

Jordan: tackling the paradox of (national) jobless growth

Sahar Taghdisi Rad
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Introduction

- Jobless growth phenomenon
- 1990s marked the beginning of an era of macroeconomic liberalisation with the aim of macro stabilisation (high GDP growth, low inflation, stable currency, international trade agreements, etc)
- Yet, high levels of unemployment and poverty persist
- Paradox due to: 1) nature of the growth strategy, 2) nature of the labour market

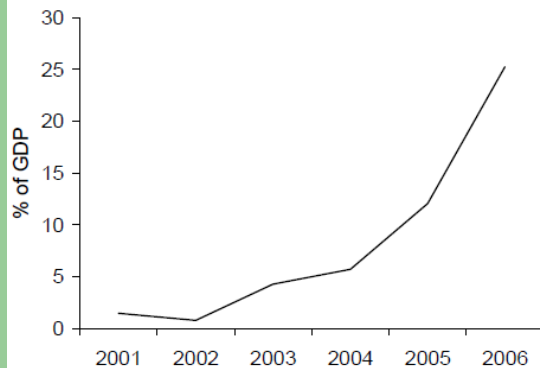
Recent economic trends

- In response to economic collapse of the late-80s → IMF stabilisation package → radical liberalisation
- GDP growth has increased from 3.5% in 1996-2000 to 6% in 2000-05.
- FDI has increased since early 2000s (high oil prices & immigration of rich Iraqis)
- Emphasis on external trade: high exports while increasing economic vulnerability
- Traditional reliance on external sources of revenue (aid and remittances)
- Currency closely associated with dollar
- Global financial crisis impact through oil prices and access to regional grants and remittances (grants declined by 87% in 2009 alone)
- The Economic Development Program for 2011-13 calls for adequate employment generation

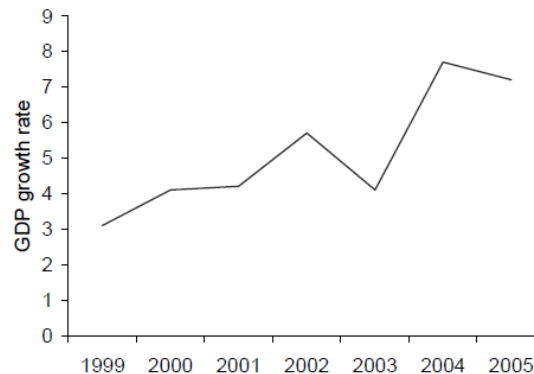
Labour market

Paradox:

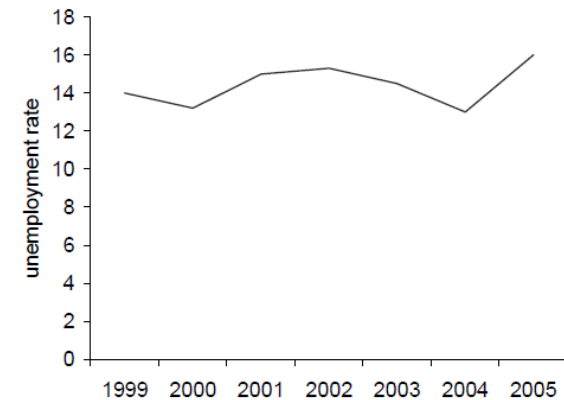
Strong FDI and GDP growth, but high unemployment



Foreign direct investment, 2001–06



GDP growth rate, 1999–2005



Unemployment rate, 1999–2005

Labour market

- Despite high levels of demand, high unemployment persists among Jordanian workers → expansion of economic growth *per se* is not sufficient for reducing unemployment
- Labour force growth of 4-5% in recent years
- High levels of job creation by the gov in 2000-05
- Unemployment fluctuates around 14%, despite low LFPR, and is highest amongst youth, female and educated
- More than half of new jobs go to non-Jordanians

Labour market: job destruction after liberalisation

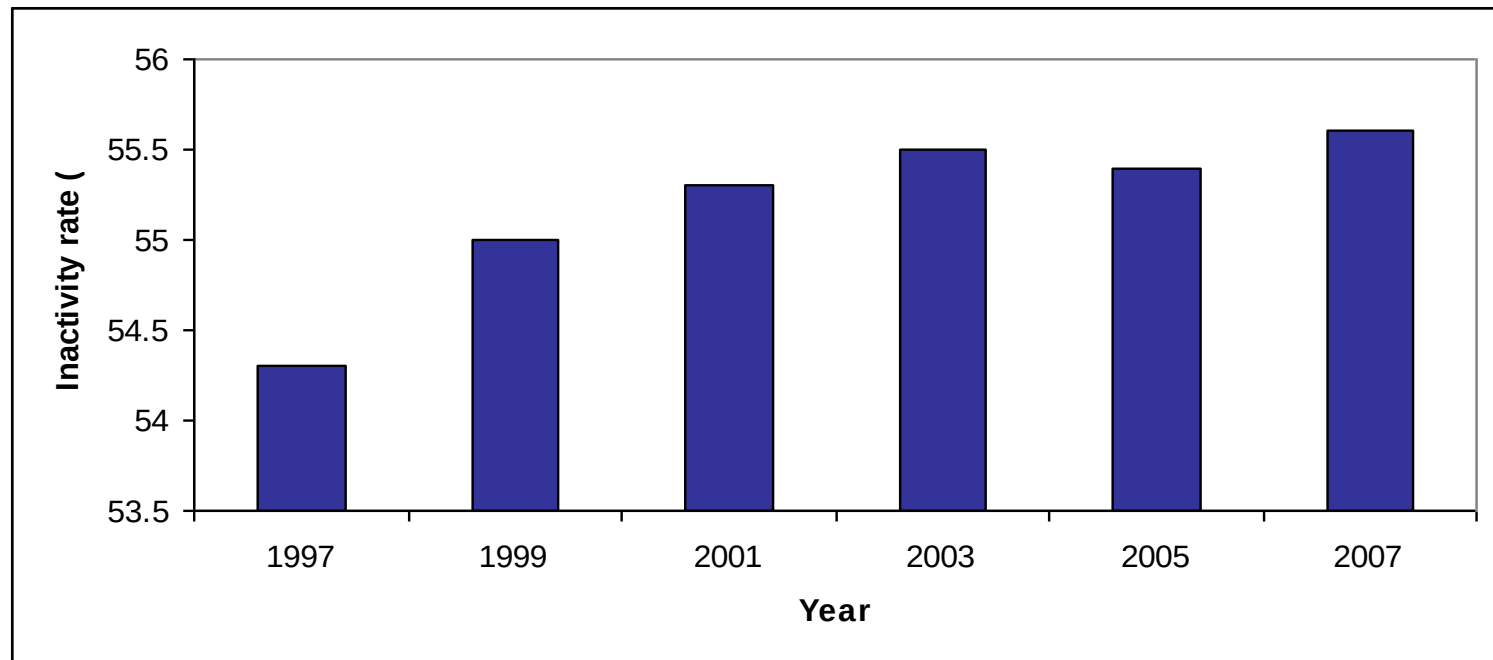
- Fiscal consolidation: reduction in size of public sector employment and lending, with an inadequate private sector
- Privatisation: 98% of all firms in Jordan are micro (1-4 workers) or small (5-19 workers)
- Investment and trade strategies: focused on basic manufacturing, capital intensive, QIZs, poor working conditions.

Labour market: quality of jobs

- Mismatch between labour market demand and supply
- High levels of “voluntary unemployment” (54% of total unemployment) → need more targeted employment policies
- High rates of “economic inactivity” (neither employed nor seeking work)
- High rates of “working poor” (employed at less than 2 dollars a day): 13% in 1997-2003
- High reservation wages due to expectation of better jobs

Quality of jobs

- Inactivity Rates in Jordan, 1997 - 2007

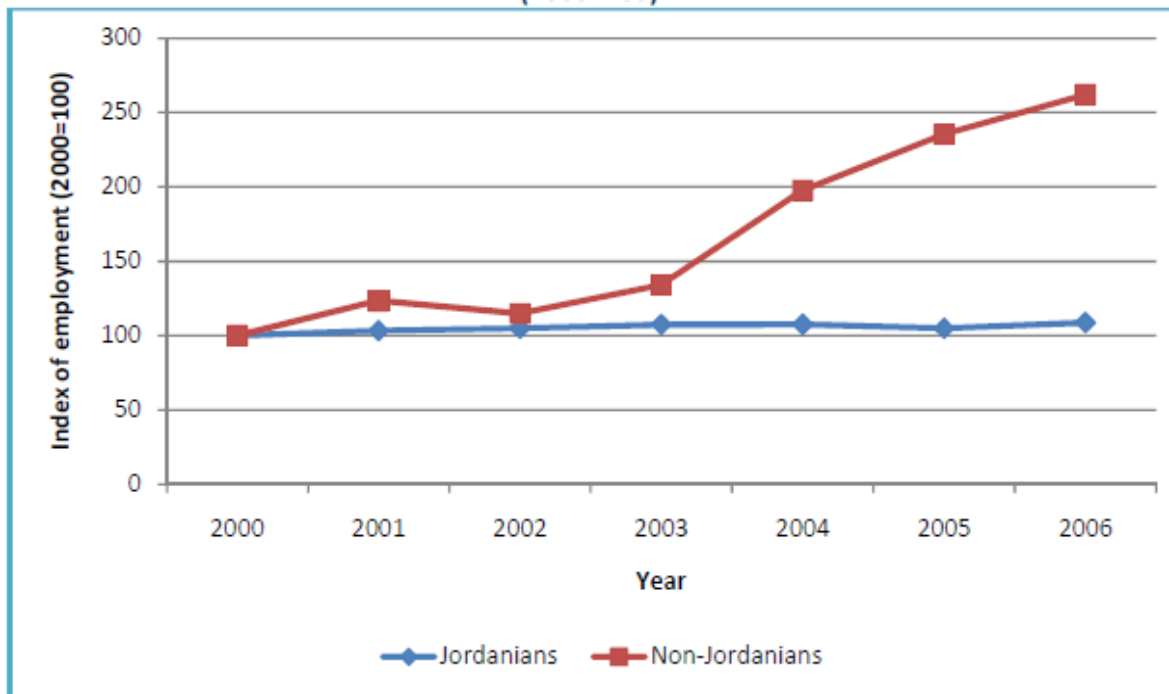


Non-Jordanian labour

- 20% of Jordan's labour market
- GDP growth associated with employment generation for non-Jordanians
- Mainly employed in QIZs, agriculture, construction, basic manufacturing
- To increase trade and economic competitiveness wages have been reduced → particularly where investment originates from abroad → barrier for Jordanian labour
- Recent government employment strategy: 'replace' non-Jordanian labour with Jordanian labour

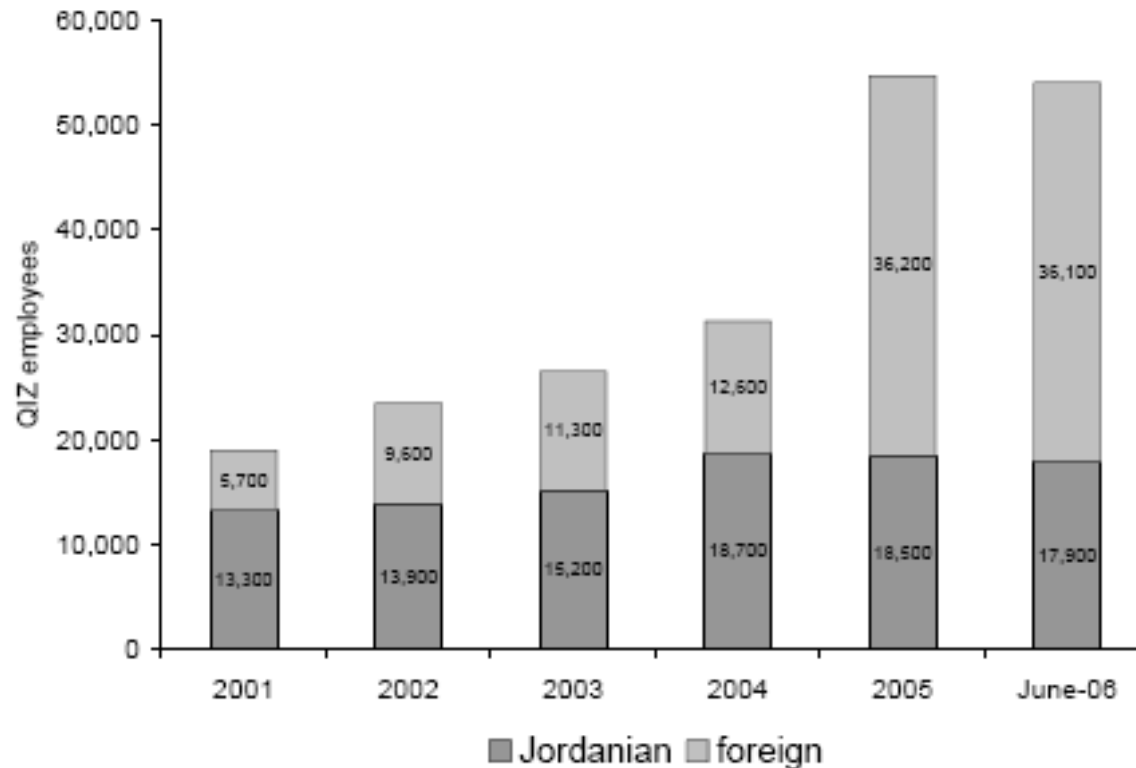
Non-Jordanian labour

- Employment of Jordanians and non-Jordanians working in Jordan, 2000-2006 (2000=100)



Non-Jordanian labour

- Employment in QIZs, 2001–06

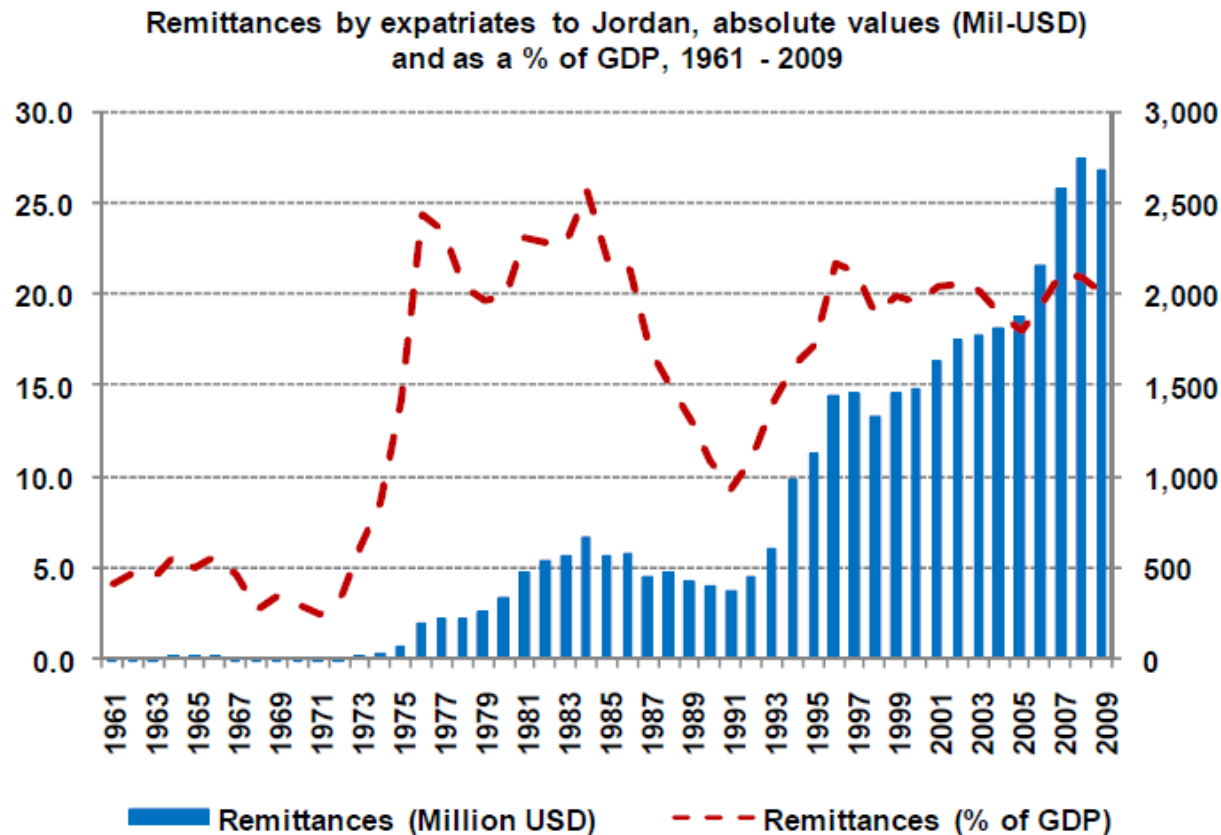


Emigration of Jordanian labour

- In 2008, nearly 5% of population lived abroad
- Remittances a tradition source of revenue: 20% of GDP in 2009
- Regional instability affects GDP through remittances: decline in oil prices in 2008-09 has resulted in 30% decline in demand for Arab labour → remittances to Jordan declined by 10% in 2009
- Large impact of remittances on balance of payment as a means of deficit financing
- Government recently announced that it aims to make productive use of remittances, no attempt to attract labour home
- As unearned income, remittances can reduce incentive to work for the other family members
- Remittances can lead to overvaluation of exchange rate and, hence, reduced competitiveness

Non-Jordanian labour

- Remittances by Expatriates to Jordan, (USD, millions)



Informal economy

- Constitutes 20% of GDP, employs 25% of labour
- Sources of its growth: high levels of pop growth, poverty, mismatch between labour supply and demand, urbanisation, privatisation and loss of jobs, and bureaucratic procedures for setting up businesses
- Concentrates in: agriculture, domestic services, unregistered enterprises in QIZs
- Low working standards and social protection

Marcoeconomic policies:

Fiscal policy

- Regional grants and loans: 40% of GDP over past two decades
- Government fiscal status dependent on: oil, regional crisis and aid
- High levels of government debt: 200% of GDP in 1989 and 100% by 1999
- Change in debt structure since 2000: external to internal → reduced gov vulnerability to external shocks and forex pressures
- Decline in public sector employment: widespread privatisation of previously public enterprises → since no private sector alternative: the fiscal consolidation leads to more reduction of wages than quantity of public sector employment → reduces levels of effective demand in the economy → further decline in economic activity and employment
- Further fiscal consolidation (reform of tax system, decline in public employment, etc) recommended by the IMF in the light of the financial crisis → format of such fiscal consolidation is significant for preserving employment
- Financial crisis + Jordan's dependence on external revenues → The need to develop domestic demand base
- Government EDP 2011-13: increase cost of living allowance, more hiring workers from unprivileged backgrounds

Monetary policy

- Difficult to formulate monetary policy: fixed exchange rate, unstable flow of aid and remittances, IMF monetary policy conditionalities
- Recent tight monetary policy reforms have been aimed at: restoring exchange rate stability, reduce debt, enhance monetary policy instruments, independence of central bank, reduced general credit availability
- Conservative lending policy → closure of small banks and SMEs → need to stimulate credit supply
- Financial crisis and decline in regional credit flows → government acted to ensure investor confidence
- Need to ensure stability of capital flows in the future to ensure no negative effect on employment

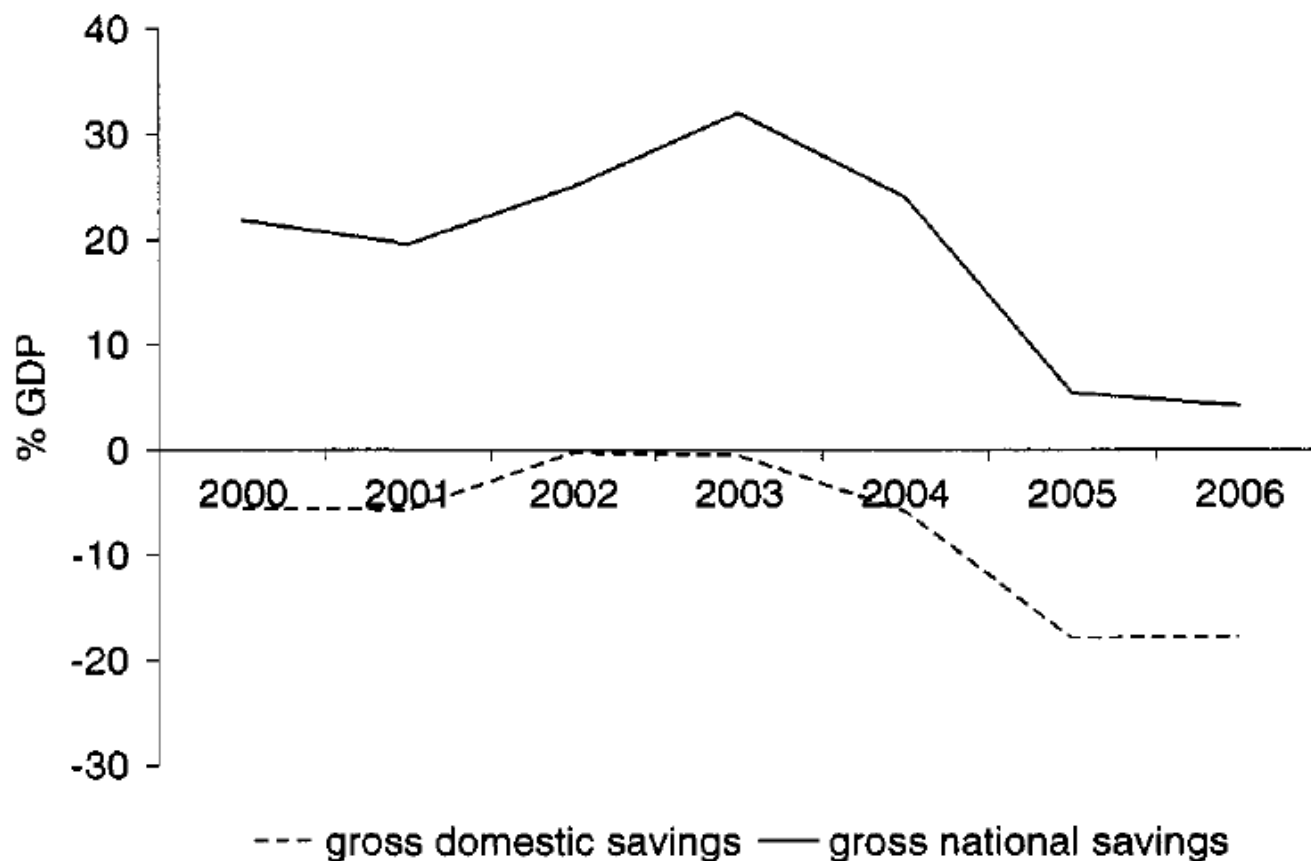
Trade liberalisation

- The value of Jordan's imports have been higher than its export → trade deficit
- More job destruction than creation:
 - Concentration on basic manufacturing sectors (eg apparel manufacturing) with limited employment potentials
 - Employment conditions at QIZs
 - 'Foreign' nature of investment
- Need for export diversification

Capital control and investment

- In recent years JIB aims to enhance investment infrastructure → provide financial and legal incentives to domestic and foreign investors
- FDI is concentrates in: 1) QIZs, 2) mining sector, due to high int'l commodity prices, 3) services and other emerging sectors oriented to regional clients
- Most FDI in previously public enterprises or existing company assets → reduces employment generation potentials
- Oil exporting Arab countries are the source of 96% of FDI in recent years → future sustainability?
- Further limits to FDI-related employment generation:
 - QIZs: 67% of workers in 2006 were non-Jordanian
 - Investment from abroad undermines the significance of stimulating domestic savings → reduces domestic demand base
 - Increased FDI in non-productive sectors eg construction
 - Little spillover to the rest of the economy

Gross national savings and gross domestic savings, 2000-06



Conclusions

- While conventional economic reforms brought some economic stability, they did not reduce national unemployment
- Growth of the 90s and 2000s based on expansion of capital and labour and not increased productivity
- Growth strategy needs a developmental framework aimed at economic diversification, increase investment in productive sectors, reduce dependence on external sources of revenue
- Particularities of labour market and structural features of the economy affect macroeconomic policy, than the other way around
- Significance of structural policies in stimulating productive and decent employment for national Jordanians

Policy recommendations

- **Reducing voluntary unemployment:** raising productivity and wages of employment opportunities, economic diversification
- **Reducing dependence on external sources of revenue:** to increase stability, reduce real exchange rate appreciation, focus on raising productivity of domestic industries, raising domestic demand
- **Maintaining government expenditure:** fiscal austerity measures to be taken carefully to protect SMEs, social welfare, domestic demand (particularly given the limited role of the private sector)
- **Protecting social expenditure:** increasing the efficiency of composition of social protection structure rather than reducing it
- **Rethinking dependence on dollar:** to avoid economic uncertainty.

Policy recommendations

- **Stimulate credit supply**, facilitate lending and increase credit flows
- **Promoting domestic investment**: reduce dependence on foreign investment. Policies to stimulate savings through revision of banking, interest rate and investment policies to strengthen links between savings and productive investment opportunities.
- **Trade diversification**
- **Supporting small businesses**: financial and regulatory support to small businesses, avoid very tight fiscal and monetary policy which could reduce support to SMEs
- **Labour supply and demand coordination**: improve employability and job prospects, systematic linking of social protection schemes to labour market programmes, government needs fiscal and monetary policy space.