



منتدى الاستراتيجيات الأردني
JORDAN STRATEGY FORUM

Productivity In Jordan

Where Do We Stand & What to Do About It?!

June 2019



#Policy_Brief



I. Introduction

Founded in 1916, **The Conference Board (CB)** is member-driven think tank. The Board has just published its 2019 **“Productivity Brief”**. This Brief is based on the CB’s Total Economy Database. This database maintains annual data covering a myriad of measures including **“Labor Productivity & Total Factor Productivity”** for 123 countries since 1950.

1. Labor productivity is the average output produced by a unit of labor.
2. Total factor productivity is the average output produced by labor and capital.

Total factor productivity (TFP) is a better measure of the overall efficiency of economies. This measure takes account of investment in capital and labor force skills. It measures the efficiency by which capital, labor, and skills are combined in the production process.

The subject matter of the role of total factor productivity in growth dynamics has always caught the attention of the academia, think tanks, as well as international organizations such as the World Bank, World Economic Forum, and the International Monetary Fund. Indeed, so many research paper, reports, and policy-papers have been devoted to identify the role of TFP. On average, this literature points out two simple conclusions:

- A) Increases in TFP growth rate affects real economic growth in a positive and significant manner.
- B) Relative to TFP growth rate, increases in labor and capital growth only play a lesser role in impacting real economic growth. Factor productivity is more important.

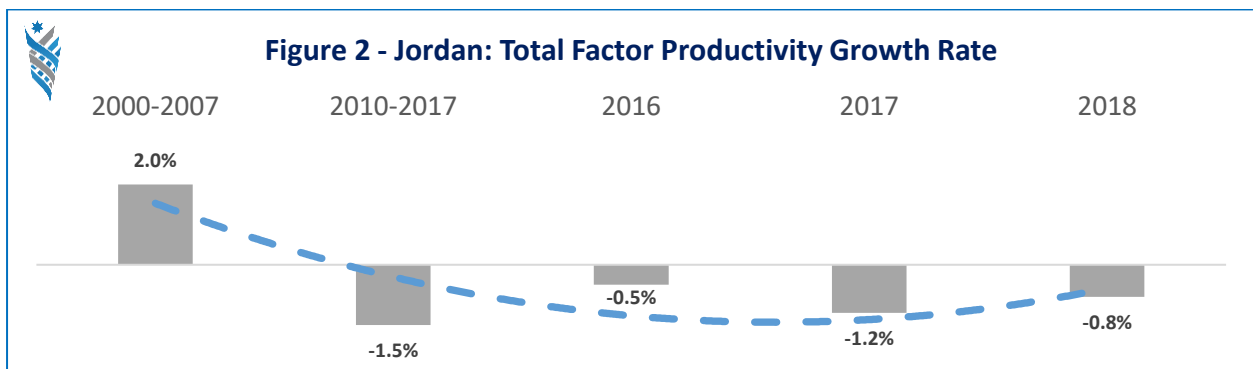
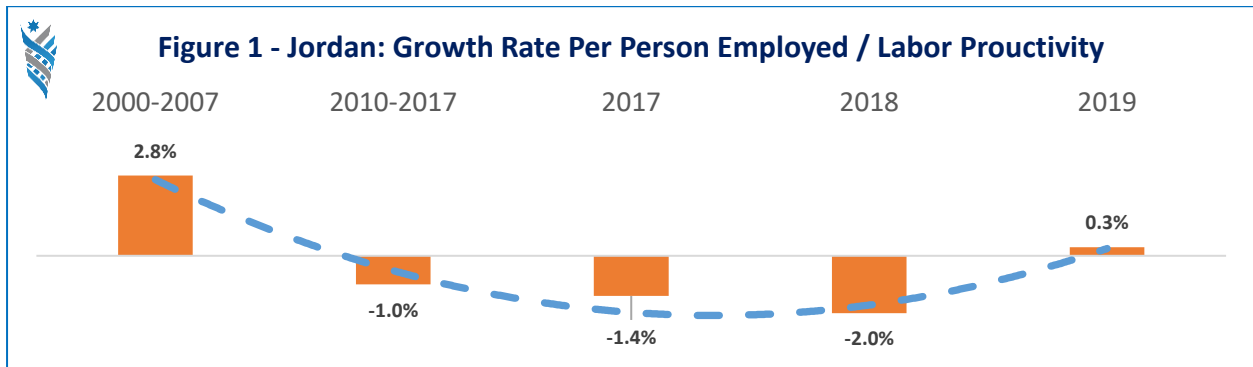
To transition from middle-income to high-income, developing countries must work-on maintaining high TFP growth rates. Indeed, such economies, including Jordan, should fill the **“productivity gap”** to catch-up with the developed economies.

In its April 2019 Productivity Brief, the Conference Board states a number of observations:

1. “Globally, growth in output per worker was 1.9% in 2018, compared to 2% in 2017 and projected to return to 2% growth in 2019”.
2. “At the global level, total factor productivity growth turned negative again at -0.1% in 2018, down from a small increase of 0.2% in 2017”.
3. “Emerging markets still have a substantial productivity growth advantage over mature economies. Taken together, all emerging and developing economies saw an increase in output per worker at 2.6% in 2018, compared to 1% t on average for the mature economies”.

2. What has been happening to Jordan's labor productivity and total factor productivity?

First, it is unfortunate to note that labor productivity and total factor productivity growth rates have been negative since 2010!



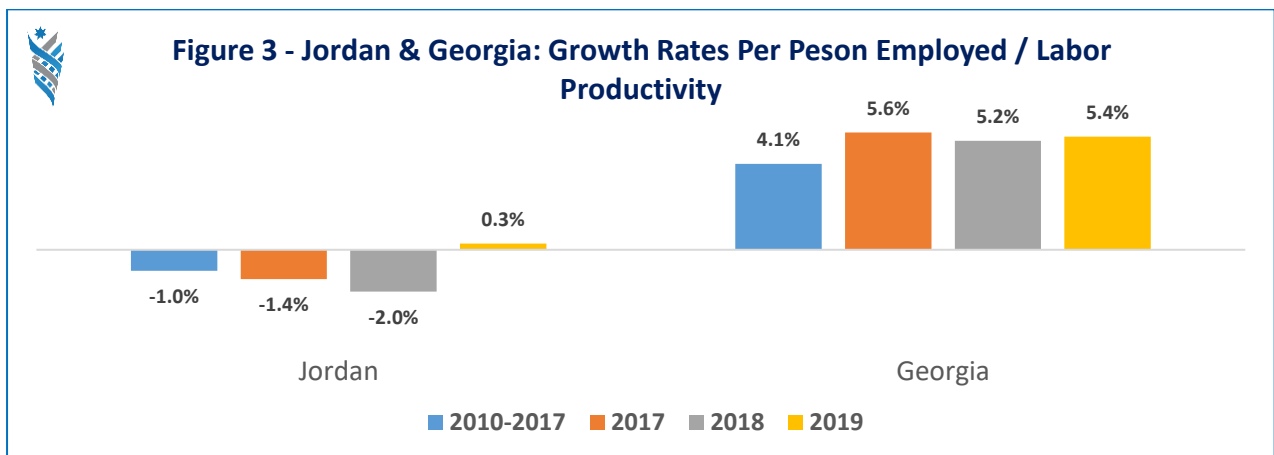
Second, relative to some Arab economies, Jordan's growth rates in labor productivity is poor. While Jordan's performance during 2000-2007 was superior, more recently, Egypt, Morocco, Saudi Arabia, United Arab Emirates, and Oman performed better!

Regional Growth Rates Per Person Employed / Labor Productivity					
	2000-2007	2010-2017	2017	2018	2019 Forecast
Jordan	2.8%	-1.0%	-1.4%	-2.0%	0.3%
Egypt	1.3%	1.1%	2.1%	4.6%	3.3%
Morocco	0.8%	2.9%	4.2%	1.6%	2.3%
Saudi Arabia	-1.5%	-1.3%	1.0%	0.9%	0.8%
Tunisia	-0.4%	-1.7%	-6.2%	-1.6%	0.0%
UAE	2.6%	1.1%	1.2%	1.9%	2.4%
Oman	-4.8%	1.1%	0.6%	0.7%	2.4%

Third, at the international level, Jordan’s growth rates in labor productivity is also poor. Countries like Bulgaria, Estonia, Lithuania, Romania, Georgia, China, India, and Malaysia that performed really well!

International Growth Rates Per Person Employed / Labor Productivity					
	2000-2007	2010-2017	2017	2018	2019
Jordan	2.8%	-1.0%	-1.4%	-2.0%	0.3%
USA	2.2%	1.2%	0.8%	1.7%	1.3%
Bulgaria	4.4%	2.9%	2.0%	3.2%	3.3%
Estonia	6.6%	2.3%	2.1%	2.6%	2.4%
France	1.2%	0.8%	1.1%	0.5%	1.1%
Germany	1.2%	1.1%	0.7%	0.1%	0.8%
Lithuania	7.7%	3.0%	4.7%	2.4%	3.3%
Romania	7.7%	3.6%	4.3%	3.9%	4.1%
Finland	2.1%	0.8%	1.5%	-0.3%	0.7%
Japan	2.1%	1.4%	1.1%	-1.0%	1.1%
Georgia	7.7%	4.1%	5.6%	5.2%	5.4%
China	8.9%	6.1%	4.2%	4.1%	4.1%
India	5.3%	5.8%	5.0%	5.9%	5.2%
Malaysia	3.0%	2.0%	3.9%	2.2%	3.0%

Fourth, Jordan’s performance in terms of labor productivity is a startling contrast to Georgia!



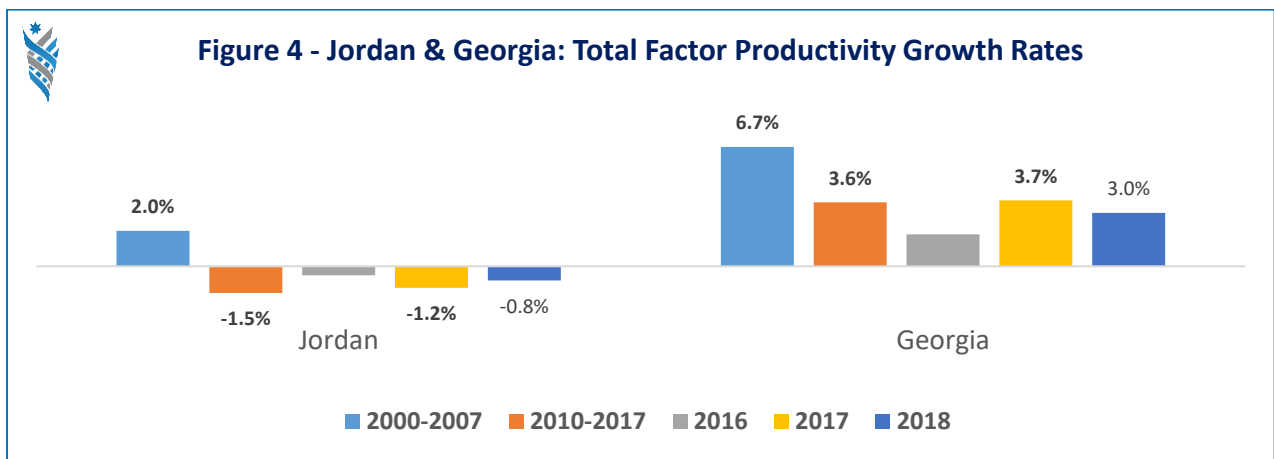
Fifth, in terms of total factor productivity, the performance of the Jordanian economy is much better when compared with some regional economies. It is superior to those observed in Saudi Arabia, Qatar, and the UAE. However, Egypt and Morocco are better!

Regional Growth Rates in Total Factor Productivity					
	2000-2007	2010-2017	2016	2017	2018
Jordan	2.0%	-1.5%	-0.5%	-1.2%	-0.8%
Egypt	-0.6%	-0.7%	-0.4%	-0.7%	0.3%
Morocco	0.2%	0.5%	-1.6%	1.6%	0.0%
Qatar	-1.0%	-3.6%	-8.1%	-5.4%	-4.4%
Saudi Arabia	-2.7%	-3.7%	-2.5%	-5.6%	-1.8%
Tunisia	1.0%	-0.5%	-0.6%	-0.3%	0.3%
UAE	0.3%	-0.4%	-1.0%	-2.5%	-1.7%

Sixth, in terms of total factor productivity, the performance of the Jordanian economy is also poor when compared with some international economies. Again, countries like Bulgaria and Georgia that perform well in this measure!

International Growth Rates in Total Factor Productivity					
	2000-2007	2010-2017	2016	2017	2018
Jordan	2.0%	-1.5%	-0.5%	-1.2%	-0.8%
USA	0.8%	0.1%	-0.4%	0.4%	-0.3%
Bulgaria	-0.6%	0.4%	2.2%	1.6%	1.3%
Estonia	2.7%	0.9%	1.8%	1.1%	2.4%
France	0.3%	-0.1%	-0.6%	0.6%	-0.4%
Germany	0.5%	0.7%	0.9%	0.5%	-0.4%
Lithuania	4.4%	1.8%	-0.9%	3.9%	1.1%
Romania	3.4%	1.2%	2.4%	3.5%	2.5%
Finland	1.4%	0.1%	1.7%	1.0%	-0.1%
Japan	0.3%	0.6%	-0.3%	0.7%	-1.4%
Georgia	6.7%	3.6%	1.8%	3.7%	3.0%
China	1.9%	-0.4%	-1.9%	-0.7%	-0.6%
India	1.7%	1.9%	3.5%	1.6%	2.4%
Malaysia	1.0%	0.2%	-0.1%	1.1%	-0.1%

Finally, again, Jordan's performance in terms of total factor productivity is a startling contrast to Georgia!





In a nutshell, relative to the above-mentioned observations about Jordan's labor productivity and total factor productivity, one has to examine reasons behind deteriorating productivity and how it can be enhanced. Generally, there are structural factors related to where jobs have been created by the Jordanian economy and what kind of technology being used. Most of the Jobs created over the past few years have been concentrated in services and low value added sectors, with less jobs created within the high value added sector. This fact has pushed down productivity level.

Moreover , productivity is related to human capital skills which seems underutilized in Jordan, or it faces the problem of mismatching; i.e.; human skills development do not match demand required by employers. In this regard, incentives structure must be changed to encourage acquiring new technology and employing skilled labor in the newly conceived projects and investment.

Many Infrastructure projects have been constructed in Jordan over the past two decades, yet, in many cases these projects are far from being fully utilized. This also would be reflected in lower TFP. Countries that manage to improve their TFP has utilized infrastructure projects in an efficient manner.

Finally, the overall business environment must be amenable to investors along with low transaction cost if Jordan's rank in productivity gains to be improved.



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