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How Jordan Survives: Part 1

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Jordan's survival as a unified state under a Hashemite monarch has been one of the most remarkable phenomena in the Middle East. In many ways, Jordan has had everything going against it. It is one of the driest countries in the world and has no significant energy resources. It has one port and a very short coastline and is surrounded by countries that have often been hostile or have suffered from conflict. In recent years it has experienced a massive inflow of refugees from Syria, the threat from the Islamic State, as well as internal problems such as rapid demographic growth resulting in shortages of fuel and water, as well as a precarious economy that relies on its relations with Arab states in the Gulf. The kingdom is therefore exposed to numerous political and economic pressures in a very unstable region. For many years there was a concern that the division of the population between East Bankers and Palestinians could cause internal conflict, but that fear has been replaced by other anxieties. This edition of *Iqtisadi* examines the demographic, labor market, and budgetary problems that Jordan has faced.

The population of Jordan has grown rapidly from 5.3 million in 2005 to 7.6 million in 2015. The demographic growth rate decelerated from just over four percent in 2005-2010 to 3.06 percent in 2010-2015. Even this lower rate is one of the fastest in the world and presents major challenges. These demographics mean that the economy needs to grow rapidly to prevent incomes from falling and to increase allocations for education, health, and other basic services. Furthermore, these figures exclude the huge number of refugees that have fled to Jordan from Syria since 2011.

As in other parts of the Middle East, Jordan has experienced demographic transition which means that its population is very young. In 2015, almost 63 percent of the population was less than 30 years old. This has had major consequences for unemployment: the economy has not produced enough jobs to keep up with the growth of the labor force and unemployment, especially among the young.

The labor force, which includes those at work and the unemployed, is now growing at about four percent a year, slightly less than it did between 2006 and 2011, but twice the rate of growth between 2000 and 2005. The unemployment rate declined from 2000-2005, when it averaged 14.7 percent a year, to 13 percent in 2006-2011, and 12 percent in 2012-2014, but has increased since then.

The Jordanian labor market has many peculiarities. About 10 percent of the population works in the Gulf States while the economy is heavily dependent on foreign labor, despite high and persistent unemployment among Jordanians.

There is considerable uncertainty about the number of foreign workers in Jordan. At the end of 2012, the Ministry of Labor stated that there were 235,000 registered migrant workers, two thirds of whom were Egyptians, while the total number of migrant workers, including those unregistered, was estimated at 400,000. In November 2013, a figure of about 1.5 million foreign workers was published in the Jordanian press, most of whom were Egyptians and Syrians. Of these, 500,000 were unregistered. There were also tens of thousands of workers from South and East Asia, primarily employed in agriculture, construction, garment, tourism, and domestic work. It was estimated that there were almost 40,000 registered domestic workers in Jordan from the Philippines, Sri Lanka, Bangladesh, and Indonesia, and almost the same number unregistered. In addition there were almost 33,000 migrants working in thirteen Qualified Industrial Zones, producing goods that enter the U.S. without import duties, under the Jordan-U.S. free trade agreement.

Job creation in Jordan has been mainly low-status, low-skill, and badly paid. High value-added jobs that paid adequate wages, and met the expectations of Jordanian youth, were available abroad rather than at home in the requisite volume. As a result, over 600,000 Jordanians, equal to half of the Jordanian labor force at home, worked abroad. Many of the jobs created in the economy have gone to expatriate workers:

between 2005 and 2009, migrant workers occupied up to 63 percent of jobs created, while over 180,000 Jordanians were unemployed. This trend has continued since then and as a result, foreign workers constitute almost half of private sector employment, compared with 20 percent 10 years ago. The share of non-Jordanians in total employment increased from 23 percent in 2006 to an estimated 27 percent in 2011.

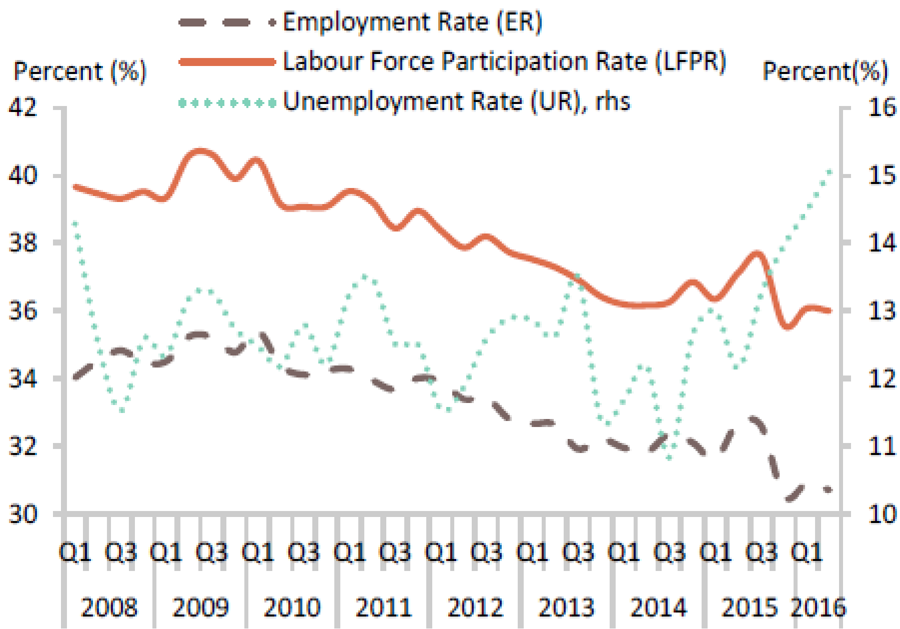
The majority of foreign workers in Jordan are low-skilled, with statistics from 2009 confirming that almost 90 percent of registered foreign workers were illiterate. Under one percent of foreign workers held an undergraduate degree or above. The majority were in the production, agriculture, and services sectors.

As a result of slow economic growth, unemployment has worsened reaching its highest level since 2007. Unemployment in Jordan is heavily concentrated among young people: those aged 15 to 24 years account for about 50 percent of the unemployed, and at 28 percent, the youth unemployment rate is among the highest in the world. Like other Arab countries, unemployment in Jordan tends to be highest among the educated. In the second quarter of 2016, the overall unemployment rate was 14.7 percent. Unemployment among 15-19 year-olds was 40.2 percent and among 20-24 year-olds it was 33.3 percent. Among those with an undergraduate degree, the male rate of unemployment was 21.4 percent and the female rate was 70.7 percent.

High unemployment, together with a low labor force participation rate, has resulted in a very low ratio of employment to working-age population. At about 40 percent, the labor force participation rate in Jordan is low when compared to elsewhere. With about 35 percent of working-age people employed, this rate is also among the lowest worldwide. The overall employment rate has fallen sharply since 2009 to only 31.9 percent in mid-2015.

The labor market trends over the last eight years are summarized in Figure 1. This shows the sharp rise in unemployment during the last two years and the falling employment and labor force participation rates over the longer period.

Figure 1: The Labor Market, 2008-2016



Source: The World Bank

For many years finance and insurance have been the largest sectors in the Jordanian economy, followed by government services, transport, and telecommunications and manufacturing. The joint share of trade, restaurants, and hotels declined from 17 percent of GDP between 1980 and 1989 to less than 10 percent between 2000 and 2010. The manufacturing sector doubled in size between 1980 and 2010, largely as a result of the development of exports of garments and other items sold to the U.S. under the free trade agreement from so-called Qualified Industrial Zones that employed large numbers of low-skilled foreign workers.

Economic growth has slowed down. Real growth of GDP averaged 2.8 percent a year in 2011–2015, compared with 6.5 percent in 2002–2010. This was closely connected to regional problems that led to a decline in exports, tourism revenues, foreign investment and the remittances of Jordanian workers in the Gulf. As a result, the investment rate declined as did consumption. The government did not compensate for weaknesses of the private sector because it was trying to contain the fiscal deficit, and the net effect of weak demand in the private and public sectors was slower growth. As a result, the rate of economic growth was too slow to generate enough employment to absorb the numbers coming onto the labor market and so unemployment rose.

Table 1 shows the development of the government budget in the period 2005 to 2015. The first point to note is the low level of government revenues from internal sources. Not only is the share low but it has fallen over the last decade. The volume of grants received from abroad fluctuated from year to year and as a result total revenues fell. Expenditures also declined, including the share allocated to investment. As a result the deficit, after allowing for foreign grants, was reduced from an average annual of 5.8 percent of GDP from 2005 to 2012 to an average of 3.7 percent from 2013 to 2015.

Table 1: Jordan: Fiscal Developments, 2005-2015 (percent of GDP)

	2005	2010	2015
Domestic revenues	28.7	22.3	21.8
Foreign grants	5.6	2.1	3.3
Total revenues	34.3	30.4	25.0
Current expenditure	32.6	25.3	25.0
Capital Expenditure	7.1	5.1	4.1
Total expenditure	39.6	33.1	28.5
Balance including grants	-5.3	-5.8	-3.4
Balance excluding grants	-10.9	-7.7	-6.7
Total external public foreign debt	56.7	24.6	34.6
Total domestic debt	28.2	35.0	41.0

Source: Jordan, Ministry of Finance

These figures do not, however, tell the whole story of Jordan's fiscal plight and this can be seen by looking at the 2016 budget. The 2016 central government budget included total expenses of 8.5 billion dinars ($12 billion), total revenues of 7.6 billion dinars ($10.7 billion), and a deficit of 907 million dinars ($1.3 billion, equal to about three percent of GDP). Revenues consisted of almost $9.6 billion from internal sources, and foreign aid totaling $1.2 billion. This was not the whole public sector budget; the National Electric Power Company (including water) accounted for the budget of several government functions, with expenses of about $2.7 billion and revenues of $2.2 billion (including $88 million in foreign aid), leaving a deficit of $530 million (or $618 million excluding aid). The combined public sector budget included spending of $14.7 billion, about 79 percent was covered by revenues ($11.6 billion), 9 percent by aid ($1.3 billion), and 12 percent was a deficit funded by the issue of new debt. As a result of the rise in internal debt, interest payments rose from 7 percent of total government spending in 2010 to 11.8 percent in 2015.

The impact of tight budgetary policy against the background of natural population growth and the influx of refugees has been dramatic at the local government level. Municipalities have suffered rising debt, a crippling salary burden, an uncertain revenue base both from local taxes and central government transfers. According to a World Bank study released in November 2013, municipalities had experienced on average a 29 percent fall in per capita expenditure (presumably over the previous year). In Al Mafraq, the governorate that borders Syria, the reduction was 55.5 percent.

These figures are an indication of the problems that the government faces. It lacks the revenues to tackle the shortage of infrastructure for a rapidly increasing population. Recent economic developments including the slowdown of economic growth and the limited volume of foreign grants mean that the fiscal problem has become even more severe.

The November edition of *Iqtisadi* will look at Jordan's balance of payments, foreign debt, energy, and water problems. It will then examine the politics of survival in a hostile environment.