- b) Shared Risks & Costs; joint purchasing, collaborative international marketing campaigns, collaborative insurance scheme, channel marketing, joint branding etc.
- c) Increased Competencies for Complexities
- d) Learning Synergies & Enhancement
- e) Multiplier Effects (Quality & Funding)
- f) Benefits Materially, Developmental, Psychological
- g) Flexibility
- h) Effectiveness
- i) Efficiency
- j) Lifecycle/ Speed Gains

3. The Role and Importance of Networks and Partnerships in Improving the Competitiveness and International Market Potential of SMEs

One of the main objectives of Euro-Mediterranean policies and initiatives is to foster economic co-operation and closer integration between the MED region and the EU beyond the elimination of import duties. A number of wide ranging mechanisms exist in this regard, notably the EU's European Neighbourhood Policy (ENP), the EU Association Agreements with MED economies and the Union for the Mediterranean (UfM).

There are also important initiatives to promote intra-enterprise co-operation and business services, notably the Europe Enterprise Network and other linkages between Euro-MED companies and in certain MEDA countries these initiatives are beginning to bear fruit most notably Morocco and Tunisia. For SMEs, in non-member

EU states, international co-operation offers new potential market opportunities as well as access, in certain circumstances, to new technology and management know-how. At the same time, developments in information and communications technology represent an enabling factor in the external environment for SMEs at a global level, making it possible to combine product/process specialisation and low cost operation, with access to electronic networks and information databases. In addition, the advent of Internet based E-commerce offers vast potential opportunities for SMEs to expand their customer bases, enter new product markets and rationalise their businesses.

4. The Jordanian Situation

As a regional player within the MENA, Jordan is subject to many of the same issues and opportunities that impact its neighbours. Despite significant economic growth in the period 2000 to 2010 the economies of the MENA region slowed considerably in the period to the end of 2013 and although growth expectations for the current year are expected to increase in line with global recovery they remain modest at best. The economies of the beneficiary countries of this TA including Palestine face therefore many challenges with rapid population growth and high unemployment, weak confidence and, in some cases, large public deficits which will continue to weigh on the region's economic prospects. Deeper economic transformations are necessary to ensure inclusive growth and creation of enough jobs for the rapidly-growing labour force. Persistently high unemployment is spurring social tensions, as demonstrated in the Arab Spring and domestic security concerns with regional economic and social spill overs as a result of the conflict in Syria adding to these challenges.

According to recent reports from the World Bank² and International Monetary Fund³ compared with the previous three years, 2014 seems hopeful and 2015 could be a turning point for the countries in the Middle East and North Africa (MENA) region. Many countries in the region are expected to benefit from stronger external demand in the high-income economies, as the global economy is set for a rebound in 2014. In the MENA region, higher global demand is expected to boost exports of energy and manufactured products in those countries that have trade linkages with high- income countries. Growth in MENA is expected to reach 3.3 percent in 2014 and further accelerate to 4.6 percent in 2015. Nevertheless, the prospects for growth could be threatened if long awaited structural problems remain unresolved. The World Bank report states” Estimates from the World Bank show that over the next 7 years (between 2014 and 2020) the region must create about 28 million jobs just to keep the unemployment rate from rising. This translates into creating 4 million jobs per year. Prior to the 2011 revolutions, the region historically created about 3.5 million jobs per year with an average GDP growth rate of 5 percent. The slowdown in economic activity in the transition countries post- Arab Spring (2011-13) and the spill overs to neighbouring countries have been holding back output resulting in growth averaging about 2-3 percent. Under the scenario of a continued slowdown in economic activity, the average unemployment rate in the region will increase substantially, with youth and females being affected the most”.

Jordan is a small, lower middle income country with an estimated population of 6.29 million in 2012. The economy is heavily driven by the services sector with contributes

² World Bank Report April 2014,

<http://siteresources.worldbank.org/INTMENA/Resources/HARNESSINGTHEGLOBALRECOVERY.pdf>

³ <http://www.imf.org/external/pubs/ft/reo/2014/mcd/eng/pdf/menacca0514.pdf>

about two thirds of GDP and employ about 86% of the total workforce, compared to the industrial and the agriculture sector that contribute respectively to 31% and 3% of the GDP and employ about 11.4 and 2.6% of the workforce.

The Jordanian economy is among the most open in the Middle East, and remains highly dependent on commodity imports, tourism receipts, remittances, FDI flows, and external grants. Jordan has very limited natural resources, imports 96 percent of its energy sources and its energy bill constitutes about 20 percent of GDP, whereas it is the world's fourth poorest country in terms of per capita share of fresh water and is completely dependent on grain imports. Its economy is therefore very vulnerable to global and regional market volatility.

Jordan has been praised as one of the best reformers among middle income countries, making significant progresses in implementing structural reforms aimed at liberalising the investment climate and empowering the private sector, as well as liberalising the trade regime.

Jordan trade deficit runs high with all commercial partners (with the exception of the US) due to a high propensity to import and its lack of natural resources. During the first five months of 2012 the trade deficit increased fast: the value of total imports rose by 15% relative to the same period of 2011 (reaching JOD 6.34 billion) while the value of total exports decreased 2.2% (corresponding to a value of JOD 2.29 billion). Jordanian imports increased mainly because of energy bill and cereals, while the imports of vehicles and machinery dropped significantly, indicating that industry is not recovering after it sharply slowed down in 2010.

The renewed growth during the years 2000 (averaging about 6½ percent) raised expectations that the reforms would have born fruit but recent data shows that growth in Jordan did not reflect structural transformation and is not sustainable in the absence of firm-level upgrading. Jordan has not been able to generate adequate employment for a growing labour force, and little has changed in the pattern of integration into the international trading system.

Jordan suffers of a persistent structural unemployment. The investments in education increasing the enrolment and completion rates have raised Jordanians' expectations for better jobs and higher wages, but the labour market keeps generating low skill jobs that are filled by expatriate workers. Part of the problem is the lack of innovation and value added industry and a sizable portion of FDIs going into real estate investment, which mainly employs low skill workers. In addition there is an increasing mismatching between skills and requirements of the labour market and the skills of Jordanian graduates.

Commensurate with high growth in investments and GDP, job creation in Jordan has been relatively strong however unemployment among nationals has remained high, at 12.5 to 14.5 percent over the last decade. Part of the reason is the mismatch between labour supply and demand, and the high expectations of the unemployed—caused in part by the existence of high wage jobs in Gulf countries—and the low wages paid in Jordan. Unemployment is highest among young graduates, particularly among young women. Although women are at least as educated as men, their participation in the labour force is among the lowest in the region, at around 15%.

Unemployment and the poverty rate are higher in the governorates outside Amman since about 90% of Jordanian SMEs are registered in Amman and no sustainable growth of Jordan will be possible if no job opportunities are available outside the capital.

The main aims of the EU and its programmes such as UfM are to :

- Improve the business climate and promote entrepreneurship;
- Encourage SMEs to innovate, export, import and internationalise;
- Exchange views and experience;
- Establish a large Pan-Euro-Mediterranean products market;

Obviously these objectives if met would significantly enhance SMEs in developing nations but its tough to do this alone and this is why networks and partnerships, nationally regionally and internationally can be so beneficial

Strengths	Weaknesses
<ul style="list-style-type: none"> • Location, International market access and Aqaba port • Access to GCC, • Good at languages, diversity, education, infrastructure, climate • Government Support for SMEs & Investment in HR, • Skilled & young workforce • Multiple Free Trade Agreements, • Political Stability, • Communications, strong IT, Youth • Strong Agri-food, Textiles Tourism, Pharmaceutical sectors • Industrial schools, VET, Training throughout kingdom • EU Global network connection • Local agencies, • A wide variety SMEs and products available 	<ul style="list-style-type: none"> • External Trade Practices, Government Regulations, laws, bye laws • Similarity of industries in MED (concentration and competition) • Access to and information on EU & potential customers • Transportation weaknesses and high costs • Lack of Female Participation • Lack of internal coordination • No national support for Standards (Auditing) • Lack of marketing studies and information flow • No knowledge of what market needs and entry requirements (compliance) • Inefficiencies in support process/programmes • Weak on Exporting & Rules of origin of single market • Weak PPP • Absence of a focal point or “one stop shop “body related to SMEs which can help start-ups or investors. • Jordanian SME product Standards low and difficult to comply with EU standards requirements • Weak counterparts in domestic entities & Institutional Instability (come and go Institutional instability (changing mandates demise. e.g Jordan Investment Board, Investment Commission • Significant gap between network membership and effective utilisation of services and

	opportunities presented
Opportunities	Threats
<ul style="list-style-type: none"> • Free Trade Agreements exist with many countries/regions and has access to many countries /opportunities • Access to EU initiatives e.g. Horizon 2020, COSME • SMEs in Green Economy • Matching EU standards giving opportunity for Global market development • Accessing raw material from EU in order to sell finished and semi-finished goods to EU (Rules of Origin) • Jordan a very stable country in the region can attract investment and be a conduit for regional countries • Availability of Funding • International awareness and focus • Availability of national and international institutions contributing to all kinds of technical, legal and financial assistance. • Relative economic and political stability of the kingdom. • Geographical location of Jordan. • Availability of local experience and competence. • Recent upgrading of the Jordanian taxation system to provide incentives. • Presence of a prominent academic sector.(26 universities) • Bilateral agreements with the EU; opening of new markets and opportunities for technical assistance. 	<ul style="list-style-type: none"> • Political situation in the region leading to instability • Hangover from international financial crisis Impacting on access to finance • Competition from other countries targeting EU market with better standards and quality • Low competitive advantages & competitiveness • Inflexibility of and access to resources • Significant currency fluctuations. • Entrance of EU products manufactured in China and India that benefit from agreements and compete severely with local production. • Lack of skilled labour. • Absence of robust SME policies or road map. • Quality of imported product is perceived as exceeding the local ones and is attracting the Jordanian consumers. • Increase in imported raw material prices for local industries.

5. Utilising Existing Relationships and Building New Ones

Europe Enterprise Network

The Enterprise Europe Network brings together business support organisations from more than 50 countries connected through powerful databases and relationships and who know Europe, its markets, institutions, incentives and

opportunities inside out. Established in 2008 it amalgamated the previous Euro Info Centres (EIC) established in 1987 and the Innovation Relay Centres (IRC) established in 1995 so the 600 plus organisations that make up the network have been collaborating for years and some for decades.

6. Supply Chain Partnerships and Linkages

In the increasingly globalised and internationally competitive, world market economy constrained by an ongoing credit crisis, firms are focussing more on leaner more effective and efficient operations. While globalisation and advancements in communications have generated new market opportunities they have also increased competitive forces. The speed of communication is shrinking the market dimension, shortening product life cycles and reducing time lags of adoption of product/service offerings in regions across the globe. New businesses, particularly in ICT or high technologies are or indeed need to be “born global” competing in international markets from inception. These pressures or the factors driving them also, however, represent an opportunity as those with innovative offerings increasingly have the opportunity sell and network internationally creating forward and backward integration linkages on a global basis.

Firms are therefore focussing on core competencies and in order to achieve cost reductions and improve lead times, are seeking to outsource non-core activities, benefit from specialisation and scale economies in sub-suppliers and are relying on improved supply chain management strategies and systems. Many larger firms, particularly those with international investments source a large percentage of their inputs from external firms. Managing the supply chain, accessing the optimal mix of cost, quality, flexibility and innovation to secure competitive advantage has become de rigour for high potential international focussed companies.

In many countries through both local initiative and international donor support there is an increasing emphasis on developing “national linkages”. These represent structured approaches from which foreign and local enterprises can support each other’s economic performance through collaboration in areas such as skills development, upgrading of technical standards, manufacturing and distribution and access to new markets. Networks of organisations are collaborating, through upstream and downstream linkages and in different processes and activities that produce value in the form of products and services in the hands of the ultimate customer. This represents significant opportunity for both “purchasers” and “suppliers” in the supply chain and in many instances over time even these definitions become blurred as suppliers achieve scale and become purchasers and the purchasers become suppliers.

These programmes have many recognised and measurable advantages:

For local SMEs and suppliers

- Access to new & international markets
- Increased wealth creation and jobs
- Acceleration of Knowledge/learning, upgrading skills, technology acquisition and transfer
- Enhanced standards and capacity

- Diversified client and market base and improved relationships
- Clustering opportunities
- Reduction in risk through joint operations and funding
- More opportunities to innovate and improve competitiveness

For Larger Firms

- Reductions in procurement, production & distribution costs
- Improved productivity
- Improved integration in local markets
- Improved consumer reach
- Easing of foreign exchange requirements through local sourcing
- Lower scale investment and improve flexibility to cope with market fluctuations
- Improve customisation speeding up design and production changes
- Improve logistics and environmental issues because of shorter shipping issues
- Enhanced reputation, improvement in local relationships and demonstration of corporate responsibility combined with increased profitability

For Local Economies

- Stimulation of economic activity and enhanced local economic development
- Increased employment and production
- Increases in local and regional competitiveness
- Higher purchasing power and lower costs
- Import substitution and improved balance of payments
- Improvement in local start up rates and business development services

Regional Networks

7. Conclusions and Recommendations

Jordan in its relationship with the EU and as participant in the global economy has many strengths to build on and opportunities to exploit. As a nation of SMEs Jordan must recognise that often these enterprises lack the scale, market development sophistication to avail of the open market access that its many Free Trade Agreements allow. Fostering and participating in

Euro-Mediterranean co-operation to foster access to markets and economic integration is important for enterprises in MED economies to expand business opportunities, increase their growth potential and ultimately, contribute to economic growth and more and better jobs. An important mechanism for SMEs to materialise the benefits of closer integration is the promotion of business partnerships, clusters and networks between European and MED enterprises

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