

Economic Situation in Jordan

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Question

What is the economic situation in Jordan? What are the constraints and challenges faced? What opportunities are there to promote growth? Please identify key sectors with growth/export potential.

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1. Overview

Jordan has one of the smallest economies in the Middle East, and its lack of natural resources and water scarcity make it heavily dependent on foreign aid and foreign investment. Following the global financial crisis of 2008 growth slowed significantly; the deteriorating regional situation since 2011 and subsequent mass influx of Syrian refugees has made recovery difficult, though marginal increases in growth are predicted in coming years. Growth is also hampered by underlying structural issues which need to be addressed, notably unsustainable expenditure on subsidies and high levels of public debt. The government is committed to reform and has taken a number of steps in this regard, but it is constrained by the need to maintain public support, particularly among its traditional Transjordanian (Jordan's 'original' population) support base.

Looking ahead, Jordan faces significant challenges, particularly in relation to hosting a vast Syrian refugee population, and the risks of on-going/heightened regional instability and conflict. However, there is also potential for strengthened economic growth, particularly if the requisite reforms are implemented.

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The key points emerging from the literature are as follows:

- **Macroeconomic performance is mixed:** Jordan's annual GDP growth dropped from 8 percent prior to the 2008 global financial crisis to 2.6 percent in 2011.¹ It has since recovered slightly, and predictions for 2016 range from 2.6 percent to 3.5 percent (ibid and World Bank²). However, the trade deficit is high at 26.3 percent in 2015 – largely because of the reliance on energy and food imports – and expenditure exceeds revenues, resulting in a fiscal deficit of 6.6 percent in 2015 (down from 12.7 percent in 2012).³ The debt to GDP ratio has risen alarmingly from 57 percent in 2011 to 90 percent in 2015. While foreign currency reserves are high and inflation is stable, the informal sector is significant accounting for an estimated 25 percent of GDP (BTI, 2016: 23) and unemployment levels are high, particularly among the young.
- **Key sectors and trading partners:** The Jordanian economy is dominated by the services sector, which accounts for 70 percent of GDP (2010) and 80 percent of employment (SNAP, 2014: 4). The main exports are mineral and chemical products, manufactured goods and food products, while the main imports are oil, grains, other food products and vehicles (SNAP, 2014). Jordan's main trading partners are MENA countries, the EU, US and China.
- **Refugee crisis impact:** The influx of over 650,000 Syrian refugees has placed a huge burden on Jordan's infrastructure and public services. However, the Jordanian economy has also benefited from Syrian capital, increased expenditure, increased rental income and ready availability of cheap labour (SNAP, 2014). The overall economic impact of the refugee crisis is debated, but looking ahead, as donor funding diminishes and pressure on services and jobs increases, the effects are likely to be negative.
- **Fiscal reforms:** King Abdullah is committed to neoliberal economic reform, and this has also been a requirement under agreements with the IMF. However, a legacy of providing public sector jobs, and generous fuel, food and other subsidies, means that efforts by the government to reduce these have aroused strong public opposition. A limited programme of reforms has been implemented to date. Nonetheless international institutions such as the IMF and World Bank have expressed confidence in the country's macroeconomic policies.
- **Energy and water scarcity:** Jordan is dependent on imports for 96 percent of its energy (SNAP, 2014: 4). Instability in Egypt disrupted fuel supplies from there, forcing Jordan to buy elsewhere at higher prices. However, the government has signed agreements with Shell, and Gulf countries for supply of energy, and is actively pursuing energy diversification and independence, e.g. through wind and solar power projects and nuclear power (IJzerloo, 2016). Jordan is among the world's five most poor countries in terms of water, a problem exacerbated by weak management and, in recent years, the refugee crisis. The government has reached an agreement with Israel and the Palestinian Authority for supply of water from the Red Sea (Sharp, 2016).

¹ <http://www.focus-economics.com/countries/jordan>

² Cited in Program-for-results Information Document (PID) of Economic Opportunities for Jordanians and Syrian Refugees Programme.

³ <http://www.focus-economics.com/countries/jordan>

- **Vision 2025 and sectoral opportunities:** The government has articulated a ten-year plan to boost GDP growth and reduce public debt. The strategy for this is export-orientated and cluster based, seeking to expand sectors that are doing well, and develop related sectors. Specific sectoral opportunities include for oil shale extraction in the energy sector, development of ICT and a knowledge economy, and promotion of tourism.

2. Key economic data

Macroeconomic performance

Jordan has a GDP of USD 39 billion, making it among the smallest economies in the Middle East (Ijzerloo, 2016: 3). The World Bank categorises Jordan as an upper middle income country. GDP per capita in 2015 was USD 4,947.⁴

Prior to the 2008 global economic crisis, GDP growth in Jordan was impressive, with four consecutive years of 8 percent annual growth (ibid: 2). This was driven in part by the return of Palestinian Jordanians from Kuwait and their investments in local enterprises (SNAP, 2014), as well as by government fiscal reforms. However, the growth rate dropped to 2.6 percent in 2011, rose slightly in subsequent years, but fell again in 2015 to 2.4 percent.⁵ The main factors leading to the downturn are regional instability, the influx of large numbers of Syrian refugees, heavy reliance on foreign aid, water scarcity and expensive energy imports (see below). Predictions for the years ahead vary from 2.6 percent in 2016 and 3.1 percent in 2017 (ibid) to 3.5 percent in 2016 and 3.8 percent in 2017 (World Bank⁶).

Jordan is poor in natural resources, and therefore reliant on imports of energy and food. This in turn means the country maintains significant trade deficits: imports are three times greater than exports (SNAP, 2014). The trade deficit reached a high of 34.7 percent in 2013, before dropping back to 26.3 percent in 2015 (Ijzerloo, 2016: 4). Expenditure exceeds revenues. Jordan's fiscal deficit reached 12.7 percent of GDP in 2012, but thanks in part to fiscal reforms undertaken as part of a USD 2 billion IMF agreement, as well as reduced import spending due to lower oil prices, this fell to 6.6 percent in 2015 (Ijzerloo, 2016: 3). However, the debt to GDP ratio has been rising. In August 2011 the country's overall national debt was USD 16.9 billion, equivalent to 57 percent of GDP, but this shot up to 90 percent in 2015 as a result of a USD 3.2 billion increase in public debt (Sowell, 2016). The recently approved 2016 budget provides for total expenses of USD 11.983 billion, total revenues of USD 10.704 billion, and a deficit of USD 1.279 billion, equivalent to 3 percent of GDP (Sowell, 2016).

Foreign currency reserves are high – USD 12.1 billion in 2013 rising to USD 16 billion in September 2014 (BTI, 2016: 19 and 23). Inflation has remained generally stable, except in the immediate aftermath of the global financial crisis due to changing international prices. Global price increases affect Jordan badly since it imports almost 90 percent of its food and energy (BTI,

⁴ <http://www.imf.org/en/Countries/Infographics/2016-Jordan-and-the-IMF-Infographic>

⁵ <http://www.focus-economics.com/countries/jordan>

⁶ Cited in Program-for-results Information Document (PID) of Economic Opportunities for Jordanians and Syrian Refugees Programme.

2016). Inflation rose again in 2012 following government cuts in fuel subsidies, reaching a high of 5.5 percent in 2013 (ibid). However it dropped to 2.9 percent in 2014.⁷

The share of the informal economy is significant: in 2010 it was estimated to account for 44 percent of total employment and 21 percent of GDP (SNAP, 2014: 4). These figures are since believed to have increased, with the informal economy now accounting for around 25 percent of GDP (BTI, 2016: 23). This is in large measure due to the influx of Syrian refugees, willing to take on low-paid informal sector work.

Unemployment is officially 13.1 percent (2015)⁸, but in reality this figure is thought to be much higher (Schenker, 2015). Youth unemployment is even higher, at 30 percent (ibid). Labour market participation is only about 36 percent and falling (ibid).

Key sectors and trading partners

The Jordanian economy is dominated by the services sector, which accounts for 70 percent of GDP (2010) and 80 percent of employment (SNAP, 2014: 4). Agriculture contributes only 3.6 percent of GDP and accounts for 2 percent of total employment (ibid). Severe constraints on land and water limit agricultural potential; a situation made worse by land fragmentation and absentee owners living in cities (IFAD, 2014).

The main exports are mineral and chemical products, manufactured goods and food products. Data for 2014 compiled by the Observatory of Economic Complexity listed top exports as: potassic fertilisers (USD 938M), calcium phosphates (USD 553M), packaged medicaments (USD 431M), clothing (USD 395M), and mixed mineral or chemical fertilisers (USD 394M).⁹ The country's main imports are oil, grains, other food products and vehicles (SNAP, 2014). Data on top imports for 2014 listed these as follows: refined petroleum (USD 3.2B), crude petroleum (USD 2.13B), cars (USD 1.18B), wheat (USD 577M) and gold (USD 540M) (ibid). Jordan's main trading partners are MENA countries, the EU, US and China. In 2015 the EU was Jordan's most important trading partner, with total trade in goods amounting to EUR 4.4 billion.

Tourism used to be a significant source of revenue, in particular foreign reserves (IJzerloo, 2016), but was badly affected by the 2011 Arab Spring and regional turmoil that followed. The industry in Jordan recovered in 2012 and contributed to overall economic growth in 2013. Jordan benefited from tourists, notably high-spending visitors from the Gulf, who would usually have gone to Lebanon and Syria but were no longer able to do so (SNAP, 2014). However, the overall effect of regional instability on tourism in Jordan has been negative: in November 2010, 142,000 tourists visited the country compared to 78,000 in April 2015 (Schenker, 2015).

⁷ <http://www.focus-economics.com/countries/jordan>

⁸ <http://www.imf.org/en/Countries/Infographics/2016-Jordan-and-the-IMF-Infographic>

⁹ <http://atlas.media.mit.edu/en/profile/country/jor/>

3. Challenges and constraints

Political constraints

Jordanian society is divided into Transjordanians or East Bankers, who constitute the 'original' population of the country, and large numbers of Palestinian refugees and their descendants. The latter are now thought to constitute the majority. However, East Bankers form the traditional support base for the Hashemite monarchy. The regime was able to retain their support by providing them public sector jobs, as well as large subsidies on fuel and food, and allowing East Bankers to dominate political and military establishments. Rural Transjordanian citizens have in recent years been supplied 'with basic foodstuffs at prices well below market levels, and (*the government has*) provided health cards, free school meals and winter coats for primary school children' (BTI, 2016: 22).

This 'social contract' has been undermined over the past decade by economic crisis, which has forced cutbacks and reforms, e.g. reduced subsidies, limits on public sector recruitment, and neoliberal reforms promoting globalisation and the private sector (dominated by Palestinians). This has fuelled a sense of insecurity and anger among East Bankers, made worse by the perceived corruption among urban political and economic elites, notably the monarchy's inner circle of advisers and business partners, and even in the royal family (Khorma, 2014; Mango, 2016). Fuel subsidy cuts following the 2012 IMF agreement led to increased energy prices and triggered massive public protests. Since 2011 the government has also faced increased demands from diverse opposition groups – including both Palestinians and East Bankers, particularly young people – for political reform. These had subsided by 2013, largely because of the Syrian conflict and fears that King Abdullah's ouster could lead to similar civil war in Jordan. But the potential for widespread opposition persists.

Concern about such opposition and the need to preserve its traditional East Banker support base constrain the government's ability/willingness to carry out required reforms, and have even led to policies undermining the effects of expenditure cuts. Following the 2012 protests, for example, the government increased public sector wages and military payments and pensions. Cash compensation payments, aimed at the poor, also mitigated the price rises – but added to government expenditure. In 2016 the country's budget set aside USD 2.8 billion, equivalent to 7 percent of GDP, in subsidies for electricity, water, bread, cooking gas and fodder (Luck, 2016). Tax revenue remains low because of an excess of tax exemptions and a high personal income tax threshold which means that only 3 percent of the population pays personal income tax (EBRD, 2016: 3). In the long run, such policies and the 'vast provision of public welfare is unsustainable given Jordan's comparatively scarce resources' (BTI, 2016: 22), but their removal is risky politically.

Business environment

Jordan has a weak and unpredictable business environment: it ranked 113 out of 189 countries in the Doing Business ranking for 2015, down from 107 the year before (World Bank PID). The country performs relatively well in the areas of cross-border trade, paying taxes and access to electricity, but 'lags significantly in accessing credit, protecting minority investors and resolving insolvency' (EBRD, 2015: 2). Corruption is perceived to be a major problem in both the private and public sectors: 'surveys indicate that it is one of the primary grievances in the country, and some observers have suggested that it has worsened at the highest political level in recent years'

(BTI, 2016: 31). Jordan's ranking in Transparency International's Corruption Perception Index (CPI) fell from 58 in 2012 to 66 out of 177 countries surveyed (SNAP, 2014: 4). A related problem is nepotism.

Energy and water scarcity

Jordan has no oil resources, meaning that approximately 96 percent of the country's energy needs are met through the import of oil and gas (SNAP, 2014: 4). In 2014 Jordan spent USD 5.9 billion, or 18.5 percent of GDP, on energy (Schenker, 2015). The problem is made worse by a tradition of fuel subsidies. Efforts by the government to cut these in 2012 triggered massive protests; while down, fuel subsidies 'continue to be a massive drain on public expenditures'. The sharp rise in debt to GDP ratio in 2015 stemmed largely from increased accumulation of debt by the National Electric Power Company (NEPCO). Multiple disruptions to the natural gas pipeline between Egypt and Jordan, as a result of regional instability, forced the government to buy crude oil at higher rates on the open market, in turn leading to a budget deficit of USD 3 billion, or 30 percent of GDP (Schenker, 2015). But again the government is wary of increasing fuel tariffs to avoid antagonising protestors (Luck, 2016). It is also putting caps on individuals and companies generating their own solar power, so as 'to force companies to rely on NEPCO to ensure the power company receives the needed revenue to cover its debt' (Luck, 2016). This in turn has the negative effect of hindering competitiveness because of high power costs. The country has, however, benefited from reduced oil prices in recent years, helping reduce external trade deficits.

Water scarcity is a major problem in Jordan: per capita the country has one of the lowest levels of water resource availability in the world. It is among the world's five poorest countries in terms of water (BTI, 2016: 24). The problem is made worse by poor infrastructure: over 40 percent of Jordan's municipal water is lost through leakage, poor quality equipment or pipes, malfunctioning meters, illegal connections, or poor administrative practices. Misuse of water by a number of influential Transjordanian families with close ties to the king and government has also caused a decline in national water resources (BTI, 2016). The problem has been made worse by the influx of Syrian refugees: the Zaatari refugee camp, which hosts only about 15 percent of Syrian refugees, consumes over one million litres per day (BTI, 2016: 24).

Looking ahead, water scarcity is set to increase due to population growth, influx of refugees and climate change. Most climate change models agree that by 2030 to 2040, temperatures in Jordan will be one to two Celsius degrees warmer, precipitation will be 10-15 mm less and droughts will be more pronounced. Groundwater reserves are being rapidly depleted: the US Geological Survey estimates that over a third of these will be depleted in the next two decades (USGS & Utah State University, 2011).

Education and employment

Jordan has relatively high enrolment in higher education – more than 90,000 students register for university each year. However, cuts in public sector employment and reluctance by graduates to take on jobs they consider 'beneath them' mean that 16 percent of graduates are unemployed. In 2013, 200,000 college graduates applied for just 6,400 civil service jobs (Schenker, 2015). The IMF estimated in 2014 that the economy needs to create 400,000 new jobs by 2020 to meet demand (ibid).

Factors contributing to the persistence of high unemployment rates, even in periods of growth, include the creation of informal sector rather than formal sector permanent jobs, and a mismatch

between skills and demand (IFAD, 2014). A World Bank report (2013: 4) notes that ‘the country’s R&D infrastructure is solid and its scientific production relatively high, but these capabilities are not linked to the needs of the economy’. Other factors are reluctance on the part of Jordanians to take on ‘menial’ jobs as well as the safety nets (e.g. subsidies) provided by the government. The latter two in particular mean that, despite high levels of unemployment, there is a sizeable migrant worker population, largely Egyptians but also Filipinos, Indonesians and Sri Lankans (IFAD, 2014). Migrant workers are primarily engaged in construction, agriculture, domestic work and services (SNAP, 2014). [It is these low-paid, often informal sector jobs that have been affected by the influx of Syrian refugees, who are often willing to work for very low wages.] Despite forecasts of slight increases in GDP growth in coming years, the employment situation is unlikely to improve. Moreover, as the Syrian conflict persists, pressure on the Jordanian labour market is likely to increase (see below).

Regional instability and Syrian refugee crisis

Regional instability and the Syrian conflict, in particular, have had a major impact on Jordan. As noted, attacks on pipelines in Egypt have disrupted supply of fuel to Jordan, which the country had obtained since 2002 at below market rates in return for political support for President Mubarak (Luck, 2016). The attacks forced Jordan to purchase oil at international market prices – a big factor in the jump in public debt seen in the years following the Arab Spring. While the country’s trade with Syria was limited, the conflict there has disrupted transit routes to regional trade partners, impacting some exports (SNAP, 2014). Tourism in the region – including Jordan - has fallen dramatically, though there is some indication that Jordan has benefited from visitors who would otherwise have gone to Lebanon or Syria.

However, the biggest effect has been due to the influx of over 650,000 Syrian refugees into Jordan. This has placed a huge burden on the country’s infrastructure and public services. One estimate put the aggregate cost to the Jordanian economy of the Syrian presence up to the end of 2013 at JD¹⁰ 5.8 billion (USD 8.2 billion), compared to benefits of JD 4.1 billion for the same period (Wazani, 2014: 12). The benefits include capital brought in by Syrian refugees, increased consumer demand benefitting local suppliers, increased house rents bringing more income for landlords, and a ready supply of cheap labour for Jordanian businesses and farmers. Studies indicate that the impact of Syrian refugees on the labour market has largely been on the informal sector – low paid jobs typically taken by migrant workers rather than Jordanians (Stave & Hillesund, 2015).

Looking ahead, donor funding to help Jordan manage the refugee crisis is diminishing, at the same time as it appears less and less likely that there will be peace in Syria and Syrians will be able to return to their homeland. As the refugee crisis persists, pressure on local services and jobs will increase. Tensions between refugees and host communities are already rising (Mercy Corps, 2012; Carrion, 2015). Moreover, if the regional security situation deteriorates, Jordan’s continued economic stability is likely to become more tenuous (Schenker, 2015). An escalation or lengthening of conflicts in Syria and Iraq beyond 2016 would further weigh on exports, tourism, investor confidence and foreign direct investment. If additional refugees were to enter the country there would be more pressure on fiscal accounts, infrastructure and public services.

¹⁰ Jordanian Dinars

Dependence on foreign aid and investment

Jordan's lack of natural resources mean that, to date, it has been heavily dependent on foreign aid. The country's strategic importance (including as a buffer between Israel and Saudi Arabia), the Hashemite monarchy's pro-west stance and its recognition of Israel have enabled it to secure significant external financial and military assistance, largely from the United States. Between FY2009 and FY2014 Jordan received USD 4.753 billion in total foreign aid from the US (Sharp, 2016: 12). An MOU signed between the US and Jordan in early 2015 commits the former to providing USD 1 billion annually in total US foreign assistance for three years (FY2015 to FY2017) (ibid). Gulf states are a further important source of funding: in December 2011 Saudi Arabia, Kuwait, Qatar and the Emirates committed to providing USD 5 billion over five years (BTI, 2016: 35). This pronounced dependence on foreign aid poses obvious risks.

The country is also heavily dependent on foreign investment to fund domestic infrastructure projects. In 2015 USD 736 million of the Jordanian government's USD 1.4 billion capital expenditure was to be underwritten by the Gulf (Schenker, 2015). Given falling oil prices, the capacity of Gulf countries to sustain such high levels of investment cannot be assumed. Nonetheless, at the recent May 2016 World Economic Forum meeting which it hosted, Jordan's resource mobilisation efforts were successful, reportedly securing USD 6.9 billion in investment (Schenker, 2015).

4. Government response

Fiscal and structural reforms

King Abdullah has presented himself as in favour of modernising the economy and liberalising it. He has carried out a number of 'neoliberal' reforms aimed at fostering investment and the private sector, curbing the role of the public sector, and achieving fiscal stability (e.g. through subsidy cuts). In 2009 he dissolved parliament two years before the end of its term because of its opposition to the government's economic reforms (BTI, 2016), and in a 2013 interview characterised opponents of such reforms as 'dinosaurs' (Khorma, 2014: 2). In 2012 Jordan entered into a USD 2 billion Stand-by Agreement with the IMF, under which the country committed to carrying out structural reforms. However, the constraints which the government faces – particularly in relation to retaining public support – mean that reforms (in the sense of wider economic reform, not just IMF conditionalities) have not been enacted or implemented as fully as required. At the end of 2015 a three-year USD 732 million arrangement was agreed with the IMF but again, is conditional on a structural reform agenda to stimulate growth (World Bank, 2016b).

Key reforms in recent years and limitations include (EBRD, 2015: 2 unless otherwise stated):

- A new Investment Law was passed in 2014 which empowers the Jordan Investment Board to act as a one-stop-shop for foreign and domestic investors: this became operational in April 2015 and streamlines permitting and licensing procedures. However, bye-laws dealing with the country's numerous restrictions on foreign direct investment have still not been addressed.
- In September 2014 a public-private partnerships (PPP) law was passed that sets up a PPP unit within the Ministry of Finance to design, evaluate, prioritise and implement

projects (ibid). A joint World Bank-OECD project to strengthen investment regulations and improve investor protection is also underway (ibid).

- As noted earlier, fuel subsidies have been eliminated, though the move was accompanied by a cash transfer scheme to support low income groups, and electricity and water subsidies are gradually being reduced. In general the government is moving away from subsidies in the form of flat payments to cash assistance for the most needy (BTI, 2016).
- A new income tax law was passed in December 2014, but its revenue impact was weakened by the introduction of new tax exemptions, of which there are already too many. While applauding tax reform as a step toward increased government revenue and a fairer tax system, the IMF 'regretted lost opportunities' (BTI, 2016: 20). However, successive governments have expanded indirect taxation levels.
- Amendments to banking laws have been approved expanding the mandate of the Central Bank of Jordan to include safeguarding financial stability, in line with international best practice, and strengthening corporate governance and managerial accountability.
- Some progress is being made in enabling better access to credit, for example through the country's first bankruptcy/insolvency law increasing protection for lenders, and licensing of a credit bureau to improve information on borrower creditworthiness.
- A number of large state companies have been privatised, but a number of oligopolies remain (BTI, 2016).

Energy diversification

Energy diversification is an important component of the government's economic policy. The National Energy Strategy 2007-2020 aims to achieve an energy mix with 10 percent renewable energy by 2020. Jordan has adopted laws for renewable energy and policies designed to attract investment in the sector. These include a favourable regulatory structure which permits feed-in tariff schemes. In December 2014 and January 2015 licenses were given to build nine solar power plants in the Ma'an and Mafruq governorates, and wind energy projects are also underway (BTI, 2016: 24). The National Energy Strategy also aims to reduce dependence on oil imports. In 2015 the government signed a contract with Shell for the supply of liquefied natural gas (LNG) which should meet around 15 percent of the country's energy needs. Jordan has also recently entered into agreements with Algeria and Saudi Arabia for provision of LNG and electricity respectively. In addition the government is exploring nuclear power generation: nuclear energy should supply half the energy needs of the country in 2025 (Ijzerloo, 2016: 2).

Water provision

Water is an expensive resource, but the government is subsidising costs: this is presented as a pro-poor measure, though there are issues with targeting (Zawahiri, 2012). Tariff reform is difficult because – as with cutting other subsidies – people are unwilling to give up cheap water, and the government is wary of inciting protest, particularly from the southern tribes which are its traditional support base (Ducharme, 2015). In 2011 the Ministry of Water and Irrigation announced projects aimed at limiting agricultural water use. It has since been merged with the Ministry of Agriculture, 'indicating further commitment to handling this problem' (BTI, 2016: 24).

In December 2013 the government signed an agreement with Israel and the Palestinian Authority for construction of a Red Sea-Dead Sea 'water conveyor'. Half the water pumped from the Red Sea will be channelled to the Dead Sea to counter shrinkage there, while half will go to a

desalination plant to be built in Jordan: some of this water will be used in southern Jordan and the rest sold to Israel for use in the Negev Desert. In return, Israel will sell freshwater from the Sea of Galilee to northern Jordan (Sharp, 2016). In February 2015 Israel and Jordan signed an agreement setting up a joint agency to administer construction of the Red Sea-Dead Sea pipeline as well as the desalination plant.

Vision 2025

In May 2015 the government unveiled a ten-year economic programme *Jordan 2025: A National Vision and Strategy*. Commonly referred to as Vision 2025, the blueprint aims to revitalise the economy by targeting poverty, unemployment and the fiscal deficit and boosting GDP growth. Vision 2025 sees Jordan as an economic gateway to regional markets that takes advantage of free trade agreements signed with several countries. Under Vision 2025's targeted scenario, GDP growth is to reach 4.9 percent by 2017, 6.9 percent by 2021 and 7.5 percent by 2025; the budget deficit is to be reduced to zero by 2025, and the debt to GDP ratio to 47.4 percent.¹¹

The plan is to be implemented through three consecutive executive development programmes (EDPs), the first of which runs from 2016-2018. To achieve its targets, Vision 2025 is looking to pursue an export-oriented economic strategy, primarily by boosting trade with other countries in the region, particularly the GCC states. To bolster industrial development, Vision 2025 takes a cluster-focused approach that seeks to expand existing industries that are performing well, while developing related or supportive clusters complementary to those industries. The following eight clusters have been identified as having high potential for development: construction and engineering, transport and logistics, tourism and events, health care, life sciences, digital and business services, educational services and financial services (ibid). A National Competitiveness and Innovation Committee will establish cluster coordination committees to support the development of selected sectors; committees will undertake tasks such as coordinating networking between clusters and ensuring that emerging clusters receive sufficient guidance from various educational institutions. By focusing on specific clusters, Vision 2025 aims to boost the share of agriculture, industry and construction in the economy.

5. Opportunities

Improving economic outlook

As noted, economic growth is expected to increase marginally in the next few years – which can be considered an achievement in a region marked by conflict and instability. External observers have confidence in the prudence of Jordan's macroeconomic policies (BTI, 2016: 20). The IMF in its April 2015 review of the Stand-by Arrangement with Jordan, reported that the kingdom was 'persevering in a difficult regional environment' and that 'growth is holding up, inflation is low, the current account deficit is narrowing, international reserves are at a comfortable level, and the banking system is robust' (Schenker, 2015). The World Bank was similarly optimistic in its spring

¹¹ <https://www.oxfordbusinessgroup.com/analysis/new-vision-government-introduces-10-year-economic-development-plan-0>

2015 report *Persisting Forward Despite Challenges*, noting that the country's economy 'is expected to steadily continue to gather pace as reforms continue' (ibid).

Key to this confidence is continued reform. The IMF stresses the need for continued public sector adjustment to put debt firmly on a downward trend. There is also a need to move aggressively on structural reforms geared to job creation and labour market reform, as well as improvements in the business climate and the quality of public institutions (IMF, 2015). The World Bank (2016a) identifies three key areas it recommends the government should focus on:

- Implement sound economic policies and growth-enhancing reforms to reduce sensitivity to external shocks;
- Create the conditions for increased private investment and improved competitiveness to stimulate job-creating growth;
- Diversify the energy supply in the medium term to address the country's macroeconomic vulnerabilities.

A further contributory factor in expected improved growth is implementation of the Jordan Compact. This is a package of measures agreed with the EU whereby Jordan will benefit from improved trade relations in return for allowing more refugees to work in special economic zones and in industries that are understaffed by the domestic labour force. The EU has also relaxed its Rule of Origin requirements for Jordan for specific product categories for ten years – something likely to spur exports to the EU, as well as investment and job creation in Jordan (World Bank, 2016b).

Sectoral opportunities

The literature identifies specific opportunities in a number of sectors. In the energy sector, there is considerable scope for oil shale extraction. Jordan is believed to have the world's sixth largest deposits of oil shale, estimated at 40-70 billion tons underlying more than 60 percent of the country (Enefit, 2016). Oil shale development could significantly aid Jordan's energy independence strategy. Oil and oil shale are projected to constitute 54-62 percent of Jordan's fuel mix by 2020 (Sabra, 2015). The government has already taken significant steps to exploit this resource, but the future size and impact of the oil shale industry in Jordan depends on the development of technically and commercially viable extraction schemes, as well as a transparent regulatory regime to attract foreign investment and encourage public-private partnerships. Water supply schemes will also be needed to ensure that water scarcity is not exacerbated by diversion of water for oil shale extraction (Hochberg, 2015).

The Oxford Business Group describe Jordan's information and communications technology (ICT) sector as one of the most developed and robust in the region: mobile subscribership jumped from 3.13 million users in 2005 (57 percent penetration) to 11.1 million users (147 percent penetration) at the end of 2014.¹² Government support for the sector is strong. The World Bank highlights its potential: 'ICT based industries such as business process outsourcing and call centres are...areas in which Jordan has a comparative advantage owing to the widespread use of English and a history of links with foreign investors' (WB, 2013: 4).

¹² <https://www.oxfordbusinessgroup.com/analysis/new-vision-government-introduces-10-year-economic-development-plan-0>

Tourism is another sector with potential for growth. Conflict and instability in other countries in the region highlight the appeal of Jordan: the kingdom also benefits from its proximity to large regional feeder markets, diverse landscapes and climates and major historical and religious sites. A number of large tourism and real estate development projects are underway in the coastal city of Aqaba and the Dead Sea area. The plan is to develop Aqaba, the Dead Sea and Amman for tourism simultaneously so the benefits are mutually reinforcing. Jordan also has potential for 'niche' tourism, including religious tourism, health tourism and Muslim tourists seeking a conservative environment with halal food and segregated facilities for men and women (e.g. swimming pools).

Knowledge economy

Access to and quality of education in Jordan is the best in the Arab world, and ranked high internationally (BTI, 2016). The adult (aged 15 and over) literacy rate was 96 percent in 2011 (98 percent for males, 94 percent for females) (SNAP, 2014: 10), while youth illiteracy is almost non-existent. The enrolment rate for tertiary education is about 40 percent (BTI, 2016: 10). The 2011 UNDP Human Development Report rated Jordan's university-level teaching and learning opportunities as 'generally strong' (ibid). Among Organization of Islamic Cooperation (OIC) members, Jordan has the greatest number of researchers. UNESCO has helped the government develop a national strategy for science, technology and innovation for 2013-2017. The government aims to turn Jordan into a 'knowledge economy'. The World Bank asserts that, while 'Jordan has developed a valuable knowledge economy, further reforms are needed for the sector to fulfil its potential, not least in terms of quantity and quality of jobs' (WB, 2013: 4).

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