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**Jordan and the WTO Government  
Procurement Agreement: An Economic  
Impact Assessment**

Lord, Montague J.

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**Access to Microfinance & Improved Implementation of Policy Reform  
(AMIR Program)**

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***Economic Implications for Jordan  
of Joining the WTO Government Procurement Agreement***

**Montague Lord**

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## **Acronyms**

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AMIR	Access to Microfinance and Improved Implementation of Policy Reform Program
ERP	Effective rate of protection
FTA	Free trade agreement
GATT	General Agreement on Tariffs and Trade
GDP	Gross domestic product
GOJ	Government of Jordan
GPA	Government Procurement Agreement
GSD	General Supplies Department
GTD	Government Tenders Directorate
HS	Harmonized system
ISIC	International Standard Industrial Classification
MFN	Most-favored nation
MIT	Ministry of Industry and Trade
NRP	Nominal rate of protection
SDR	Special drawing rights
TRIPS	Trade Related Aspects of Intellectual Property Rights
WTO	World Trade Organization

## **Executive Summary**

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### **Background**

During the course of negotiations to join the World Trade Organization (WTO), the Government of Jordan (GOJ) committed to initiate negotiations to accede to the Government Procurement Agreement (GPA) by presenting a so-called entity offer. As part of the preparations of the offer, the Ministry of Industry and Trade (MIT) must first understand the volume and types of goods and services that the GOJ has procured in the past, which government agencies are involved in procurement, and the share of goods purchased from Jordanian companies. In June 2001 the AMIR Program provided funding for the creation of a database of procurements by all Jordanian government entities for the years 1999-2000, which allows the MIT to identify the types of goods and services purchased by the GOJ during those two years, the government entities that purchased those goods and services and other procurement details.

As a second step, the MIT must assess the economic implications of opening up the procurement market to international competition. This study examines the potential impact of the liberalization of procurement under the GPA to assist MIT in formulating its entity offer. The information and analysis presented in this study are intended to strengthen the capacity of the Government of Jordan (GOJ) to prepare for negotiations to join the GPA, as well as its ongoing WTO discussions on government procurement issues.

To the extent that data are available, the study intends to:

- Identify the top goods and services purchased by the GOJ in 1999 and 2000, from which a sample has been drawn for the analysis;
- Determine the origin of the goods and services on the basis of domestic versus foreign providers;
- Based on input/output tables, derive the costs of domestic production that include the associated levels of protection and compare those costs with the free trade costs, or border price of inputs;
- Estimate the effective rates of protection for the selected goods and services;
- Estimate the impact of liberalization on the demand for the selected goods and services; and
- From the empirical results, draw conclusions on the effects of the GPA on specific industries.

The study is organized as follows: Chapter 1 describes the objective and coverage of the study. Chapter 2 reviews the WTO Government Procurement Agreement, including its basic principles, special treatment for developing countries, and the process of negotiation. Chapter 3 describes the structure of government procurement by identifying the top goods and services purchased, the major entities involved in procurement and the

share of those goods and services purchased by non-Jordanians. Chapter 4 analyzes the potential impact on selected imports as a result of acceding to the GPA through measurement of nominal and effective protection. Chapter 5 draws conclusions on the economic implications of joining the GPA.

### **The WTO Agreement on Government Procurement (GPA)**

The GPA aims to expand world trade by providing a framework for international competition in government procurement. The framework sets out measures to eliminate discrimination against and among foreign products, services and suppliers by improving the transparency of laws and regulations of signatory countries and ensuring prompt and fair enforcement of international provisions on government procurement. The GPA now includes local governments and other public entities including enterprises that are under the control or influence of the national government. In terms of scope, it includes the procurement of services, including construction services as well as the so-called excluded sectors of utilities and transportation.

The obligations of the GPA do not apply to all procurements by all government entities. Rather, the GPA allows a member to limit the governmental procuring entities that will be subject to the agreement; it allows the member to apply the Agreement only to procurements by these entities that exceed a certain threshold value (typically, about 130,000JD); and, with respect to those procurements by the covered entities that exceed the threshold value, the GPA allows the member to limit the kinds of services and construction contracts that will be subject to the agreement. In addition, the GPA allows a member to exempt from coverage of the agreement procurements where necessary protect national security, public morals, order or safety, human, animal or plant life or health or intellectual property. Moreover, developing country members are authorized to negotiate exclusions of specified entities, products or services from national treatment.

### **Jordan's Interests in Joining the GPA**

The GPA offers Jordan several benefits, as well as some costs. The main benefit of accession would likely be gains in the economic efficiency of Jordan's current procurement system. By accepting the GPA's principles of transparency and non-discrimination, Jordan would accept to implement a more fair and competitive procurement system than before accession. By introducing more competition into the procurement process, it is possible that procuring entities reduce the cost of purchases of goods and services of the same or better quality. Moreover, a revised system would likely save taxpayers' money, and those savings can be used for other government programs. In addition, the establishment of a non-discriminatory and transparent procurement system could constrain rent-seeking activities. Another important benefit of acceding to the GPA is an expansion in exports as a result of improved access to government procurement markets of other signatories of the agreement.

In terms of costs, Jordan would likely incur administrative costs and could incur social and economic costs as a result of accession. At the administrative level, Jordan would be



required to incur costs to prepare for negotiations and actually undertake them. If it became a member, it would be required to make revisions to certain laws and regulations and possibly make significant changes at the institutional level that are consistent with GPA procedures. The social and economic costs that could occur relate to the possible negative effects on domestic industries. For example, many countries considering GPA accession, especially developing countries, are concerned about reductions in domestic procurement and accompanying employment. Additionally, Jordan would also be required to maintain a statistical reporting system to ensure transparency that goes beyond the newly established database.

## **Government Procurement Practices in Jordan**

Two main pieces of legislation govern the public sector procurement process in Jordan: Government Works Regulation No. 71 of 1986 and the Supplies Regulation No. 32 of 1993. The two central procuring entities implementing these regulations are the Government Tenders Directorate (GTD) of the Ministry of Public Works and Housing and the General Supplies Department (GSD) of the Ministry of Finance. As required by law, the GSD conducts procurement of goods that exceed a threshold value of 20,000 JD and the GTD regulates the procurement of construction and other services that exceed a threshold value of 100,000 JD. ‘Special tender committees’ that are specially constituted for that purpose conduct certain large-scale procurements, generally funded by sources other than the budget (e.g., loans and aid). Although the government procurement regime in Jordan is not governed by a single general legislation, the methods and principals contained in the various pieces of legislation are to a large extent uniform.

Several government ministries are involved in the procurement of goods, although the Ministry of Health is by far the single agency that has purchased the most goods of all agencies during 1999-2000, both in terms of number of contracts and average contract value. The GOJ purchases a wide variety of goods involved in many different industrial activities. In 1999, it purchased 219 goods, compared with 225 in 2000. However, for purposes of this study, the top 65 goods were chosen with a threshold value of 130,000 JD. Those goods represented about three-fourths of all goods purchased during 1999-2000, and therefore provide a good sample for the purposes of this analysis. Purchases of goods are concentrated in ten products, which on average made up 65 percent of all procurements during 1999-2000. Of those top ten products, adhesive dressings are the dominant product, and represented on average more than one-third of purchases made during 1999-2000. Other important products purchased by the GOJ are also related the medical and pharmaceutical field. Products related to transportation, such as motor vehicles and tires, also appeared in the top ten goods purchased by the GOJ.

In weighing its decision to join the GPA, one of the keen interests of Jordan’s negotiators will be the types of goods that are mainly purchased from Jordanian suppliers. During 1999-2000, the GOJ made purchases solely from Jordanian suppliers for five different products, *viz.*, food supplies, nitrogen, upholstered seats with wooden frames, wooden office furniture and upholstered seats with aluminum frames. Other products that are mainly purchased from Jordanian suppliers include bandages (93 percent Jordanian

origin), instruments for medical and surgical uses (88 percent Jordanian origin) and lubricating preparations (80 percent). Many other products are sourced from foreign suppliers, such as hormones, manifold business forms and alkaloids.

In terms of services, both the value of total services purchased and number of contracts increased between 1999 and 2000, although the average contract value decreased. The Port Corporation purchased more services than any other agency in terms of average contract value, although the Ministry of Housing and Public Works entered into the greatest number of contracts. Generally speaking, both the number of contracts and value of contracts for services, like goods, varied widely between the two years for which the GOJ has data. The types of services purchased by the GOJ are concentrated in the construction industry. Four types of services belonging to that industry comprised 85 percent of the average value of services purchased during 1999-2000. Building cleaning services made up five percent of total service contracts, while tourism and financial services each contributed two percent to the total value of services contracts purchased by the Government.

### Government Procurement as a Policy Tool

Traditionally, the public sector in Jordan has been large, despite efforts in recent years to break up public monopolies and promote privatization. At present, government spending represents nearly one-third of Jordan's gross domestic product (GDP), which is generally much greater than that in other developing countries where the average share is 11 to 15 percent. It is also higher than the 20 percent average for the Middle East and North African countries. In terms of overall expenditures on goods and services, the public sector accounts for over one-fourth of final consumption (Table S.1).

The involvement of government procurement in Jordan varies across industry sectors, as does the percentage of goods originating from Jordan within each industry (see Table S.2). During 1999-2000, the GOJ purchased goods manufactured by 23 different types of industries. It purchased more pharmaceutical products than any other type of good, followed by food supplies. In contrast, sales to the Government by Jordanian companies are concentrated in only eight industries, and the share of goods manufactured by local industries varies widely.

<b>Year</b>	<b>Govt Spending as a % of GDP</b>	<b>Govt Consumption as a % of Total Consumption</b>
1993	n.a.	23.7
1994	n.a.	25.9
1995	n.a.	27.8
1996	n.a.	27.0
1997	n.a.	27.6
1998	35.4	27.0
1999	33.6	25.0
2000	35.4	n.a.
2001	30.5	n.a.

Note: Data for 2001 refer to Government budget estimates.  
Sources: Ministry of Finance, *Government Finance Bulletin*, Vol. 3, No. 2, March 2001; Department of Statistics; World Bank (2001).

## Industrial Policy Support

Differences in industrial concentration of government procurements suggest that such procurements can be used as an industrial policy instrument. The GOJ has given priority to the development of high-tech industries with high value-added and potential for exploiting and developing a skilled labor force under its national development program. At issue, therefore, is whether such an instrument is already being used to this end by the Government.

<b>Table S.2</b>			
<b>Summary of Goods Procured by Government of Jordan at the Manufacturing Level</b>			
Rank	Procurement Value (JD)	Share of Goods Procured of Jordanian Origin (%)	Description
	1999-2000 AVE		
1	21,063,980	37	Pharmaceuticals, medicinal chemicals and botanical products
2	3,425,000	100	Food supplies
3	3,072,930	0	Bodies (coachwork) for motor vehicles; manufacture of trailers
4	1,397,518	10	Medical and surgical equipment and orthopaedic appliances
5	1,156,763	0	Office, accounting and computing machinery
6	918,935	26	Other chemical products n.e.c.
7	648,355	100	Furniture
8	490,526	0	Rubber tires and tubes; retreading and rebuilding of rubber tires
9	484,250	0	Lifting and handling equipment
10	438,812	99	Basic chemicals, except fertilizers and nitrogen compounds
11	428,072	0	Instruments and appliances for measuring, checking, testing
12	415,215	0	Other rubber products
13	221,060	65	Made-up textile articles, except apparel
14	210,000	0	Jewelry and related articles
15	192,988	0	Other fabricated metal products n.e.c.
16	185,020	23	Glass and glass products
17	155,315	17	Printing
18	137,796	0	Machinery for textile, apparel and leather production
19	135,680	0	Agricultural and forestry machinery
20	134,046	0	Publishing of recorded media
21	99,993	0	Other general purpose machinery
22	71,584	0	Other electrical equipment n.e.c.
23	65,298	0	Machinery for mining, quarrying and construction

Note: Concordances between industry and product codes (ISIC and HS) can be found at <http://www.macalester.edu/research/economics/PAGE/HAVEMAN/Trade.Resources>.

Source: Department of Statistics.

Table S.3 indicates that procurement activities are not being used to meet that objective. Procurement is currently distributed fairly evenly among human capital/technology-intensive industries, natural resource-based industries and unskilled labor-intensive industries. One means of supporting the Government's policy to promote technology-intensive industries would be to identify those that are to be excluded from the GPA on the basis of their factor intensity, and in particular, whether they utilize skilled human capital and technology.

### C. Trade Policy Support

In the last few years, tariffs have been the GOJ's main policy instrument for protecting Jordan's domestic industries from foreign competition.

More recently, Jordan has made a number of commitments to accelerate tariff reductions and provide tariff preferences and exemptions for certain products under the WTO, the US-Jordan Free Trade Agreement (FTA) and other regional trade agreements. Nevertheless, Jordanian industries continue to receive significant and differentiated levels of protection from the current tariff structure.

This extent of this protection is normally measured by the nominal rate of protection (NRP) as the difference between the border price of foreign-made products and the price of domestic import-substitutes made by local producers. Although the average rate for all tariff lines is only 16 percent, one-third of the average tariffs for the HS 2-digit categories have applied to them of 20 percent or more. Perhaps not surprisingly, an even larger proportion of products in our sample of products goods procured by the government have significantly higher rates. Two of these 13 products have a tariff rate of 23 percent, and the remaining 9 products have a rate of 30 percent.

<b>Factor-Intensity</b>	<b>Industry</b>
Human Capital/Technology Intensive	√Pharmaceuticals
	Motor vehicles
	√Medical and surgical equipment
	Office and computing machinery
	√Other chemical products
	Rubber tires
	Lifting and handling equipment
	Instruments for measuring and testing
	Other rubber products
	Other fabricated metal products
	Machinery for textiles, apparel and leather
	Agricultural and forestry machinery
	Publishing of recorded media
	Other general purpose machinery
	Other electrical equipment
Machinery for mining and construction	
Natural Resource-Based	Food supplies
	√Basic chemicals
	√Glass and glass products
	√Printing
Unskilled Labor	Jewelry
	√Made-up textile articles, excl. apparel
	√Furniture

Notes: (a) The classification of exports according to their factor intensity is based on the works of Murray (1987) and Fukasuku (1991); (b) a check mark indicates that Jordanian-owned companies currently supply these products from these industries to the Government.  
Source: Table 3.2.

<b>Industry Code ISIC Rev 3</b>	<b>Industry Description</b>	<b>Nominal Rate of Protection (NRP) <u>a/</u></b>	<b>Effective Rate of Protection (ERP) <u>b/</u></b>
2899	Manufacture of other fabricated metal products	30%	136%
2610	Manufacture of glass and glass products	30%	79%
2519	Manufacture of other rubber products	30%	76%
3610	Manufacture of furniture	30%	72%
2411	Manufacture of basic chemicals, except fertilizers	30%	72%
2511	Manufacture of rubber tires and tubes	30%	72%
1721	Finishing of textiles	30%	68%
2429	Manufacture of other chemical products n.e.c.	23%	67%
2221	Printing	30%	54%
2915	Manufacture of lifting and handling equipment	23%	44%
2924	Manufacture of machinery for mining and construction	0%	41%
3691	Manufacture of jewelry and related articles	30%	37%
3410	Manufacture of motor vehicles	15%	14%
2919	Manufacture of other general purpose machinery	5%	0%
2423	Manufacture of pharmaceuticals, medicinal chemicals	7%	-1%
3311	Manufacture of medical, surgical equipment	4%	-4%
2921	Manufacture of agricultural and forestry machinery	0%	-5%
3000	Manufacture of office, accounting and computing machinery	6%	<u>b/</u>
3312	Manufacture of instruments for measuring testing	14%	<u>b/</u>
2213	Publishing of recorded media	30%	<u>b/</u>
3190	Manufacture of other electrical equipment	30%	<u>b/</u>
2926	Manufacture of machinery for textile, apparel production	10%	<u>b/</u>

a/ Calculated as the simple average tariff applied to individual products in industry groupings.  
b/ Calculations were limited to those industries for which Jordan recorded data for 1998, the latest year of data availability.  
 Note: NRPs and ERPs were not calculated for the food supply industry since the data obtained from the procurement database are too aggregated and hence codes could not be assigned.

While the nominal tariff on these products protects domestic producers, the tariffs on inputs that they use in their production activities raise costs and consequently reduce the competitiveness of their domestic industries. The extent to which these tariffs applied to raw material and intermediate good imports impact on the price of the final good can be appreciated from measures of the effective rate of protection (ERP).

Government procurement policies aiming to support domestic industries need to be formulated in the context of trade policy objectives, and specifically whether they effectively support those trade policies. The effects of these trade policies are reflected in existing effective rates of protection of industries, and government procurement policies can either support or complement that protection. *Complementary government procurement measures* would protect those industries that despite high NRPs in fact are currently receiving little or no protection because of high duties that need to be paid on their inputs. These industries are those whose NRPs are significantly higher than their

The fact that industries with higher NRPs than ERPs already have low NRPs means that the present guaranteed market of the public sector is the only support currently offered to them. In contrast, *supportive government procurement measure* would aim to promote those industries that benefit from not only high NRPs, but also high ERPs. Since the

GOJ's industrial development plan aims to promote high-value added industries, the development of these industries may require not only protection through tariffs, but also a guaranteed market to the GOJ in order to fully develop and eventually compete in the international market place.

Table S.4 shows the differences between the NRPs and ERPs. A positive and high correlation (0.79) exists between the two rates of protection, suggesting that some rationale exists in the tariff structure. However, there is a low correlation (0.11) between the ERPs and the ranking of the value of government procurement in 1999-2000, indicating a weak relationship between the level of protection and the value of goods from specific industries purchased by the GOJ. Also, there is a low correlation (0.3) between the ERPs and the percentage of goods of Jordanian origin. It therefore appears that there is considerable room for improved policy coordination in general, and between trade policies and government procurement practices in particular.

### **Benefits of the GPA**

The potential benefits to domestic industries arise from the trade creation effect that Jordanian exporters derive from the public sector of GPA member countries. We can identify those products that are likely to benefit the most using two levels of analysis. The first consists of the growth performance of the GPA member countries in Jordan's major export products. The second type of analysis consists of matching the import growth performance of the GPA member country markets with the export growth performance of Jordan in those products.

Table S.5 shows that a wide range of products with good market prospects in GPA member countries is of interest to Jordanian exporters. More than one-half (39) of the 67 products included in the analysis show strong export potential. Classified according to factor intensity, examples of these products in the natural resource-intensive group include vegetables, citrus fruits, calcium phosphates; those in the human capital and technology-intensive group include medication, convertible seats, and air conditioning parts; and examples of those in the unskilled factor intensity group include carpets, furniture and jewelry.

<b>Table S.5 Market Prospects for Jordan's Exports under the GPA</b>			
<b>High-Growth Markets (10% + growth)</b>	<b>Moderate-Growth Markets (5-10% growth)</b>	<b>Slow-Growth Markets (0-5% growth)</b>	<b>Stagnant Markets (negative growth)</b>
Natural calc.phosphates Medicaments Sheep and goats, live Soap Inorganic acid,oxide etc Paper, paperboard, corr. Birds' eggs Paper,paperboard,cut Legumes,dried,shelled Colour televisn receiver Underwear,nightwear Containers,etc.of paper Oth.footwear,lthr.uppers Suits and ensembles Fertilizers, nes Mouldngs for mtl.foundry Shirts Gold,silver jewelry,ware Food waste,animal feeds Oth.citrus,fresh, dried Oth.manufactured tobacco Sodium chloride, etc. Tanks,casks,drums,etc. Oth.plate,sheet,etc. Carpets,etc.woven Convertible seats,parts Wadding,etc.machine use Oth.vinyl chld.copolymer Disinfectant,etc.retail Air conditioning mch,pts Sacks,bags,txtl.material Metal structures,parts Furniture,nes,of wood Albuminoidal substs. etc Underwear,nightwear etc. Chem.products etc.nes Aluminium structure,prts Footwear,nes,rubber,plst Flexible tube,pipe,hoses	Oranges, etc. Fruit,fresh,dried, nes	Printed books,globes etc Building stone,workd.etc Paints and varnishes	Crude natrl.potass.salts Veg.prepared,presrvd,nes Nitrogenous chem.fertilzr Fat,oil,an,vg.prtly,prcd Detergents,except soap Portland cement, etc. Fluorides etc. Carbonates,percarbonates Polycarbonates, etc. Oth.non-ferr.metal waste Pub-transport pass vehcl Veg.prepared,presrvd,nes Herbicides, retail sale Tubes,pipes,hoses, rigid Potatoes,fresh,chilled Fatty acid.etc.from wax Insultd wire,etc.condctr Plastic containers etc. Aluminium,alum.alloy,wrk Dresses Blouses,shirt-blouse,etc Oth.frsh,chll.vegetables Trousers,breeches,etc. Bread, baked goods
Notes: (a) Market criterion is based on growth rates of export values between 1995 and 1998; (b) analysis is limited to Jordan's top 70 exports. Source: PC TAS.			

**Table S.6**  
**Illustrative Cost of GPA on Domestic Production in Jordan**  
**(Percentage change)**

HS Code	Product Description	Change in GOJ Procurement from Domestic Suppliers	Change in Overall Domestic Output
940290	Medical, surgical, dental or veterinary furniture	-37.7	-14.1
300490	Medicaments: adhesive dressings	-31.7	-8.9
482090	Manifold business forms and interleaved carbon sets	-25.0	-0.2
940161	Seats w/wooden frames, upholstered	-25.0	-12.9
940330	Wooden office furniture except seats	-25.0	-1.4
940171	Seats w/metal frames, upholstered	-25.0	-43.0
940130	Swivel seats w/variable height ex dentists ets	-25.0	-0.9
370790	Chemical preparations for photographic uses	-20.0	-21.6
630210	Bed linen, of man-made fibres	-13.3	-15.3
300420	Antibiotics, in dosage form	-12.8	-7.3
300410	Penicillin or streptomycin	-12.6	-5.7
300390	Medicaments: nesoi not in dosage form	-11.0	-0.3
901831	Other instruments for medical, surgical, dental uses	-7.5	-4.2
340319	Lubricating preparations cont petroleum	-6.3	-3.0
280430	Nitrogen	-0.5	-0.6

### Costs of the GPA

To calculate the GPA cost to domestic producers, we need to obtain data on Jordan's supply (production, imports and stock changes) and distribution (consumption and exports) of each of the products produced by industries affected by government procurement practices. Such data were not available for this study.<sup>1</sup> For purposes of our GPA cost calculations, we therefore derived production values from trade and government procurement data. Since data on private sector consumption levels were also unavailable, we adopted the assumption that the private sector derives 25 percent more of its purchases from foreign sources than does the public sector. This assumption suggests that the private sector is not bound by government discriminatory procurement policies, but that its purchase decisions are influenced by trade policies that mainly affect the duties paid on purchases of foreign-sourced products. The results are intended to provide guidelines to possible costs to domestic industries of the GPA agreement, rather than to estimate its impact on specific industries.

The illustrative impact of the GPA on Jordan's production of selected products is shown in Table S.6. It assumes that, in the absence of discriminatory policy, the import share of the public sector would equal that of the private sector. What immediately becomes apparent is that the impact of the GPA on GOJ procurement from domestic sources is significantly different from that on Jordan's total production of the products. There are a number of products whose anticipated change in GOJ procurement from domestic

<sup>1</sup> Moreover, production data classified according to International Standard Industrial Classification (ISIC) yielded unreliable estimates in terms of the Harmonized System (HS) concordances when an attempt was made to match overall trade of each product and overall government procurements and those from domestic manufactures using HS data, with ISIC domestic production values.



sources is likely to be large: medical furniture, medicaments, business supplies, wooden office furniture, wooden and metal seat frames, and swivel chairs. The smallest impact would occur in nitrogen, lubricant preparations containing petroleum and medical instruments.

The ranking is significantly different in terms of the GPA's impact on overall domestic production. In this case the largest effect occurs in upholstered seats, chemical preparations for photographic use, bed linen, medical furniture and wooden seats, while the smallest impact occurs in office supplies, medicaments, nitrogen, swivel chairs and wooden furniture. The reason for the smaller effect in these products, notwithstanding what is often a large government procurement effect is that output is primarily directed to the private sector and/or foreign markets.

The analysis so far permits the GOJ to formulate policies directed at minimizing the negative impact on production of specific goods. An alternative approach, and one that has been emphasized in the present study, is to direct policies at the industry level. In such a case, policies objectives under the GPA negotiations could be directed, among others, to the following objectives: (a) minimizing possible negative effects on domestic industries, (b) minimizing the negative effects on high-technology oriented industries, and (c) minimizing negative effects on labor-intensive industries.

<b>Table S.7 Illustrative Cost of GPA on Domestic Industries in Jordan (Percentage change)</b>		
<b>ISIC Rev.3 Industry</b>	<b>Change in GOJ Procurement from Domestic Suppliers</b>	<b>Change in Overall Domestic Output</b>
2221 Printing	-25.0	-0.2
3610 Furniture	-25.0	-7.1
3311 Medical and surgical equipment	-20.4	-68.7
2423 Pharmaceuticals	-19.6	-4.5
2429 Other chemical products	-17.3	-9.5
1721 Made-up textile articles	-13.3	-15.3
2411 Basic chemicals	-0.5	-0.6

Following this industry-level focus, Table S.7 provides illustrative calculations for some of the Jordanian industries supplying their products to the GOJ. The industries that would experience the largest decline in government procurement are the printing, furniture,

medical and surgical equipment, and pharmaceuticals. These industries, however, are not necessarily the ones that would experience the largest overall decline in output. medical and surgical equipment would lead the declines since imports are already an important component of overall domestic supplies. In addition, man-made textile articles, and other chemical products would also experience large domestic output declines. Thus, if we rank the impact by likely changes in government procurement, then the largest effects tend to occur on high-tech/capital intensive industries (medical equipment, pharmaceuticals and printing), as well as labor-intensive (furniture). In contrast, if we rank the impact by overall output effect, then the largest effects occur in all through factor intensity categories: high-tech/capital intensive industries (medical equipment), labor-intensive (textile articles), and natural-resource intensive industries (chemical products).

## **Product Selection Criterion**

Negotiations to join the GPA are conducted on a bilateral request-offer basis, and the initial offer list presented by Jordan will be of the so-called positive-type. Thus, Jordan will list the names of the government entities and sectors to be covered by the agreement, and this list will serve as a starting point in negotiations. In presenting its initial offer to the WTO, the GOJ will need to identify industries that it wishes to include and exclude from the negotiations. Normally, governments consider three main issues when making such a decision: (i) the interests of domestic industries, (ii) the interests of procuring entities, and (iii) offer lists of members of the GPA. The decision-making process should be based on the presentation of an offer to the WTO that is consistent with its overall development objectives, globalization process, and specific trade and industrial policies.

From the point of view of public sector interests, there is little economic rationale for the Government to purchase domestically manufactured goods at a higher price than what it can obtain duty-free from abroad, other than to protect the domestic industry. Indeed, the cost to the GOJ of buying domestically-produced goods not only reflects the mark-up cost that domestic producers can charge through the nominal protection on their industry, but also the mark-up that domestic producers must charge because of the tariffs levied on material inputs to their industry.

In contrast, a number of industries have strong vested interests in the current government procurement regime, since sales to the GOJ guarantee these industries a market at a higher price than the border price equivalent. The greater the difference between the domestic price and the border price (i.e., the higher the nominal rate of protection), the greater are the interests of the domestic industries in being guaranteed a market. We have seen that about one-half of the industries that provide supplies to the GOJ have nominal rates of protection (NRP) of 30 percent, which is the maximum protection afforded to producers under Jordan's current tariff schedule.

Consistency with existing trade and industrial policies suggests that the GOJ adopt a specific strategy when formulating its offer to the WTO. One strategy would formulate an offer that protected those industries that despite high NRPs in fact currently receiving little or no protection because of high duties that need to be paid on their inputs. Industries with NRPs that are higher than their effective rates of protection (ERP) include the manufacture of motor vehicles, general-purpose machinery, medical equipment and agriculture and forestry machinery. The fact that industries with higher NRPs than ERPs already have low NRPs means that the present guaranteed market of the public sector is the only support currently offered to them.

The another strategy would formulate an offer that promoted those industries already benefiting from not only high NRPs, but also high ERPs, which are more likely to be able to develop within a protected market. The GOJ's industrial development plan has suggested the need to promote high-value added industries, which will therefore need protection through tariffs and discriminatory government procurement to fully develop

and compete in the international market place. Examples of these industries include metal products, glass products, furniture and rubber products.

### Illustrative Industry Coverage

Members of the GPA have adopted a variety of strategies for selecting industries to include or exclude from their list. But other studies have found that in emerging and developing economies, government procurement policies are often used to protect industries.<sup>2</sup> The usual arguments advanced for the exclusions and exemptions are developing country status, national security, preference to small firms, regional development, infant industry, internal political reality, and cultural differences.

Table S.8 illustrates the types of industries that would be excluded from the offer list to support the GOJ's current trade and industrial policies. A strategy aiming to promote industries with high nominal protection but low effective protection would exclude products originating from manufacturers of pharmaceuticals, medical and surgical equipment, and agricultural and forestry machinery. Likewise, a strategy to promote those industries already enjoying high levels of both nominal and effective rates of protection would exclude manufacturers of fabricated metal products, glass and glass products, rubber products, furniture, basic chemicals, and rubber tires and tubes. The type of information required to select these products are nominal rates of protection (NRP), which are readily available, and effective rates of protection (ERP), which require calculation of protection on the final products as well as the intermediate goods used to produce each of those products.

<b>Table S.8</b>						
<b>Alternative Strategies for GPA Negotiations and Products to Exclude from Offer</b>						
<b>Strategy</b>	<b>Illustrative Products to Exclude from Offer List</b>					
<b>Promote High-Tech Industries</b>	Pharmaceuticals	Medical equipment	Chemical products	Inorganic Chemicals	Dyeing, Tanning Materials	Essential Oils, Perfume Materials
<b>Promote Labor-Intensive Industries</b>	Furniture	Made-up textile articles	Jewelry	Leather and Manufactures	Travel Goods and Handbags	Clothing
<b>Promote Industries with High Rates of Effective Protection</b>	Fabricated metal products	Glass and glass products	Rubber products	Furniture	Basic chemicals	Rubber tires and tubes
<b>Promote Industries with High Nominal Protection but Low Effective Protection</b>	Pharmaceuticals	Medical, surgical equipment	Agricultural and forestry machinery			
<b>Promote High Export Growth Industries</b>	Medicines	Wooden office furniture	Paper, paperboard	Containers.of paper	Soaps	Carpets
<b>Minimize Impact on Government Procurement from Domestic Industries</b>	Medical furniture	Medicaments	Manifold business forms	Seats with wooden frames	Wooden office furniture	Swivel seats
<b>Minimize Impact on Domestic Output</b>	Seats with metal frames	Chemical preparations for photographic uses	Bed linen	Medical furniture	Seats with wooden frames	Medicines

A broader approach requiring less calculation would target for exclusion from the offer list types of products classified according to factor intensity. One strategy using this approach would target high-technology and capital-intensive products in which supports the GOJ's current development objectives. Products excluded from the offer list using this strategy include those produced by manufacturers of pharmaceuticals, medical and surgical equipment, chemical products, inorganic chemicals, dyeing and tanning, and oils and perfume materials. Another strategy would target labor-intensive industries to support the employment objectives of the GOJ's development plan to minimize the GPA impact on employment. Products excluded from the offer list using this strategy would include those produced by manufacturers of furniture, made-up textile articles, jewelry, leather and manufactures, travel goods and handbags, and clothing. The Annex provides a list of products classified at the 2-digit HS level in terms of their factor intensity.

Yet another approach to selecting products to exclude from the offer would either minimize the impact of the GPA on procurement changes by the government or, more broadly, minimize the overall output effect at the industry level from the GPA. Table 6.1 illustrates some of the products that would be excluded from the offer to the WTO because of the large impact that international competition is likely to have on their industries. However, it is important to emphasize that lack of data on the origin and distribution of goods in both the public and private sectors of the economy required us to make important assumptions when calculating the effects of the GPA on the production of domestic industries. Nevertheless, the results provide guidelines for the types of industries that are most likely to be affected by Jordan's membership in the GPA.

### **Concluding Remarks**

The possible accession of Jordan to the GPA raises many important issues in terms of costs and benefits. The main benefits of accession to the GPA are increased transparency and therefore reduced corruption, access to other signatories' procurement markets, and fostering of competition that would likely decrease government procurement costs and ease budget constraints. The potential problems for Jordan's accession are associated with the use of offsets in the qualification and selection of suppliers of products or services, or in the evaluation of tenders and award of contracts. At present, foreign suppliers are permitted to participate in government procurement only through the presence of a local agent, regional office or a legally established Jordanian company. Under the GPA the use of offsets would have to be reduced, which could dampen the development of some industries, especially those whose goods and services are mainly directed to the public sector. The GOJ's negotiation of the offer list will therefore critical to the final outcome of Jordan's membership in the GPA. This study has sought to use readily available data for identifying ways to maximize the benefits of membership and minimize its costs.

## **Chapter 1: Introduction**

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### **A. Background**

During the course of negotiations to join the World Trade Organization (WTO), the Government of Jordan (GOJ) committed to initiate negotiations to accede to the Government Procurement Agreement (GPA) by presenting a so-called entity offer. It also confirmed that, if the results of the negotiations were satisfactory to the interests of Jordan and other members of the Agreement, Jordan would complete negotiations for membership in the Agreement within a year of accession. Given this timetable, Jordan is behind schedule: it acceded to the WTO in April 2000, in July 2000 it notified the WTO GPA Committee of its intent to accede to the agreement and, in November 2000 it submitted its checklist of issues. Now, the GOJ and in particular the Ministry of Industry and Trade (MIT), which is leading Jordan's negotiations for membership in the GPA, are preparing an entity offer.

As part of the preparations of the offer, the MIT must first understand the volume and types of goods and services that the GOJ has procured in the past, which government agencies are involved in procurement, and the share of goods purchased from Jordanian companies. In June 2001, the AMIR Program provided funding for the creation of a database of procurements by all Jordanian government entities for the years 1999-2000, which allows the MIT to identify the types of goods and services purchased by the GOJ during those two years, the government entities that purchased those goods and services and other procurement details. As a second step, the MIT must then assess the economic implications of opening up the procurement market to international competition. Therefore, the main objective of this study is to assess the impact of the liberalization of procurement under the GPA in order to assist the MIT in formulating its entity offer. The information and analysis presented in this study are intended to strengthen the capacity of the Government of Jordan to prepare for negotiations to join the GPA and for ongoing WTO discussions on government procurement issues. In particular and to the extent that data are available, the study intends to:

- (1) Identify the top goods and services purchased by the Government of Jordan in 1999 and 2000, from which a sample will be drawn on which the analysis will be based;
- (2) Determine the origin of the goods and services on the basis of domestic versus foreign providers;
- (3) Based on input/output tables, derive the costs of domestic production that include the associated levels of protection and compare those costs with the free trade costs, or border price of inputs;
- (4) Estimate the effective rates of protection for the selected goods and services;
- (5) Estimate the impact of liberalization on the demand for the selected goods and services; and
- (6) From the empirical results, draw conclusions on the effects of the GPA on specific industries.

## **B Approach and Organization of the Study**

- ◆ Chapter 1 describes the objective and coverage of the study.
- ◆ Chapter 2 reviews the WTO Government Procurement Agreement, including its basic principles, special treatment for developing countries, and the process of negotiation.
- ◆ Chapter 3 describes the structure of government procurement by identifying the top goods and services purchased, the major entities involved in procurement and the share of those goods and services supplied by Jordanian manufacturers.
- ◆ Chapter 4 examines Jordan's interests in joining the GPA by examining government procurement as a tool to support both industrial and trade policies, drawing on tariff analysis.
- ◆ Chapter 5 assesses the impact of the GPA on industries by measuring both the benefits and costs of joining the agreement.
- ◆ Chapter 6 examines the implications for industry coverage under the GPA by suggesting criteria on industry selection and alternate strategies for negotiation.

## **Chapter 2: Government Procurement Agreement (GPA)**

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### **A. The WTO Agreement on Government Procurement**

The objective of the WTO GPA is to help liberalize and expand world trade by providing a framework for international competition for government procurement. The framework sets out measures to eliminate discrimination against and among foreign products, services and suppliers by improving the transparency of laws and regulations of signatory countries and ensuring prompt and fair enforcement of international provisions on government procurement. The GPA was first negotiated in 1981 as a result of the General Agreement on Tariffs and Trade (GATT) Tokyo Round. It provided a major contribution to trade, since, for the first time it extended the fundamental principles of non-discrimination (viz., national treatment and most-favored nation (MFN) treatment) to government procurement. It also laid out operational rules with emphasis on transparency at each step of the procurement process and provided for multilateral dispute settlement (Matoo, 1996).

The GPA was expanded under the Uruguay Round of negotiations in terms of coverage and scope, and resulted in a plurilateral agreement that went into effect in 1996. In terms of coverage, the GPA now includes local governments and other public entities including enterprises that are under the control or influence of the national government. In terms of scope, it also includes the procurement of services, including construction services as well as the so-called excluded sectors of utilities and transportation. For most members, the threshold for central government contracts of goods and services covered under the GPA is Special Drawing Rights (SDR) 130,000 as before; for local governments, SDR 200,000; and for other entities, SDR 400,000. For construction contracts, the threshold is SDR5 million. However, in the case of services contracts, only those listed in the agreement are covered. The agreement also clarified the provisions on rules of origin and dispute settlement (Choi, 1999).

The obligations of the GPA do not apply to all procurements by all government entities. Rather, the GPA allows a member to limit the governmental procuring entities that will be subject to the agreement; it allows the member to apply the Agreement only to procurements by these entities that exceed a certain threshold value (typically, about 130,000JD); and, with respect to those procurements by the covered entities that exceed the threshold value, the GPA allows the member to limit the kinds of services and construction contracts that will be subject to the agreement. In addition, the GPA allows a member to exempt from coverage of the agreement procurements where necessary protect national security, public morals, order or safety, human, animal or plant life or health or intellectual property. Moreover, developing country members are authorized to negotiate exclusions of specified entities, products or services from national treatment.

## **B. Jordan's Interests in Joining the GPA**

In recent years, Jordan has taken many steps at the multinational, regional and bilateral levels to open its economy to international competition to expand trade. In addition to liberalizing trade in goods and services through its WTO membership, Jordan committed to comply with the WTO Agreements on Trade Related Aspects of Intellectual Property Rights (TRIPS), Customs Valuation, Import Licensing Procedures, Technical Barriers to Trade and Sanitary and Phytosanitary Measures. At the regional level, Jordan is preparing to join the Euro-Mediterranean Association Agreement, and is a member of the Arab Common Market Agreement and the Arab Free Trade Area Agreement. Jordan has entered into several bilateral agreements with other Arab nations and European trading partners to promote trade and investment and most recently signed the US-Jordan Free Trade Agreement. Membership in these agreements and other international conventions not mentioned, and Jordan's interest in joining the GPA, illustrate that the country is willing to undertake changes at the legislative, regulatory and institutional levels and also incur the associated economic and social risks, to become a more integrated player of the global trading system than in the past.

The GPA offers Jordan and signatory countries several benefits; it also implies costs. The main benefit of accession would likely be gains in the economic efficiency of Jordan's current procurement system. By accepting the GPA's principles of transparency and non-discrimination, Jordan would accept to implement a more fair and competitive procurement system than before accession. By introducing more competition into the procurement process, it is possible that procuring entities reduce the cost of purchases of goods and services of the same or better quality. Moreover, a revised system would likely save taxpayers' money, and those savings can be used for other government programs. In addition, the establishment of a non-discriminatory and transparent procurement system could constrain rent-seeking activities. Another possible benefit of acceding to the GPA is an expansion in exports as a result of improved access to government procurement markets of other signatories of the agreement (Choi, 1999).

In terms of costs, Jordan would likely incur administrative costs and could incur social and economic costs as a result of accession. At the administrative level, Jordan would be required to incur costs to prepare for negotiations and actually undertake them.<sup>3</sup> If it became a member, it would be required to make revisions to certain laws and regulations and possibly make significant changes at the institutional level that are consistent with GPA procedures. The social and economic costs that could occur relate to the possible negative effects on domestic industries. For example, many countries considering GPA accession, especially developing countries, are concerned about reductions in domestic procurement and accompanying employment. Additionally, Jordan would also be required to maintain a statistical reporting system to ensure transparency that goes beyond the newly established database.

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<sup>3</sup> As previously indicated, the Government of Jordan has received support from USAID in establishing a database on government procurement to help prepare for negotiations and is also providing funding for the present study. In the past, the WTO has assisted in providing training and has paid for certain travel expenses.



## **Chapter 3: Government Procurement Practices**

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### **A. Legislation**

Two main pieces of legislation govern the public sector procurement process in Jordan: Government Works Regulation No. 71 of 1986 and the Supplies Regulation No. 32 of 1993. The two central procuring entities implementing these regulations are the Government Tenders Directorate (GTD) of the Ministry of Public Works and Housing and the General Supplies Department (GSD) of the Ministry of Finance. As required by law, the GSD conducts procurement of goods that exceed a threshold value of 20,000 JD and the GTD regulates the procurement of construction and other services that exceed a threshold value of 100,000 JD. ‘Special tender committees’ that are specially constituted for that purpose conduct certain large-scale procurements, generally funded by sources other than the budget (e.g., loans and aid).

Many government entities whose budgets are part of the General Budget, such as municipalities and government departments and directorates, have their own procurement regulations. The Municipalities and Rural Council Supplies and Works Regulation No. 55 of 1989 and the Administration of Rural Council’s Law No. 5 of 1924 govern procurement by municipalities and rural councils. Amman Municipality, however, has its own procurement regulation. Moreover, some government departments and directorates have their own special procurement legislation, and certain government or quasi-independent government entities, such as the Central Bank, Jordan University of Science and Technology and Jordan University Hospital, have authority to conduct their own procurements.

Although the government procurement regime in Jordan is not governed by a single general legislation, the methods and principals contained in the various pieces of legislation are to a large extent uniform. However, there are no explicit provisions in the country’s legislation that reflect the basic principles of national treatment and non-discrimination commitments of the GPA. In fact, the legislation contains several clauses that favor national suppliers over foreign ones (Clause 12 of the 1993 Supplies Regulation) and those having special protocols or agreements with Jordan (Clause 13 of the 1993 Supplies Regulation). The procurement of construction and engineering services by non-Jordanians is especially restricted. According to legislation (Section 6(d) of the 1986 Government Works Regulation No. 71 and Section 16(a)(1) of the 1987 Construction Contractors Law No. 13), only Jordanian contractors are permitted to undertake construction projects although under certain circumstances foreign contractors are permitted to participate under joint venture relationships with national contractors.

Various methods of tendering (open, limited, selective and direct execution) are used in Jordan depending on whether the procurement involves supplies or construction and engineering services. Several clauses in the legislation appear to allow discretionary choice of suppliers of goods and services (see, for example, Sections 13-15 of the 1993 Supplies Regulation No. 32 and Sections 5, 6, 19 and 20 of the 1986 the Government Works Regulation No. 71). In the case of construction, both national and foreign companies must meet qualification requirements specifying sufficient experience and academic background. For details on legislation and the

tendering process, see the GOJ's answers to the checklist of GPA issues presented to the WTO (Government of Jordan, 2000).

## B. Major Entities Involved in Procurement

Several government ministries are involved in the procurement of goods, although the Ministry of Health is by far the single agency that has purchased the most goods of all agencies during 1999-2000, both in terms of number of contracts and average contract value (see Table 3.1). Goods purchased under the so-called Government Wide contracts are made for the entire government; their average contract value during 1999-2000 exceeded that of the Ministry of Health, but their number of contracts was inferior to that agency during that same period.

<b>Table 3.1</b>							
<b>Total Goods Procured by Government of Jordan, by Entity</b>							
<b>(JD and number of contracts)</b>							
Entity	1999	2000	1999	2000	1999	2000	Ave 1999-2000
	JD		No. of contracts		Avg Contract Value (JD)		
Government Wide	5,521,205	7,301,355	5	10	1,104,241	730,136	917,188
Ministry of Health	26,257,352	30,842,594	44	56	596,758	550,761	573,759
Queen Alia International Airport (QAIA)	--	510,000	--	1	--	510,000	510,000
Meteorological Department	444,861	539,557	1	1	444,861	539,557	492,209
Ministry of Housing and Public Works	720,000	197,960	1	1	720,000	197,960	458,980
Water Authority	--	330,000	--	1	--	330,000	330,000
Jordan Valley Authority	323,266	--	1	--	323,266	--	323,266
Civil Defense	--	318,950	--	1	--	318,950	318,950
Ministry of Finance	287,368	--	1	--	287,368	--	287,368
Port Corporation	274,500	554,588	1	2	274,500	277,294	275,897
Ministry of Education	1,391,268	1,325,350	5	5	278,254	265,070	271,662
Department of Civil Status and Passport	258,000	--	1	--	258,000	--	258,000
Jordan TV	992,225	293,095	3	2	330,742	146,548	238,645
Civil Aviation Authority	497,985	507,584	2	3	248,993	169,195	209,094
Natural Resources Authority	--	204,304	--	1	--	204,304	204,304
Customs Dept.	241,600	280,625	1	2	241,600	140,313	190,956
Ministry of Water and Irrigation	116,308	236,471	1	1	116,308	236,471	176,390
Parliament	163,275	--	1	--	163,275	--	163,275
Civil Consumer Corporation+Customs Dept	160,000	--	1	--	160,000	--	160,000
Ministry of Energy and Natural Resources	315,509	--	2	--	157,755	--	157,755
Prime Ministry	--	281,700	--	2	--	140,850	140,850
Ministry of Post and Telecommunication	128,543	--	1	--	128,543	--	128,543
Development and Employment Fund	113,875	--	1	--	113,875	--	113,875
Ministry of Agriculture	101,880	--	1	--	101,880	--	101,880
<b>Total</b>	<b>35,477,820</b>	<b>42,925,337</b>	<b>65</b>	<b>84</b>	<b>545,813</b>	<b>511,016</b>	<b>528,414</b>
Note: Ranked by average contract value.							
Source: AMIR, 2001, Tables G1 and G2.							

### C. Procurement of Goods and Services

The GOJ purchases a wide variety of goods originating from many different industrial activities. In 1999, it purchased 219 goods, compared with 225 in 2000. However, for purposes of this study, the top 65 goods were chosen with a threshold value of 130,000 JD. Those goods represented about three-fourths of all goods purchased during 1999-2000, and therefore provide a good sample for the purposes of this analysis. Table 3.2 shows that purchases of goods are concentrated in ten products, which on average made up 65 percent of all procurements during 1999-2000. Of those top ten products, adhesive dressings were the dominant product, and represented on average more than one-third of purchases made during 1999-2000. Other important products purchased by the GOJ were also related the medical and pharmaceutical field, such as antibiotics, instruments for surgical and medical use and vaccines. Products related to transportation, such as motor vehicles and tires, also appeared in the top ten goods purchased by the GOJ during 1999-2000, as were food supplies and automatic data processing machines.

Rank	HS CODE	DESCRIPTION	Goods of All Origins			
			1999	2000	1999-2000 AVERAGE	
			(JD)			Share in Total
1	300490	Medicaments: adhesive dressings	12,563,632	14,913,791	13,738,712	33.5%
2	980000	Food supplies	3,200,000	3,650,000	3,425,000	8.4%
3	300420	Antibiotics, in dosage form	2,534,037	2,586,383	2,560,210	6.3%
4	901890	Instr & Appliances medical surgical dental	1,831,940	2,881,204	2,356,572	5.7%
5	300220	Vaccines for human medicine	950,986	2,286,748	1,618,867	3.9%
6	870421	Trucks, diesel engine GVW < 5mt	586,840	1,368,725	977,783	2.3%
7	870210	Motor vehicles for the transport of 10+ perso	738,900	893,525	816,213	2.0%
8	847191	Automatic data processing machines	774,044	351,437	562,741	1.4%
9	870422	Motor vehicles transp goodsT GVW	805,500	236,220	520,860	1.3%
10	401110	New pneumatic tyres, of rubber.	517,253	463,798	490,526	1.2%
11	870323	Pass vehicles > 1500 cc	184,295	599,530	391,913	0.9%
12	300439	Hormones (no antibiotics contained)	492,222	240,236	366,229	0.9%
13	280430	Nitrogen	255,248	500,000	377,624	0.9%
14	300339	Other medicaments containing hormones	693,172	--	693,172	0.9%
15	300431	Medicaments: cont. insulin no antibiotics	507,740	198,538	353,139	0.9%
16	901580	Surveying instruments	--	343,597	343,597	0.8%
17	370790	Chemical preparations for photographic uses	105,590	541,785	323,688	0.8%
18	300590	Wadding, gauze, bandages	1,410	642,965	322,188	0.8%
19	482090	Manifold business forms	310,630	--	310,630	0.8%
20	901831	Other instruments for medical uses	349,982	269,290	309,636	0.8%
21	300620	Blood grouping reagents	220,804	376,874	298,839	0.7%
22	847149	Digital processing units	298,000	--	298,000	0.7%
23	900930	Thermocopying apparatus	312,999	276,146	294,573	0.7%
24	902221	Apparatus based on alpha, for medical	368,375	186,853	277,614	0.7%
25	842641	Derricks on tires	274,500	--	274,500	0.7%

(Cont'd)

<b>Table 3.2 (cont'd)</b>						
<b>Top Goods of All Origins Procured by Government of Jordan</b>						
<b>(JD and percent)</b>						
Rank	HS CODE	DESCRIPTION	Goods of All Origins			
			1999	2000	1999-2000 AVERAGE	Share in Total
			(JD)			
26	870190	Tractors with compression-ignition	--	271,360	271,360	0.7%
27	852439	Discs for laser reading systems	268,091	--	268,091	0.7%
28	902580	Hydrometers and similar floating instruments	207,472	305,075	256,274	0.6%
29	340319	Lubricating preparations cont petroleum	--	250,000	250,000	0.6%
30	300410	Penicillins or streptomycins	437,206	54,090	245,648	0.6%
31	842840	Escalators and moving walkways	--	510,000	510,000	0.6%
32	830990	Stoppers, caps, lids, seals etc	241,600	--	241,600	0.6%
33	401511	Surgical & med glove, vulcanize rubber	445,605	--	445,605	0.6%
34	940161	Seats w/wooden frames, upholstered	436,971	--	436,971	0.6%
35	300340	Medicaments: containing alkaloids	433,719	--	433,719	0.6%
36	300390	Medicaments: nesoi not in dosage form	--	476,767	476,767	0.6%
37	940290	Medical, surgical, dental or veterinary furniture	186,996	247,684	217,340	0.5%
38	901830	Syringes, with or without needles	217,239	--	217,239	0.5%
39	300210	Vaccines for human medicine	213,105	218,920	216,013	0.5%
40	630210	Bed linen, of man-made fibres	210,075	--	210,075	0.5%
41	940330	Wooden office furniture except seats	75,921	339,439	207,680	0.5%
42	382200	Diagnostic or laboratory reagents	406,140	5,074	205,607	0.5%
43	842320	Scales fr continuous weighing of goods	199,985	--	199,985	0.5%
44	711420	Articles of goldsmiths' or silversmiths' wares	--	420,000	420,000	0.5%
45	870324	Pass vehicles > 3000cc	--	412,450	412,450	0.5%
46	300610	Sterile surgical catug, similar sterile matter	363,559	--	363,559	0.5%
47	701790	Laboratory, pharmaceutical glassware	214,820	155,220	185,020	0.5%
48	842612	Mobile lifting frames on tires	--	184,000	184,000	0.4%
49	401519	Seamless, disposable glove, rubber	--	384,825	384,825	0.4%
50	940171	Seats w/metal frames, upholstered	--	170,970	170,970	0.4%
51	870530	Fire fighting vehicles	--	169,000	169,000	0.4%
52	902219	Apparatus based on X-rays for dental uses	--	352,250	352,250	0.4%
53	847190	Digitl proc unt w storage,input or output	158,619	--	158,619	0.4%
54	300432	Medicaments: cont. adrenal, hormones	303,390	7,200	155,295	0.4%
55	870590	Special purpose motor vehicles	--	150,875	150,875	0.4%
56	630392	Curtains	206,600	85,830	146,215	0.4%
57	854380	Electric synchros, transducers, data record.	--	144,375	144,375	0.4%
58	847141	Digitl adpt machine	143,168	--	143,168	0.3%
59	300450	Vitamins, natural or synthetic in dosage form	142,280	--	142,280	0.3%
60	845210	Sewing machines	85,304	190,648	137,976	0.3%
61	940130	Swivel seats w/variable height ex dentists	14,574	261,017	137,796	0.3%
62	901839	Medical needles, catheters etc	4,953	268,456	136,705	0.3%
63	300440	Alkaloids no hormones or antibiotics	261,381	11,388	136,385	0.3%
64	842911	Bulldozers & angledozers	134,513	--	134,513	0.3%
65	842911	Bulldozers & angledozers,self-propel	130,595	--	130,595	0.3%
<b>Total Value of Above</b>			<b>35,023,979</b>	<b>39,856,558</b>	<b>37,440,269</b>	<b>91.4%</b>
<b>Total Value of All Supplies Procured</b>			<b>38,709,085</b>	<b>43,207,443</b>	<b>40,958,264</b>	<b>100%</b>

Notes: (a) The cut-off point selected is equal to threshold value of 130,000 JD; (b) ranked according to average contribution to total goods during 1999-2000; (c) the GOJ procured a total of 219 different types of goods in 1999 and 225 types of goods in 2000.

Source: AMIR, 2001, Table G3.

In weighing its decision to join the GPA, one of the keen interests of Jordan's negotiators will be the types of goods that are mainly purchased from Jordanian suppliers, shown in Table 3.3. During 1999-2000, the GOJ made purchases solely from Jordanian suppliers for five different products, *viz.*, food supplies, nitrogen, upholstered seats with wooden frames, wooden office furniture and upholstered seats with aluminum frames. Other products that are mainly purchased from Jordanian suppliers include bandages (93 percent Jordanian origin), instruments for medical and surgical uses (88 percent Jordanian origin) and lubricating preparations (80 percent). In contrast, other products are mainly sourced from foreign suppliers, such as hormones, manifold business forms and alkaloids.

<b>Table 3.3</b>					
<b>Top Goods of Jordanian Origin Procured by Government of Jordan</b>					
<b>(percent)</b>					
<b>Rank</b>	<b>HS CODE</b>	<b>DESCRIPTION</b>	<b>Goods of Jordanian Origin</b>		
			<b>1999</b>	<b>2000</b>	<b>1999-2000 AVERAGE</b>
			<b>(% of goods of all origin)</b>		
1	300490	Medicaments: adhesive dressings	44.1	35.2	39.6
2	980000	Food supplies	100.0	100.0	100.0
3	300420	Antibiotics, in dosage form	66.1	65.1	65.6
4	901890	Instr & Appliances medical surgical dental	1.4	1.3	1.3
5	300220	Vaccines for human medicine	--	--	--
6	870421	Trucks, diesel engine GVW < 5mt	--	--	--
7	870210	Motor vehicles for the transport of 10+pers	--	--	--
8	847191	Automatic data processing machines	--	--	--
9	870422	Motor vehicles transp goodsT GVW	--	--	--
10	401110	New pneumatic tyres, of rubber.	--	--	--
11	870323	Pass vehicles > 1500 cc	--	--	--
12	300439	Hormones (no antibiotics contained)	18.6	8.7	13.7
13	280430	Nitrogen	97.9	100.0	99.0
14	300339	Other medicaments containing hormones	--	--	--
15	300431	Medicaments: cont insulin no antibiotics	--	--	--
16	901580	Surveying instruments	--	--	--
17	370790	Chemical preparations for photography	55.6	2.8	29.2
18	300590	Wadding, gauze, bandages	--	92.6	92.6
19	482090	Manifold business forms	16.9	--	16.9
20	901831	Other instruments for medical uses	76.9	100.0	88.4
21	300620	Blood grouping reagents	9.1	0.5	4.8
22	847149	Digital processing units	--	--	--
23	900930	Thermocopying apparatus	--	--	--
24	902221	Apparatus based on alpha, for medical	--	--	--
25	842641	Derricks on tires	--	--	--

(Cont'd)

<b>Table 3.3 (cont'd)</b>					
<b>Top Goods of Jordanian Origin Procured by Government of Jordan (percent)</b>					
<b>Rank</b>	<b>HS CODE</b>	<b>DESCRIPTION</b>	<b>Goods of Jordanian Origin</b>		
			<b>1999</b>	<b>2000</b>	<b>1999-2000 AVERAGE</b>
<b>(% of goods of all origin)</b>					
26	870190	Tractors with compression-ignition	--	--	--
27	852439	Discs for laser reading systems	--	--	--
28	902580	Hydrometers and similar floating instruments	--	--	--
29	340319	Lubricating preparations cont petroleum	--	80.0	80.0
30	300410	Penicillins or streptomycins	66.5	--	66.5
31	842840	Escalators and moving walkways	--	--	--
32	830990	Stoppers, caps, lids, seals etc nes, prts, bs metl	--	--	--
33	401511	Surgical & med glove, vulcanize rubber, nesoi	--	--	--
34	940161	Seats w/wooden frames, upholstered	100.0	--	100.0
35	300340	Medicaments: containing alkaloids	--	--	--
36	300390	Medicaments: nesoi not in dosage form	--	69.4	69.4
37	940290	Medical, surgical, dental or veterinary furniture	39.9	4.8	22.3
38	901830	Syringes, with or without needles	--	--	--
39	300210	Vaccines for human medicine	1.3	--	1.3
40	630210	Bed linen, of man-made fibres	65.2	--	65.2
41	940330	Wooden office furniture except seats	100.0	100.0	100.0
42	382200	Diagnostic or laboratory reagents	16.4	--	16.4
43	842320	Scales fr continuous weighing of goods on conveyor	--	--	--
44	711420	Articles of goldsmiths' or silversmiths' wares	--	--	--
45	870324	Pass vehicles > 3000cc	--	--	--
46	300610	Sterile surgical catug, similar sterile matter	--	--	--
47	701790	Laboratory, hygienic or pharmaceutical glassware	0.7	45.5	23.1
48	842612	Mobile lifting frames on tires	--	--	--
49	401519	Seamless, disposable glove, vulcanized rubber	--	--	--
50	940171	Seats w/metal frames, upholstered	--	100.0	100.0
51	870530	Fire fighting vehicles	--	--	--
52	902219	Apparatus based on X-rays for dental uses	--	--	--
53	847190	Digitl proc unt w storage,input or output	--	--	--
54	300432	Medicaments: cont. adrenal, hormones	0.8	--	0.8
55	870590	Special purpose motor vehicles	--	--	--
56	630392	Curtains	--	--	--
57	854380	Electric synchros, transducers, data recorders	--	--	--
58	847141	Digitl adpt machine	--	--	--
59	300450	Vitamins, natural or synthetic in dosage form	1.4	--	1.4
60	845210	Sewing machines	--	--	--
61	940130	Swivel seats w/variable height ex dentists ets	34.0	100.0	68.4
62	901839	Medical needles, catheters etc	--	--	--
63	300440	Alkaloids no hormones or antibiotics	0.7	--	0.7
64	842911	Bulldozers & angledozers	--	--	--
65	842911	Bulldozers & angledozers,self-propel,track lay	--	--	--
<b>Share of Jordanian Goods in Top 65 Products</b>			<b>35.1</b>	<b>33.7</b>	<b>34.4</b>
<b>Share of Jordanian Goods in All Products</b>			<b>31.7</b>	<b>31.1</b>	<b>31</b>

Notes: (a) The cut-off point selected is equal to threshold value of 130,000 JD; (b) ranked according to average contribution to total goods during 1999-2000; (c) the GOJ procured a total of 219 different types of goods in 1999 and 225 types of goods in 2000.

Source: AMIR, 2001, Table G3.

In terms of services, both the value of total services purchased and number of contracts increased between 1999 and 2000, although the average contract value decreased. The Port Corporation purchased more services than any other agency in terms of average contract value, although the Ministry of Housing and Public Works entered into the greatest number of contracts. Generally speaking, both the number of contracts and value of contracts for services, like goods, varied widely between the two years for which data are available.

**Table 3.4**  
**Total Services Procured by Government of Jordan, by Entity**  
**(JD and number of contracts)**

Entity	1999	2000	1999	2000	1999	2000	Ave 1999-2000
	JD		No. of contracts		Ave Contract Value (JD)		
Port Corporation	18,467,142	--	2	--	9,233,571	--	9,233,571
Amman Financial Market	4,140,961	--	1	--	4,140,961	--	4,140,961
Water Authority	1,156,201	42,236,023	2	12	578,101	3,519,669	2,048,885
Jordan Valley Authority	5,201,533	116,188	2	1	2,600,767	116,188	1,358,477
Ministry of Housing and Public Works	11,150,227	20,599,326	11	20	1,013,657	1,029,966	1,021,812
Ministry of Municipal and Rural Affairs	972,607	--	1	--	972,607	--	972,607
Ministry of Health	7,577,984	8,888,856	12	11	631,499	808,078	719,788
Ministry of Tourism	1,932,901	2,782,626	4	3	483,225	927,542	705,384
Free Zone Corp.	652,220	--	1	--	652,220	--	652,220
QAIA	--	396,782	--	1	--	396,782	396,782
Housing and Urban Development Corp.	--	1,462,726	--	4	--	365,682	365,682
Government Wide	100,000	2,050,000	1	4	100,000	512,500	306,250
Ministry of Water and Irrigation	--	298,590	--	1	--	298,590	298,590
Aqaba Regional Authority	--	672,524	--	3	--	224,175	224,175
Ministry of Youth	208,332	--	1	--	208,332	--	208,332
Social Security Corporation	117,308	270,260	1	1	117,308	270,260	193,784
Civil Aviation Authority	175,426	1,431,786	1	7	175,426	204,541	189,983
Jordan TV	164,345	--	1	--	164,345	--	164,345
<b>Total</b>	<b>51,560,108</b>	<b>81,205,687</b>	<b>41</b>	<b>68</b>	<b>1,257,564</b>	<b>1,194,201</b>	<b>1,225,882</b>

Note: Ranked by average contract value.  
Source: AMIR, 2001, Tables S1 and S2.

The types of services purchased by the GOJ are concentrated in the construction industry (see Table 3.5). Four types of services belonging to that industry comprised 85 percent of the average value of services purchased during 1999-2000. Building cleaning services made up five percent of total service contracts, while tourism and financial services each contributed two percent to the total value of services contracts purchased by the Government.

<b>Table 3.5 Top Services Procured by Government of Jordan (JD and percent)</b>				
Rank	CODE *	DESCRIPTION *	1999-2000 AVERAGE	
			(JD)	Share in Total (%)
1	511+515+518	Construction and related engineering services	14,468,637	34%
2	512	General construction work for buildings	9,067,538	21%
3	513	General construction work for civil engineering	9,014,180	21%
4	517	General construction work for building completion and finishing work	3,898,668	9%
5	514+516	General construction work for buildings: Installation and assembly work	4,837,100	--
6	874	Other business services: building cleaning services	2,010,788	5%
7	641-643	Tourism and travel related services: hotels and restaurants	892,514	2%
8	8129	Financial services: all insurance and insurance related services; non-life insurance services	850,225	2%
9	873	Other business services: investigation and security	538,104	1%
10	633+8866-8861	Other business services: maintenance and repair of equipment	475,000	--
11	8790	Other business services: other	247,778	1%
12	7124	Road transport services: rental of commercial vehicle with operator	200,000	--
<b>Total of Above Services</b>			<b>46,500,534</b>	<b>96%</b>
According to WTO codes and descriptions.				
Note: The cut-off point selected is equal to threshold value of 130,000 JD.				
Source: AMIR, 2001, Table S3.				



## Chapter 4: Jordan's Interests in the GPA

### A. Government Procurement as a Policy Tool

Traditionally, the public sector in Jordan has been large, despite efforts in recent years to break up public monopolies and promote privatization. At present, government spending represents nearly one-third of Jordan's gross domestic product (GDP), which is generally much greater than that in other developing countries where the average share is 11 to 15 percent. It is also higher than the 20 percent average for the Middle East and North African countries (World Bank, 2001).

In terms of overall expenditures on goods and services, the public sector accounts for over one-fourth of final consumption. Moreover, in recent years its importance has remained unchanged. Table 4.1 shows that since the mid-1990s, the Government's share in final consumption has remained stable at 27 percent. In national accounting terms, this figure represents the share of final consumption expenditures by the Government in the total. Even so, the size of public procurement is probably understated because it excludes the purchases by public entities under the control or influence of the national government.

<b>Year</b>	<b>Govt Spending as a % of GDP</b>	<b>Govt Consumption as a % of Total Consumption</b>
1993	n.a.	23.7
1994	n.a.	25.9
1995	n.a.	27.8
1996	n.a.	27.0
1997	n.a.	27.6
1998	35.4	27.0
1999	33.6	25.0
2000	35.4	n.a.
2001	30.5	n.a.

Note: Data for 2001 refer to Government budget estimates.  
Sources: Ministry of Finance, *Government Finance Bulletin*, Vol. 3, No. 2, March 2001; Department of Statistics; World Bank (2001).

The involvement of government procurement in Jordan varies across industry sectors, as does the percentage of goods originating from Jordan within each industry (see Table 4.2). During 1999-2000, the GOJ purchased goods manufactured by 23 different types of industries. It purchased more pharmaceutical products than any other type of good, followed by food supplies.<sup>4</sup> In contrast, sales to the Government by Jordanian companies are concentrated in only eight industries, and the share of goods manufactured by local industries varies widely. For example, the Government purchases all its furniture and basic chemicals from Jordanian-owned companies yet only ten percent of medical and surgical equipment from them. The Government imports all supplies of chassis for motor vehicles, rubber tires and several other types of products.

<sup>4</sup> Food supplies refer to a broad category of food products including fresh fruits and vegetables and processed food products.

<b>Table 4.2</b>			
<b>Summary of Goods Procured by Government of Jordan at the Manufacturing Level</b>			
Rank	Procurement Value (JD)	Share of Goods Procured of Jordanian Origin (%)	DESCRIPTION
	1999-2000 AVE		
1	21,063,980	37	Pharmaceuticals, medicinal chemicals and botanical products
2	3,425,000	100	Food supplies
3	3,072,930	0	Bodies (coachwork) for motor vehicles; manufacture of trailers
4	1,397,518	10	Medical and surgical equipment and orthopaedic appliances
5	1,156,763	0	Office, accounting and computing machinery
6	918,935	26	Other chemical products n.e.c.
7	648,355	100	Furniture
8	490,526	0	Rubber tires and tubes; retreading and rebuilding of rubber tires
9	484,250	0	Lifting and handling equipment
10	438,812	99	Basic chemicals, except fertilizers and nitrogen compounds
11	428,072	0	Instruments and appliances for measuring, checking, testing
12	415,215	0	Other rubber products
13	221,060	65	Made-up textile articles, except apparel
14	210,000	0	Jewelry and related articles
15	192,988	0	Other fabricated metal products n.e.c.
16	185,020	23	Glass and glass products
17	155,315	17	Printing
18	137,796	0	Machinery for textile, apparel and leather production
19	135,680	0	Agricultural and forestry machinery
20	134,046	0	Publishing of recorded media
21	99,993	0	Other general purpose machinery
22	71,584	0	Other electrical equipment n.e.c.
23	65,298	0	Machinery for mining, quarrying and construction

Note: Concordances between industry and product codes (ISIC and HS) can be found at <http://www.maclester.edu/research/economics/PAGE/HAVEMAN/Trade.Resources>.

Source: Department of Statistics.

## B. Industrial Policy Support

Differences in industrial concentration of government procurements suggest that such procurements can be used as an industrial policy instrument. The GOJ has given priority to the development of high-tech industries with high value-added and potential for exploiting and developing a skilled labor force under its national development program. At issue, therefore, is whether such an instrument is already being used to this end by the Government.

Table 4.3 indicates that procurement activities are not being used to meet that objective. Procurement is currently distributed fairly evenly among human capital/technology-intensive industries, natural resource-based industries and unskilled labor-intensive industries. One means of supporting the Government's policy to promote technology-intensive industries would be to identify those that are to be excluded from the GPA on the basis of their factor intensity, and in particular, whether they utilize skilled human capital and technology.

### C. Trade Policy Support

In the last few years, tariffs have been the GOJ’s main policy instrument for protecting Jordan’s domestic industries from foreign competition. More recently, Jordan has made a number of commitments to accelerate tariff reductions and provide tariff preferences and exemptions for certain products under the WTO, the US-Jordan Free Trade Agreement (FTA) and other regional trade agreements. Nevertheless, Jordanian industries continue to receive significant and differentiated levels of protection from the current tariff structure. This extent of this protection is normally measured by the nominal rate of protection (NRP) as the difference between the border price of foreign-made products and the price of domestic import-substitutes made by local producers. Although the average rate for all tariff lines is only 16 percent, one-third of the average tariffs for the HS 2-digit categories have applied to them of 20 percent or more (Table 4.4). Perhaps not surprisingly, an even larger proportion of products in our sample of products goods procured by the government have significantly higher rates. Two of these 13 products have a tariff rate of 23 percent, and the remaining 9 products have a rate of 30 percent.

While the nominal tariff on these products protects domestic producers, the tariffs on inputs that they use in their production activities raise costs and consequently reduce the competitiveness of their domestic industries. The extent to which these tariffs applied to raw material and intermediate good imports impact on the price of the final good can be appreciated from measures of the effective rate of protection (ERP). The ERP measures how tariffs on a product and its tradable inputs jointly affect the value-added of a particular activity. When only the nominal rate of protection is calculated, the tariff on product imports suggests that domestic production will be encouraged to increase their output. However, whether they increase output depends not only on the tariff on furniture imports, but on the tariffs applied to inputs used in their manufacture. While domestic producers are given an implicit subsidy on their production when there are tariffs on competing imports, they also face a tax on their imported inputs, which can neutralize the effect of the implicit subsidy. The ERP therefore measures the net protection on the production process of an industry, such as furniture, rather than simply the gross protection on the industry’s output, such as a chair.

<b>Factor-Intensity</b>	<b>Industry</b>
Human Capital/Technology Intensive	√ Pharmaceuticals
	Motor vehicles
	√ Medical and surgical equipment
	Office and computing machinery
	√ Other chemical products
	Rubber tires
	Lifting and handling equipment
	Instruments for measuring and testing
	Other rubber products
	Other fabricated metal products
	Machinery for textiles, apparel and leather
	Agricultural and forestry machinery
	Publishing of recorded media
Other general purpose machinery	
Other electrical equipment	
Machinery for mining and construction	
Natural Resource-Based	Food supplies
	√ Basic chemicals
	√ Glass and glass products
	√ Printing
Unskilled Labor	Jewelry
	√ Made-up textile articles, excl. apparel
	√ Furniture

Notes: (a) The classification of exports according to their factor intensity is based on the works of Murray (1987) and Fukasuku (1991); (b) a check mark indicates that Jordanian-owned companies currently supply these products from these industries to the Government.  
Source: Table 3.2.

<b>Table 4.4 Jordan's 2001 MFN Applied Tariffs</b>			
<b>HS Section/Description</b>	<b>Average a/</b>	<b>Minimum</b>	<b>Maximum</b>
04 Processed Foods/Tobacco	34%	0%	180%
12 Footwear/Misc. Articles	28%	0%	30%
21 Art/Antiques	28%	10%	30%
20 Misc. Manufactured Articles	26%	0%	30%
19 Arms/Munitions	25%	5%	30%
13 Stone/Glassware	22%	0%	30%
02 Vegetable Products	20%	0%	30%
01 Live Animals/Products	18%	0%	30%
03 Animal/Vegetable Fats	18%	5%	30%
10 Paper/Cellulose Material	18%	0%	30%
18 Precision Instruments	18%	0%	30%
11 Textiles	17%	0%	30%
07 Plastics/Rubber	16%	0%	30%
14 Precious/Semiprec. Mat.	16%	1%	30%
08 Animal Hides/Skins	15%	0%	30%
15 Base Metals	15%	0%	30%
17 Motor Vehicles/Vessels	15%	0%	30%
05 Mineral Products	13%	0%	30%
09 Wood/Wood Articles	13%	0%	30%
16 Machinery/Electrical Equip.	12%	0%	30%
06 Chemical/Industrial Products	10%	0%	30%
Overall	<b>16%</b>	<b>0%</b>	<b>180%</b>
a/ The unweighted estimated average of the complete Most Favored Nation (MFN) applied tariff (viz., includes ad valorem, specific and other portions of MFN tariff). Source: Customs Authority.			

Government procurement policies aiming to support domestic industries need to be formulated in the context of trade policy objectives, and specifically whether they effectively support those trade policies. The effects of these trade policies are reflected in existing effective rates of protection of industries, and government procurement policies can either support or complement that protection. *Complementary government procurement measures* would protect those industries that despite high NRPs in fact are currently receiving little or no protection because of high duties that need to be paid on their inputs. These industries are those whose NRPs are significantly higher than their ERPs. The fact that industries with higher NRPs than ERPs already have low NRPs means that the present guaranteed market of the public sector is the only support currently offered to them. In contrast, *supportive government procurement measures* would aim to promote those industries that benefit from not only high NRPs, but also high ERPs. Since the GOJ's industrial development plan aims to promote high-value added industries, the development of these industries may require not only protection through tariffs, but also a guaranteed market to the GOJ in order to fully develop and eventually compete in the international market place.

<b>Industry Code ISIC Rev 3</b>	<b>Industry Description</b>	<b>Nominal Rate of Protection (NRP) <u>a/</u></b>	<b>Effective Rate of Protection (ERP) <u>b/</u></b>
2899	Manufacture of other fabricated metal products	30%	136%
2610	Manufacture of glass and glass products	30%	79%
2519	Manufacture of other rubber products	30%	76%
3610	Manufacture of furniture	30%	72%
2411	Manufacture of basic chemicals, except fertilizers	30%	72%
2511	Manufacture of rubber tires and tubes	30%	72%
1721	Finishing of textiles	30%	68%
2429	Manufacture of other chemical products n.e.c.	23%	67%
2221	Printing	30%	54%
2915	Manufacture of lifting and handling equipment	23%	44%
2924	Manufacture of machinery for mining and construction	0%	41%
3691	Manufacture of jewelry and related articles	30%	37%
3410	Manufacture of motor vehicles	15%	14%
2919	Manufacture of other general purpose machinery	5%	0%
2423	Manufacture of pharmaceuticals, medicinal chemicals	7%	-1%
3311	Manufacture of medical, surgical equipment	4%	-4%
2921	Manufacture of agricultural and forestry machinery	0%	-5%
3000	Manufacture of office, accounting and computing machinery	6%	<u>b/</u>
3312	Manufacture of instruments for measuring testing	14%	<u>b/</u>
2213	Publishing of recorded media	30%	<u>b/</u>
3190	Manufacture of other electrical equipment	30%	<u>b/</u>
2926	Manufacture of machinery for textile, apparel production	10%	<u>b/</u>

a/ Calculated as the simple average tariff applied to individual products in industry groupings.  
b/ Calculations were limited to those industries for which Jordan recorded data for 1998, the latest year of data availability.  
 Note: NRPs and ERPs were not calculated for the food supply industry since the data obtained from the procurement database are too aggregated and hence codes could not be assigned.

Table 4.5 shows the differences between the NRPs and ERPs. A positive and high correlation (0.79) exists between the two rates of protection, suggesting that some rationale exists in the tariff structure. However, there is a low correlation (0.11) between the ERPs and the ranking of the value of government procurement in 1999-2000, indicating a weak relationship between the level of protection and the value of goods from specific industries purchased by the GOJ. Also, there is a low correlation (0.3) between the ERPs and the percentage of goods of Jordanian origin. It therefore appears that there is considerable room for improved policy coordination in general, and between trade policies and government procurement practices in particular.

## **Chapter 5: Assessing the GPA Impact on Industries**

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### **A. Measuring the Distribution of Benefits and Costs**

The potential benefit of the GPA to Jordanian industries arises from possible trade creation with the public sector of GPA member countries, while the potential cost to these domestic industries arises from the diversion of purchases by the GOJ from domestic suppliers to foreign suppliers. We can measure the trade creation effect of the GPA for Jordan from the identification of products that are most likely to benefit from favorable markets in the GPA countries. Similarly, we can measure the purchase cost from the assumption that in absence of discriminatory policy, the import share of the government sector would equal that of the private sector.

### **B. Benefits of the GPA**

The potential benefits to domestic industries arise from the trade creation effect that Jordanian exporters derive from the public sector of GPA member countries. We can identify those products that are likely to benefit the most using two levels of analysis. The first consists of the growth performance of the GPA member countries in Jordan's major export products. The second type of analysis consists of matching the import growth performance of the GPA member country markets with the export growth performance of Jordan in those products.

The GPA member country market performance in Jordan's major markets provides information on the products that are likely to benefit the most from Jordan's membership. Increased access to those markets, particularly in their public sector component, will provide the private sector in Jordan with guidelines on new investment opportunities. The analysis concentrates on the following: (1) domestic exports of Jordan (excludes re-exports); (2) product aggregation at the 4-digit SITC, Revision 3 level (further disaggregation yielded excessively high year-to-year variations and therefore poor trend performance indicators); and (3) data analysis based on the period 1995-98. The analysis is divided into the following four types of product exports: (a) large traditional product domestic exports, defined as those products that in 1998 represented at least US\$10 million (there were eighteen (18) products in this range); (b) medium-size domestic exports, whose product export value represented between US\$7 million and US\$10 million (there were seventeen (17) products in this range); (c) small-size domestic exports of between US\$5 and US\$7 million (there were seventeen (15) products in this range); and (d) newly emerging domestic exports of between US\$3 and US\$4. There were seventeen (17) products in this range. Using these value ranges, the total number of products in the sample consisted of 67 products.

Table 5.1 shows that a wide range of products with good market prospects in GPA member countries is of interest to Jordanian exporters. More than one-half (39) of the 67 products included in the analysis show strong export potential. Classified according to factor intensity, examples of these products in the natural resource-intensity group include vegetables, citrus fruits, calcium phosphates; those in the human capital and technology-intensive group include medication, convertible seats, and air conditioning parts; and examples of those in the unskilled factor intensity group include carpets, furniture and jewelry.

<b>Table 5.1</b>			
<b>Market Prospects for Jordan's Exports under the GPA</b>			
<b>High-Growth Markets (10% + growth)</b>	<b>Moderate-Growth Markets (5-10% growth)</b>	<b>Slow-Growth Markets (0-5% growth)</b>	<b>Stagnant Markets (negative growth)</b>
Natural calc.phosphates Medicaments Sheep and goats, live Soap Inorganic acid,oxide etc Paper, paperboard, corr. Birds' eggs Paper,paperboard,cut Legumes,dried,shelled Colour televisn receiver Underwear,nightwear Containers,etc.of paper Oth.footwear,lthr.uppers Suits and ensembles Fertilizers, nes Mouldngs for mtl.foundry Shirts Gold,silver jewelry,ware Food waste,animal feeds Oth.citrus,fresh, dried Oth.manufactured tobacco Sodium chloride, etc. Tanks,casks,drums,etc. Oth.plate,sheet,etc. Carpets,etc.woven Convertible seats,parts Wadding,etc.machine use Oth.vinyl chld.copolymer Disinfectant,etc.retail Air conditioning mch,pts Sacks,bags,txtl.material Metal structures,parts Furniture,nes,of wood Albuminoidal subst. etc Underwear,nightwear etc. Chem.products etc.nes Aluminium structure,prts Footwear,nes,rubber,plst Flexible tube,pipe,hoses	Oranges, etc. Fruit,fresh,dried, nes	Printed books,globes etc Building stone,workd.etc Paints and varnishes	Crude natrl.potass.salts Veg.prepared,presrvd,nes Nitrogenous chem.fertilzr Fat,oil,an,vg.prtly,prcd Detergents,except soap Portland cement, etc. Fluorides etc. Carbonates,percarbonates Polycarbonates, etc. Oth.non-ferr.metal waste Pub-transport pass vehcl Veg.prepared,presrvd,nes Herbicides, retail sale Tubes,pipes,hoses, rigid Potatoes,fresh,chilled Fatty acid.etc.from wax Insultd wire,etc.condctr Plastic containers etc. Aluminium,alum.alloy,wrk Dresses Blouses,shirt-blouse,etc Oth.frsh,chll.vegetables Trousers,breeches,etc. Bread, baked goods
Notes: (a) Market criterion is based on growth rates of export values between 1995 and 1998; (b) analysis is limited to Jordan's top 70 exports. Source: PC TAS.			

### C. Costs of the GPA

The methodology to calculate the GPA cost to domestic producers is that based on a recent study assessing the effect of Korea's membership in the GPA (Choi, 1999), which adopted an approach suggested by Baldwin and Richardson (1972). To calculate these costs, we need to obtain data on Jordan's supply (production, imports and stock changes) and distribution (consumption and exports) of each of the products produced by industries affected by government procurement practices. Such data were not available for this study. Moreover, production data classified according to International Standard Industrial Classification (ISIC) yielded unreliable estimates in terms of the Harmonized System (HS) concordances when an attempt was made to match overall trade of each product and overall government procurements and those from domestic manufactures using HS data, with ISIC domestic production values.

<b>HS Code</b>	<b>Product Description</b>	<b>Change in GOJ Procurement from Domestic Suppliers</b>	<b>Change in Overall Domestic Output</b>
940290	Medical, surgical, dental or veterinary furniture	-37.7	-14.1
300490	Medicaments: adhesive dressings	-31.7	-8.9
482090	Manifold business forms and interleaved carbon sets	-25.0	-0.2
940161	Seats w/wooden frames, upholstered	-25.0	-12.9
940330	Wooden office furniture except seats	-25.0	-1.4
940171	Seats w/metal frames, upholstered	-25.0	-43.0
940130	Swivel seats w/variable height ex dentists ets	-25.0	-0.9
370790	Chemical preparations for photographic uses	-20.0	-21.6
630210	Bed linen, of man-made fibres	-13.3	-15.3
300420	Antibiotics, in dosage form	-12.8	-7.3
300410	Penicillin or streptomycin	-12.6	-5.7
300390	Medicaments: nesoi not in dosage form	-11.0	-0.3
901831	Other instruments for medical, surgical, dental uses	-7.5	-4.2
340319	Lubricating preparations cont petroleum	-6.3	-3.0
280430	Nitrogen	-0.5	-0.6

For purposes of our GPA cost calculations, we therefore derived production values from trade and government procurement data. Moreover, since data on private sector consumption levels were also unavailable, we adopted the assumption that the private sector derives 25 percent more of its purchases from foreign sources than does the public sector. This assumption assumes that the private sector is not bound by government discriminatory procurement policies, but that its purchase decisions are influenced by trade policies that mainly affect the duties paid on purchases of foreign-sourced products. The results are intended to provide guidelines to possible costs to domestic industries of the GPA agreement, rather than to estimate its impact on specific industries.

The illustrative impact of the GPA on Jordan's production of selected products is shown in Table 5.2. It assumes that, in the absence of discriminatory policy, the import share of the public sector would equal that of the private sector. What immediately becomes apparent is that the impact of the GPA on GOJ procurement from domestic sources is significantly different from that on Jordan's total production of the products. There are a number of products whose anticipated change in GOJ procurement from domestic sources is likely to be large: medical furniture, medicaments, business supplies, wooden office furniture, wooden and metal seat frames, and swivel chairs. The smallest impact would occur in nitrogen, lubricant preparations containing petroleum and medical instruments.

The ranking is significantly different in terms of the GPA's impact on overall domestic production. In this case the largest effect occurs in upholstered seats, chemical preparations for photographic use, bed linen, medical furniture and wooden seats, while the smallest impact occurs in office supplies, medicaments, nitrogen, swivel chairs and wooden furniture. The reason for the smaller effect in these products, notwithstanding what is often a large government procurement effect is that output is primarily directed to the private sector and/or foreign markets.



The analysis so far permits the GOJ to formulate policies directed at minimizing the negative impact on production of specific goods. An alternative approach, and one that has been emphasized in the present study, is to direct policies at the industry level. In such a case, policies objectives under the GPA negotiations could be directed, among others, to the following objectives: (a) minimizing possible negative effects on domestic industries, (b) minimizing the negative effects on high-technology oriented industries, and (c) minimizing negative effects on labor-intensive industries.

Following this industry-level focus, Table 5.3 provides illustrative calculations for some of the Jordanian industries supplying their products to the GOJ. The industries that would experience the largest decline in government procurement are the printing, furniture, medical and surgical equipment, and pharmaceuticals.

ISIC Rev.3	Industry	Change in GOJ Procurement from Domestic Suppliers	Change in Overall Domestic Output
2221	Printing	-25.0	-0.2
3610	Furniture	-25.0	-7.1
3311	Medical and surgical equipment	-20.4	-68.7
2423	Pharmaceuticals	-19.6	-4.5
2429	Other chemical products	-17.3	-9.5
1721	Made-up textile articles	-13.3	-15.3
2411	Basic chemicals	-0.5	-0.6

These industries, however, are not necessarily the ones that would experience the largest overall decline in output. Medical and surgical equipment would lead the declines since imports are already an important component of overall domestic supplies. In addition, man-made textile articles, and other

chemical products would also experience large domestic output declines. Thus, if we rank the impact by likely changes in government procurement, then the largest effects tend to occur on high-tech/capital intensive industries (medical equipment, pharmaceuticals and printing), as well as labor-intensive (furniture). In contrast, if we rank the impact by overall output effect, then the largest effects occur in all through factor intensity categories: high-tech/capital intensive industries (medical equipment), labor-intensive (textile articles), and natural-resource intensive industries (chemical products).

## **Chapter 6: Implications for GPA Industry Coverage**

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### **A. Product Selection Criteria**

Negotiations to join the GPA are conducted on a bilateral request-offer basis, and the initial offer list presented by Jordan will be of the so-called positive-type. Thus, Jordan will list the names of the government entities and sectors to be covered by the agreement, and this list will serve as a starting point in negotiations. From the point of view of a negotiating strategy, examining the obligations of a GPA member is useful since Jordan can determine the main interests of each country and the common interests of members. Common requests by members will likely provide a good indication of minimum changes to be made to the offer list. Appendices to the GPA, which contain details on each member's commitments, are available on the WTO's web site ([www.wto.org](http://www.wto.org)).<sup>5</sup>

In presenting its initial offer to the WTO, the GOJ will need to identify industries that it wishes to include and exclude from the negotiations. Normally, governments consider three main issues when making such a decision: (i) the interests of domestic industries, (ii) the interests of procuring entities, and (iii) offer lists of members of the GPA. The decision-making process should be based on the presentation of an offer to the WTO that is consistent with its overall development objectives, globalization process, and specific trade and industrial policies.

From the point of view of public sector interests, there is little economic rationale for the Government to purchase domestically manufactured goods at a higher price than what it can obtain duty-free from abroad, other than to protect the domestic industry. Indeed, the cost to the GOJ of buying domestically-produced goods not only reflects the mark-up cost that domestic producers can charge through the nominal protection on their industry, but also the mark-up that domestic producers must charge because of the tariffs levied on material inputs to their industry.

In contrast, a number of industries have strong vested interests in the current government procurement regime, since sales to the GOJ guarantee these industries a market at a higher price than the border price equivalent. The greater the difference between the domestic price and the border price (i.e., the higher the nominal rate of protection), the greater are the interests of the

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<sup>5</sup> Investigating the experiences of other countries in joining the GPA is also useful in determining a negotiating strategy. Unfortunately, little information has been published that is readily available with the exceptions of the negotiations of Korea and China. Korea negotiated its initial offer list at the same time as existing signatories of the GPA under the GATT, so it was concerned with the offers of others involved in the negotiations. Since Korea did not know what the other countries were going to offer, its strategy was to reveal only the minimum commitment before seeing the offers of others, because it would be very difficult to withdraw any part of the initial offer list once the others had seen it. Thus Korea's first offer list was prepared very conservatively, including a minimum number of local government entities and public corporations (for details on Korea's experience in joining the GPA, see Choi, 1999). Jordan is in a better position than Korea because it knows more or less which members of the GPA are most interested in Jordan opening its government procurement market. It also has access to each member's commitments, as mentioned above.

domestic industries in being guaranteed a market. We have seen that about one-half of the industries that provide supplies to the GOJ have nominal rates of protection (NRP) of 30 percent, which is the maximum protection afforded to producers under Jordan's current tariff schedule.

Consistency with existing trade and industrial policies suggests that the GOJ adopt a specific strategy when formulating its offer to the WTO. One strategy would formulate an offer that protected those industries that despite high NRPs in fact currently receiving little or no protection because of high duties that need to be paid on their inputs. Industries with NRPs that are higher than their effective rates of protection (ERP) include the manufacture of motor vehicles, general-purpose machinery, medical equipment and agriculture and forestry machinery. The fact that industries with higher NRPs than ERPs already have low NRPs means that the present guaranteed market of the public sector is the only support currently offered to them.

The other strategy would formulate an offer that promoted those industries already benefiting from not only high NRPs, but also high ERPs, which are more likely to be able to develop within a protected market. The GOJ's industrial development plan has suggested the need to promote high-value added industries, which will therefore need protection through tariffs and discriminatory government procurement to fully develop and compete in the international market place. Examples of these industries include metal products, glass products, furniture and rubber products.

## **B. Illustrative Industry Coverage**

Members of the GPA have adopted a variety of strategies for selecting industries to include or exclude from their list. But Ninni (2001) has found that in emerging and developing economies, government procurement policies are often used to protect industries.<sup>6</sup> The usual arguments advanced for the exclusions and exemptions, according to Choi (1999), are developing country status, national security, preference to small firms, regional development, infant industry, internal political reality, and cultural differences.

Table 6.1 illustrates the types of industries that would be excluded from the offer list to support the GOJ's current trade and industrial policies. A strategy aiming to promote industries with high nominal protection but low effective protection would exclude products originating from manufacturers of pharmaceuticals, medical and surgical equipment, and agricultural and forestry machinery. Likewise, a strategy to promote those industries already enjoying high levels of both nominal and effective rates of protection would exclude manufacturers of fabricated metal products, glass and glass products, rubber products, furniture, basic chemicals, and rubber tires and tubes. The type of information required to select these products are nominal rates of protection (NRP), which are readily available, and effective rates of protection (ERP), which require calculation of protection on the final products as well as the intermediate goods used to produce each of those products.

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<sup>6</sup> Indeed, Ninni (2001) found that only Taiwan uses government procurement to nurture its dynamic domestic industries. All other countries in his survey use procurements to shelter domestic industries from foreign competition.

<b>Table 6.1 Alternative Strategies for GPA Negotiations and Products to Exclude from Offer</b>						
<b>Strategy</b>	<b>Illustrative Products to Exclude from Offer List</b>					
<b>Promote High-Tech Industries</b>	Pharmaceuticals	Medical equipment	Chemical products	Inorganic Chemicals	Dyeing, Tanning Materials	Essential Oils, Perfume Materials
<b>Promote Labor-Intensive Industries</b>	Furniture	Made-up textile articles	Jewelry	Leather and Manufactures	Travel Goods and Handbags	Clothing
<b>Promote Industries with High Rates of Effective Protection</b>	Fabricated metal products	Glass and glass products	Rubber products	Furniture	Basic chemicals	Rubber tires and tubes
<b>Promote Industries with High Nominal Protection but Low Effective Protection</b>	Pharmaceuticals	Medical, surgical equipment	Agricultural and forestry machinery			
<b>Promote High Export Growth Industries</b>	Medicines	Wooden office furniture	Paper, paperboard	Containers.of paper	Soaps	Carpets
<b>Minimize Impact on Government Procurement from Domestic Industries</b>	Medical furniture	Medicaments	Manifold business forms	Seats with wooden frames	Wooden office furniture	Swivel seats
<b>Minimize Impact on Domestic Output</b>	Seats with metal frames	Chemical preparations for photographic uses	Bed linen	Medical furniture	Seats with wooden frames	Medicines

A broader approach requiring less calculation would target for exclusion from the offer list types of products classified according to factor intensity. One strategy using this approach would target high-technology and capital intensive products in which supports the GOJ's current development objectives. Products excluded from the offer list using this strategy include those produced by manufacturers of pharmaceuticals, medical and surgical equipment, chemical products, inorganic chemicals, dyeing and tanning, and oils and perfume materials. Another strategy would target labor-intensive industries to support the employment objectives of the GOJ's development plan to minimize the GPA impact on employment. Products excluded from the offer list using this strategy would include those produced by manufacturers of furniture, made-up textile articles, jewelry, leather and manufactures, travel goods and handbags, and clothing. The Annex provides a list of products classified at the 2-digit HS level in terms of their factor intensity.

Yet another approach to selecting products to exclude from the offer would either minimize the impact of the GPA on procurement changes by the government or, more broadly, minimize the overall output effect at the industry level from the GPA. Table 6.1 illustrates some of the products that would be excluded from the offer to the WTO because of the large impact that international competition is likely to have on their industries. However, it is important to emphasize that lack of data on the origin and distribution of goods in both the public and private sectors of the economy required us to make important assumptions when calculating the effects of the GPA on the production of domestic industries. Nevertheless, the results provide guidelines for the types of industries that are most likely to be affected by Jordan's membership in the GPA.

### **C. Concluding Remarks**

The possible accession of Jordan to the GPA raises many important issues in terms of costs and benefits. The main benefits of accession to the GPA are increased transparency and therefore reduced corruption, access to other signatories' procurement markets, and fostering of competition that would likely decrease government procurement costs and ease budget constraints. The potential problems for Jordan's accession are associated with the use of offsets in the qualification and selection of suppliers of products or services, or in the evaluation of tenders and award of contracts. At present, foreign suppliers are permitted to participate in government procurement only through the presence of a local agent, regional office or a legally established Jordanian company. Under the GPA the use of offsets would have to be reduced, which could dampen the development of some industries, especially those whose goods and services are mainly directed to the public sector. The GOJ's negotiation of the offer list will therefore be critical to the final outcome of Jordan's membership in the GPA. This study has sought to use readily available data for identifying ways to maximize the benefits of membership and minimize its costs.

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