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## **How Jordan Survives: Part 2**

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Jordan suffers chronic deficits in the balance of payments and as a result has been dependent on inflows of funds from abroad. These largely consist of remittances from Jordanian workers in the Gulf and grants and investments from Arab states in the Gulf and other countries, most notably the United States. Foreign aid is included in net development assistance in Table 1.

In recent years, the current account of the balance of payments has deteriorated massively. In the period 2001 to 2005, there was a surplus, averaging \$127 million per year. From 2006 to 2010, the surplus became a deficit averaging almost \$2 billion annually, while from 2011 to 2015 it reached just over \$3.4 billion each year. This has occurred despite the fall in the cost of imported oil since 2014. In 2014 the cost of oil imports peaked at \$5.5 billion (15.3 percent of GDP), and in 2015 it fell to an estimated \$3.6 billion (9.4 percent).

**Table 1**

**The Balance of Payments, 2008-2015 (\$ billions)**

	2008	2009	2010	2011	2012	2013	2014	2015
Current account	-2.875	-1.243	-1.822	-2.956	-4.711	-3.504	-2.608	-3.332
Merchandise exports	7.938	6.375	7.028	8.006	7.887	7.913	8.385	7.829

Merchandise imports	16.995	14.236	15.564	18.930	20.752	22.067	22.930	20.332
Workers remittances	3.510	3.465	3.623	3.684	3.848	5.343	6.370	5.348
Net official development assistance	0.738	0.740	0.951	0.971	1.157	1.403	2.699	1.179
Net foreign direct investment	2.827	2.413	1.688	1.486	1.513	1.806	2.009	1.275

Source: World Bank and Central Bank of Jordan

Weaker economic conditions in the Gulf have reduced the amount of aid and investment, as well the volume of remittances from Jordanian workers. Remittances alone have been equivalent to 15–20 percent of national income. The Gulf is also the main destination for Jordanian exports and it supplies most of its energy requirements. Additionally, Jordan receives substantial grants and foreign direct investment from the GCC.

Inflows of workers' remittances, foreign investment, and tourism revenues have been negatively affected by regional conflict and tension. Therefore, while the balance on trade improved because of lower oil import costs, the current account, which includes remittances and services, deteriorated. The reduction of these inflows was an important factor in the slowdown of the economy.

The share of foreign debt in gross national income declined from 129 percent in 2000 to almost 62 percent in 2008, but has risen since then to 68.5 percent in 2014. Total public debt, which includes internal and external debt, rose from 89 percent to 93.4 percent, and this poses an increasing burden on the budget because of the interest that has to be paid.

The reliance on energy imports meant that Jordan was subject to the instabilities prevailing in international energy markets. These have included fluctuations in prices and disruptions to supply as a result of terrorist attacks on gas pipelines. In 2000, Jordan

imported 94.1 percent of its energy needs and by 2011 this had reached 96.1 percent. As it has very limited refining capacity, it imports refined as well as crude oil. In 2000, the cost of energy imports came to 7.5 percent of GDP, in 2010 it was 11.6 percent, and in 2012 it was 19 percent, falling to 16.2 percent in 2013.

The price and availability of fuel has been perhaps the most sensitive issue in Jordan's delicate political economy. In order to reduce the costs of energy to consumers, the government held prices below those that would be dictated by international costs.

Between 2010 and 2011, the cost of energy subsidies rose from 1.3 percent of GDP to 6.3 percent. This was the result of a reversal of policies designed to reduce subsidies that had been implemented since 2005. As a result of rising international prices for oil and shortages of gas imported from Egypt due to terrorist attacks, the government tried to hold down domestic prices. The electricity subsidy was the difference between the National Electric Power Company's (NEPCO) cost recovery price and the wholesale price charged to distributors. This gap rose almost seven-fold between 2010 and 2011. As a result of attacks on the pipeline bringing gas from Egypt, Jordan had to increase imports of fuel oil. As a result, NEPCO's debt nearly tripled in those years.

Energy subsidies benefited the better-off, who consumed much more energy than the poor, encouraging consumption and weakening the balance of payments. In 2012, the government ended energy subsidies, with the exception of those on liquid petroleum gas used for cooking. It also introduced a five-year electricity tariff adjustment program that was designed to enable the National Electricity Production Company (NEPCO) to reach full cost recovery by 2017.

This announcement resulted in a major outbreak of unrest throughout the country. These took place as King Abdullah struggled to contain a growing and increasingly diverse opposition that threatened to undermine the tribal support that underlies the Kingdom's stability. Facing a \$3 billion budget deficit, attributed largely to the disappearance of financial aid from the Gulf Arab states, the government tried to reduce fuel subsidies — effectively raising prices by 10 percent in September 2012, only to reverse itself a day later after thousands took to the streets. The cabinet then announced

a cut in subsidies that would result in increases of 14 percent on prices at the pump and more than 50 percent for gas used for cooking.

In 2014, as international prices for oil fell, reforms became easier to implement. Energy diversification has been pursued with the opening in 2015 of a liquid natural gas (LNG) terminal in Aqaba. This resulted in a very large increase in gas-to-power and reduced reliance on diesel and fuel oil.

In 2016, NEPCO signed an agreement with Noble Energy, under which the latter will provide 40 percent of the Kingdom's electricity-generating needs from the Israeli Leviathan gas field. The contract was for 300 million cubic feet (8.5 million cubic meters) of gas per day over a 15-year term.

Jordan is one of the driest countries in the world, yet its population growth rate (both the natural rate and that including refugees) is one of the fastest. In 2014, it had 123 cubic meters of water per person per year, less than 25 percent of the international water poverty line of 500 cubic meters. Adding the 1.3 million Syrian refugees brought the volume per person down to 105 cubic meters.

The Syrian crisis increased water demand in Jordan by an average of 22 percent, but in areas where Syrian refugees are concentrated, water demand increased by 40 percent, which means that water and sanitation infrastructure must expand. Jordan has to do today what normally takes 10 years to accomplish, along with all the associated capital investment.

The Water Authority of Jordan has faced increased demand and reduced subsidies, while water prices in Jordan remain low by international standards. The water collection and distribution systems are inefficient with much water lost due to overdrawing from highland aquifers, resulting in lower water tables and declining water quality. This is unsustainable.

In 2013, Jordan consumed 902 million cubic meters of water: 53 percent for irrigation and 42 percent for domestic use, and the rest for industry and other sectors. In that year precipitation yielded 8,194 million cubic meters, 95 percent of which was lost to

evaporation. The volume and predictability of precipitation has been affected by climate change. Population growth and urbanization have increased demand and led to the overexploitation of aquifers and the contamination of supplies. Groundwater has been polluted by fertilizers in the irrigation system.

At the end of 2015, there were 689,053 registered refugees in Jordan and 24,935 asylum seekers. They were equal to 10 percent of the population. According to the census, there were a total of 1.3 million Syrians, equal to 19 percent of the population. The influx of refugees has increased pressure on Jordan's infrastructure and resources, including its fragile economy and social fabric. The effects of the Syrian refugee crisis on the Jordanian labor market include a drop in average wage levels, lower employment opportunities, harsher working conditions, increasing child labor, and an expansion of the informal labor market. Since 2003, there have also been large numbers of Iraqi refugees in Jordan. The exact number is not known but estimates range between 200,000 and 450,000.

In January 2016, it was reported that rent in towns near the Syrian border had nearly tripled, making housing unaffordable for many Jordanians. The hospitals, schools, sanitation, and water systems were also under severe strain. Some Jordanian observers questioned the wisdom of continuing to accept Syrian refugees and warned that resource, budget, and demographic pressures might disrupt life in the country for at least a decade. According to an official estimate, the direct cost of the refugee crisis to the government from the beginning of the conflict in Syria was forecast at \$4.2 billion by 2016.

Given the magnitude of the economic problems that Jordan faces, preserving financial stability has been an impressive achievement. This should, however, be seen in the wider context of the slowdown of growth and the very alarming state of the labor market. Like elsewhere in the region, unemployment and poverty have generated frustration and encouraged extremist politics, leading to Jordanian participation in terrorism.

The economy does not provide enough employment that meets the requirements of a labor force that is relatively well educated and wants well paid jobs. The result is

emigration and unemployment among Jordanians, as well as reliance on imported labor for low skilled tasks. Military spending is high, which is expected given the threats from abroad and the potential for unrest at home. It is, however a burden on the budget. The state budget and balance of payments are in deficit and the inflow of resources from abroad has been unstable. Despite this, the regime has remained in power and Jordan has avoided the chaos that followed the outbreak of the Arab Spring elsewhere. How has this been possible?

Jordan has received refugees in huge numbers since the 1940s. During the Arab-Israel war of 1947-49, hundreds of thousands fled the West Bank to Jordan. More left in 1967 when Jordan lost control of the West Bank. In 1991, large numbers of Jordanians and Palestinians left Kuwait and other Gulf states and returned to Jordan. From the early 1990s, refugees arrived from Iraq and their numbers increased after 2003. The most recent and largest inflow from Syria should be seen in this context.

The ruling Hashemites and their closest supporters and associates, the East Bank Bedouin, have always been a minority in their own country. This was even true after 1967, when Jordan lost the West Bank and part of its Palestinian population. From the country's foundation there was a division of labor: the Palestinians were dominant in the business community and the East Bankers formed the army, police, and civil service. Each side needed the other and the fact that they were both Sunni contributed to stability, especially after the Arab Spring when Sunni-Shi'a tensions rose throughout the region.

Jordan has been surrounded by countries in conflict for many years. Civil wars are raging in neighboring Iraq and Syria, and the Israeli-Palestinian conflict continues. Although it has been severely weakened, the Islamic State and other Sunni extremist groups remain active and have staged attacks in Jordan. Iran has reemerged following the nuclear agreement and is increasing its influence in Iraq and Syria, while it maintains its foothold in Lebanon through Hizballah.

King Hussein, who ruled for forty seven years until his death in 1999, was very popular, not only as a symbol of unity, but also because he was seen as effective. His son, Abdullah may not be as popular but he has managed to remain in power and maintain

Jordan's unity and security for nearly two decades. There has been opposition both to the lack of democracy or its weakness, as well as to the corruption of those close to the court. There has also been opposition to the king's pro-Western policies and relations with Israel. In recent years these have been seen through the prism of religiosity: Jordan's pro-Western orientation has been seen as anti-Islamic. The king has committed Jordan to the fight against the Islamic State and Islamic radicalism more generally. He has also warned of the danger posed by Iran to Sunni states in the region.

Internally the Muslim Brotherhood, known as the Islamic Action Front (IAF), boycotted the entire electoral process in 2010 and 2013. Since then, it has had change in leadership and a softening of its ideology, which led to a shift in its position on the elections. In 2015, it took part in the general elections but did not do well. The weak performance of the Front was due to its ties to the Egyptian Muslim Brotherhood, which was removed from government after only a year in power and is now hounded by the Egyptian authorities. Another reason was the hatred and fear of the Islamic State by many, which grew stronger in January 2015, following the brutal murder of a Jordanian pilot, who was held captive by the Islamic State in Syria.

The secret of monarchic survival and the relative stability of Jordan is the ruler's appeal to all sections of society: he represents tradition, continuity, and stability. The king has also managed to obtain foreign aid and foreign political support including military aid, all designed to maintain stability in Jordan. This has eased the severe economic constraints that prevail.

The September 2016 elections for the lower house of parliament provided an indication of the political challenges facing Jordan. The elections were held under a new law allowing multiple votes for open proportional lists. This replaced the long standing single-vote system, which has been criticized for years by various political players, especially the Muslim Brotherhood. The Muslim Brotherhood, which had boycotted the last two elections decided to contest the poll through its political arm, the Islamic Action Front. In all, 1,252 candidates ran in 226 lists in the elections.

Voter turnout was very low, reflecting discontent with the system of government. Jordan has more than four million registered voters but one million reside outside the country

and cannot vote. Voter turnout was only 37 percent, compared to over 50 percent in the 2013 elections. A lack of confidence in the role of the legislature and its limited influence on government policies have been cited as reasons for the low turnout. The Islamists won 15 out of the 120 seats. Political parties won approximately 17 percent of the seats, almost two-thirds of which belonged to Islamist parties. No nationalist or leftist party gained representation. Independent deputies, mainly businessmen, professionals, and tribal figures accounted for the majority of the seats. At least 50 candidates were re-elected.

One new development was that the Ma'an (Together) list made history by winning two seats. This was a modest indication of a growing debate in Jordan within the political elite on the need to create a civic, secular, and democratic society to confront both authoritarian and religiously driven agendas.

After the elections, the king reappointed the same unelected cabinet that had been in office, with only a few minor alterations, and has proceeded to rule by royal decree. Unpopular decisions to buy gas from Israel, and to revise the school curriculum by removing controversial Qur'anic verses, were issued as royal decrees. In October 2016, these moves were followed by riots in a suburb of Amman, after a series of police raids there.

As the Muslim Brotherhood is seen by many as pro-royal, the aggrieved have found more extreme outlets. As a result, there has been support for the Islamic State despite its brutal execution of the Jordanian pilot.

Despite its Western orientation, Jordan is a deeply conservative country. A reflection of this is the female labor force participation rate: at 13.3 percent in 2015, it was even lower than Saudi Arabia. The conservative or even fundamentalist nature of significant parts of society was revealed after the September 2016 killing of a well-known journalist, Nahid Hattar. He had been accused of insulting Islam and was shot dead on the steps of Amman's courthouse before hearings on blasphemy charges. There was much support for his killer on social media in Jordan. With all these conflicting pressures, King Abdullah will have to continue walking an economic and political tightrope for the foreseeable future.