



On The Importance of Labor Productivity in Jordan Where is the Challenge?

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منتدى الاستراتيجيات الأردني
JORDAN STRATEGY FORUM



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The Jordan Strategy Forum (JSF) is a not-for-profit organization, which represents a group of Jordanian private sector companies that are active in corporate and social responsibility (CSR) and in promoting Jordan's economic growth. JSF's members are active private sector institutions, who demonstrate a genuine will to be part of a dialogue on economic and social issues that concern Jordanian citizens. The Jordan Strategy Forum promotes a strong Jordanian private sector that is profitable, employs Jordanians, pays taxes and supports comprehensive economic growth in Jordan.

The JSF also offers a rare opportunity and space for the private sector to have evidence-based debate with the public sector and decision-makers with the aim to increase awareness, strengthening the future of the Jordanian economy and applying best practices.

For more information about the Jordan Strategy Forum, please visit our website at www.jsf.org or contact us via email at info@jsf.org. Please visit our Facebook page at [Facebook.com/JordanStrategyForumJSF](https://www.facebook.com/JordanStrategyForumJSF) or our Twitter account [@JSFJordan](https://twitter.com/JSFJordan) for continuous updates about Jordan Strategy Forum.

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 /JordanStrategyForumJSF

 Jordan Strategy Forum

Amman, Jordan
 T: +962 6 566 6476
 F: +962 6 566 6376

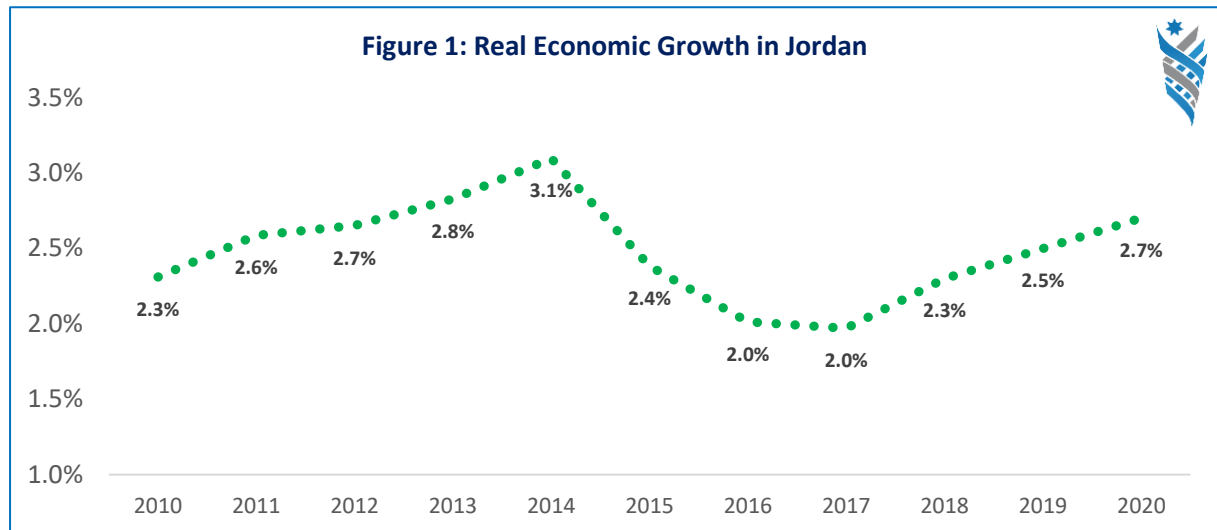
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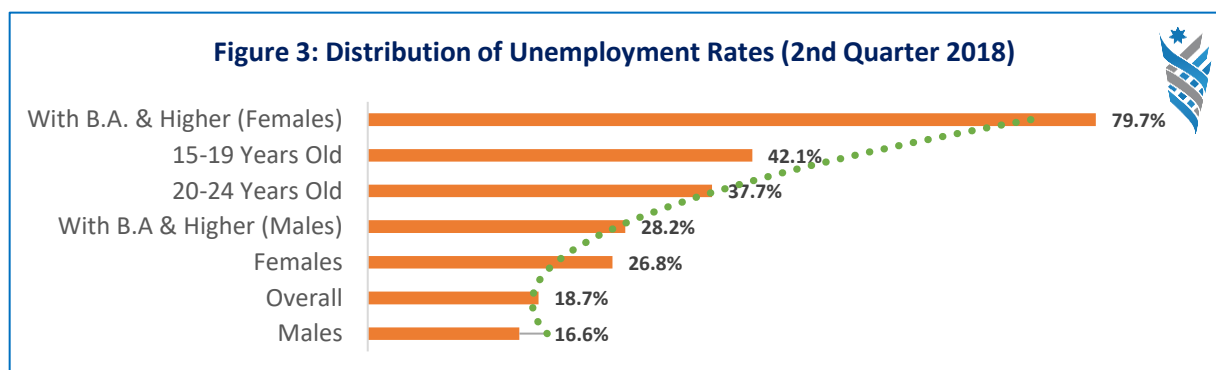
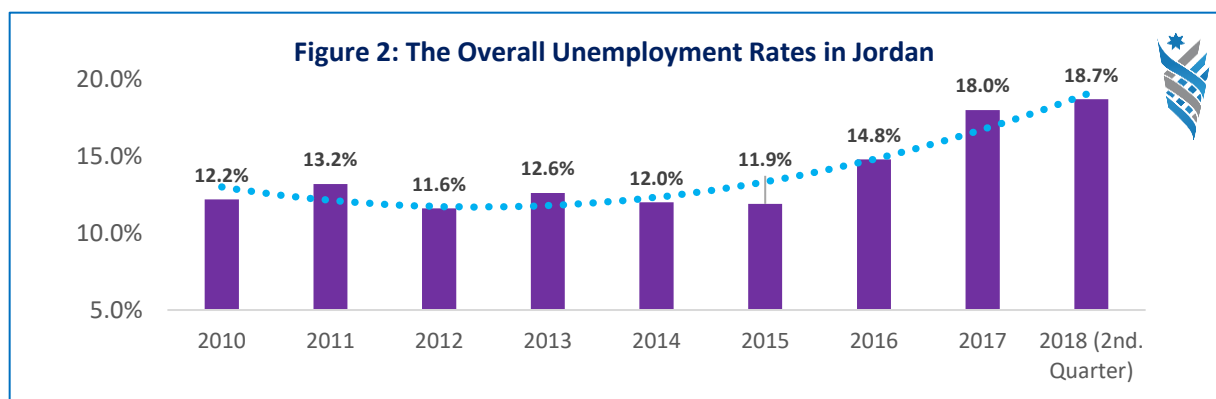
I. Introduction: Main Economic Challenges

Strong and consistent real economic growth must remain the challenge facing all Jordanians. To appreciate this challenge, one needs only to look at the recent performance of the national economy and its underlying unemployment rates.

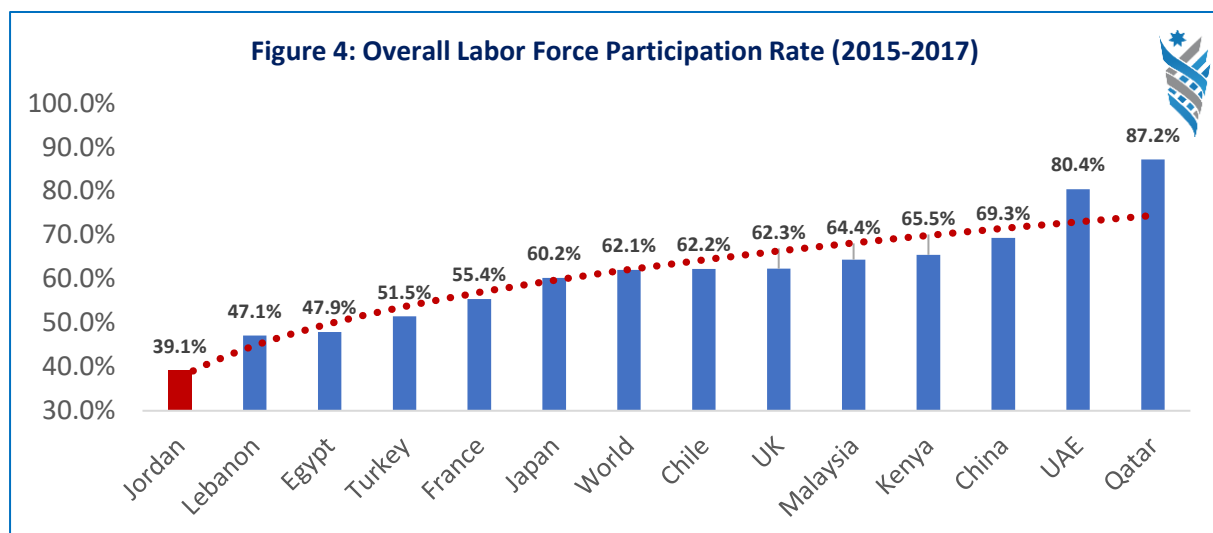
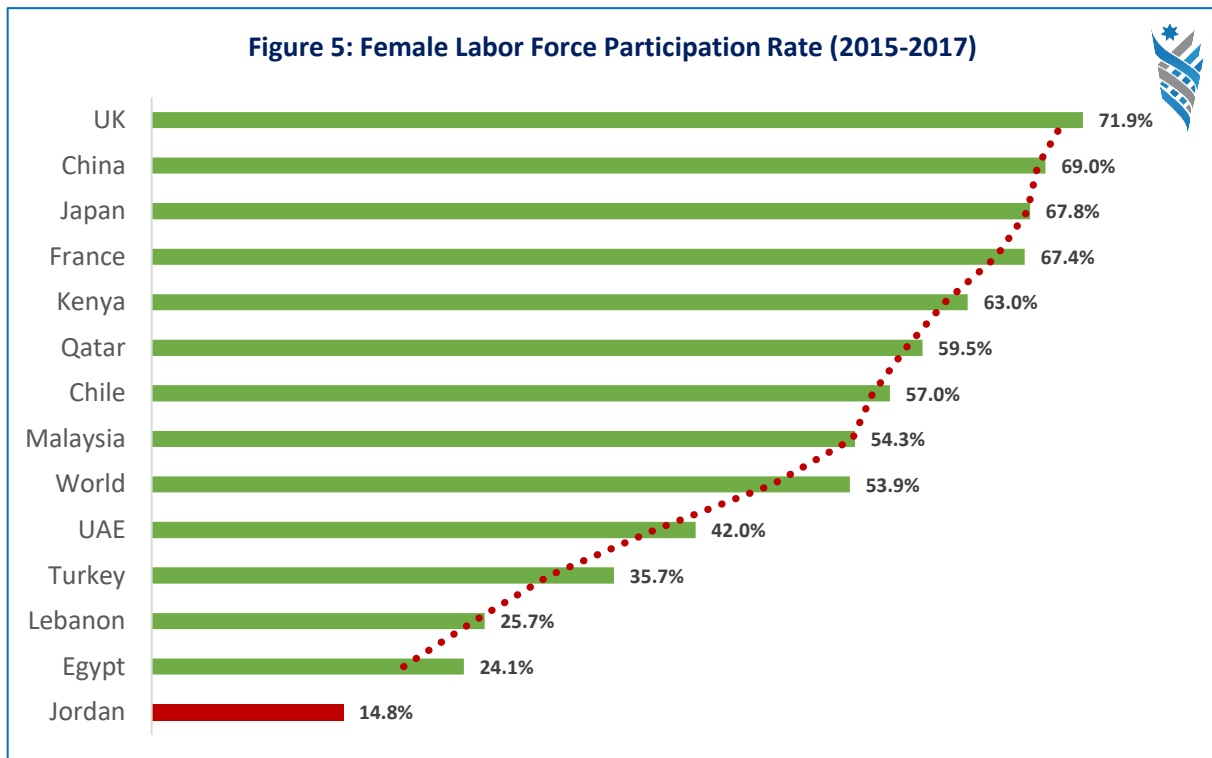
First, while positive, the recent real economic growth has been weak. More unfortunate, however, is the fact that economic growth is expected to reach an average of 2.3% in 2018, 2.5% in 2019, and 2.7% in 2020 according to the IMF forecasts.



Second, the hitherto existing unemployment rates are high and rising. While the overall of unemployment rate is equal to 18.7% (2nd quarter 2018), the age, gender, and education distribution of unemployment are even more challenging.



Third, what underlies the hitherto high unemployment rates is relatively low overall labor force participation rate and even lower female participation rate. Indeed, based on the International Labor Organization’s (ILO) estimates, Jordan has one of the lowest participation rates in the world.



Jordan's increasing and relatively young population will continue to contribute to an increase in labor input and hopefully a rise in real economic growth rate. To promote Jordan's sustainable growth, it is necessary, among others, to increase the labor participation rates and labor productivity.

As far as productivity per se is concerned, one commonly used measure is labor productivity. Labor productivity provides a measure of the efficiency with which one unit of labor input can produce goods and services. It is calculated by dividing output by total employment. In other words, labor productivity is equivalent to “output per worker”.

Within the context of the challenges facing the Jordanian economy, this policy paper sheds some light on labor productivity in Jordan, and recommends what needs to be done to improve this important economic measure.

2. The Concept of Labor Productivity

For so long, the subject matter of labor productivity has attracted the attention of academic researchers, think-tanks, as well international organizations such as the world bank. Productivity is a measure of the efficiency with which a country uses labor to produce more with the same level of factor inputs.

Basic economic sense asserts that higher levels of labor productivity can lead to a myriad of socio-economic benefits, and these include:

- A. Lower unit costs:** These savings (cost) might result in lower prices to consumers, and this might encourage higher demand, more output and an increase in employment.
- B. Improved competitiveness and trade performance:** Naturally, productivity growth and lower production costs are key determinants of the competitiveness of firms in global markets.
- C. Higher profits:** Efficiency gains are an important source of larger corporate profits and these profits might well be re-invested to support growth of the business sector in the long-term.
- D. Higher wages:** If labor productivity improves, businesses can afford to pay their employees higher wages.
- E. Economic growth:** Finally, it is only natural to expect that increasing the rate of growth of labor productivity would result in higher real economic growth.

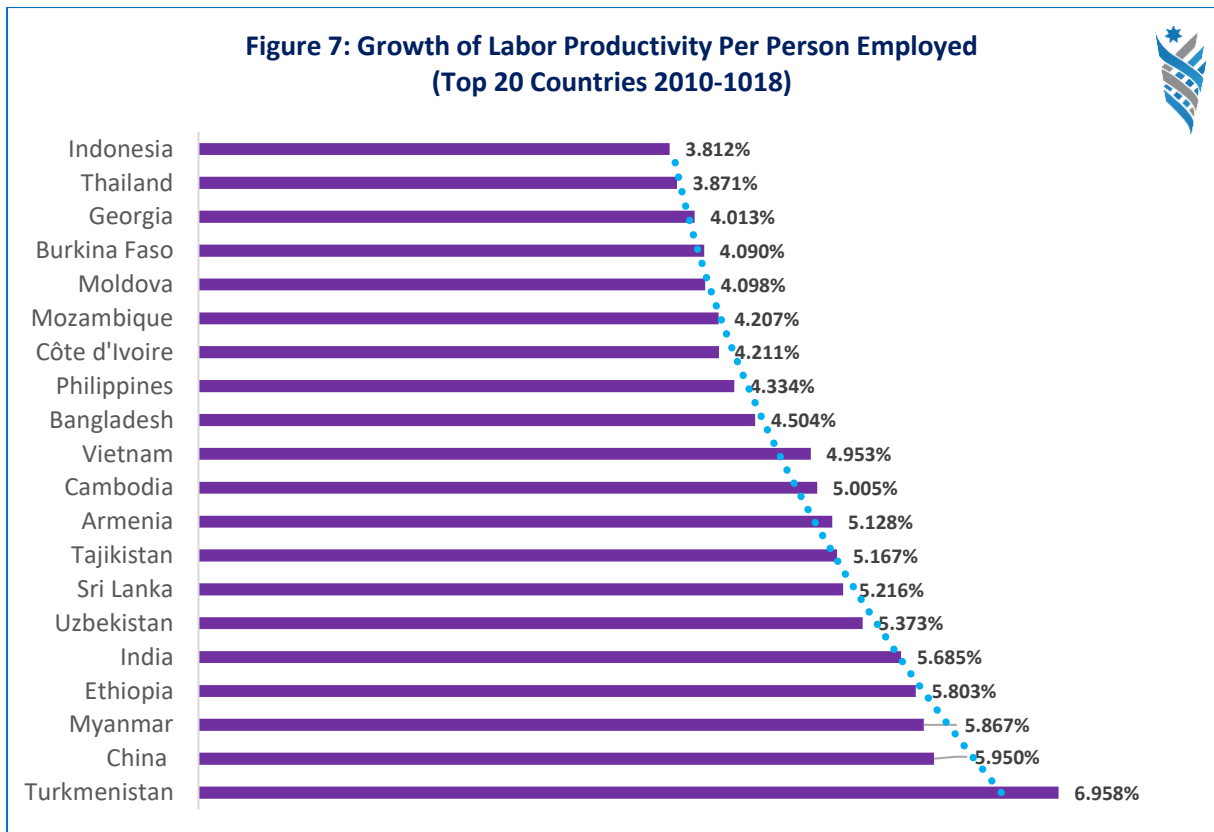
3. Labor Productivity in Jordan: Where and Needs to be Done?

The Conference Board (a US non-profit business membership and research group organization that conducts economic and business research, and publishes several widely tracked economic indicators) has just published its 2018 labor productivity for a total of 123 countries.

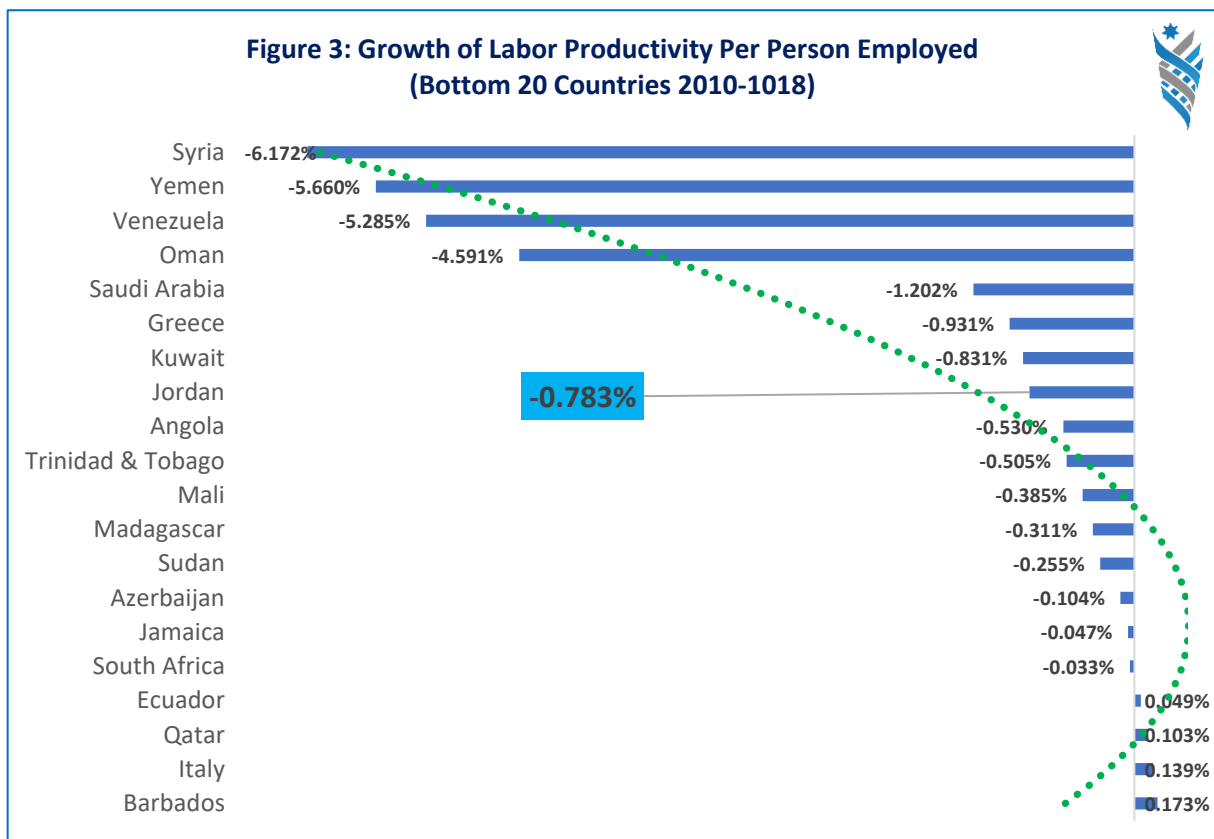
- A. At the regional level, China tops the list in terms of labor productivity. Indeed, during the period 2010-2018, the mean growth rate in labor productivity was equal to +5.950%. It is unfortunate to note that the Middle East and North Africa (MENA) region realized the lowest growth rate (Figure 6)!



- B. The top 20 countries in the world in terms of achieving labor productivity growth rates contain no Arab economy. While Turkmenistan and China came in first and second, Indonesia ranked 20th (Figure 7).



- C. The bottom 20 countries in the world in terms of achieving labor productivity growth rates contain eight (8) Arab economies. Understandably, while Syria ranked last in this measure, Jordan's performance has not been encouraging. During the period 2010-2018, Jordan ranked 116th out of the 123 countries. Indeed, during this period, Jordan's labor productivity witnessed deterioration by, on average, -0.783%!



Clearly, there is a strong case for improving labor productivity in the Jordanian economy. As mentioned above, a myriad of benefits can result from improving this measure. Where possible, Jordanian stakeholders must look into what needs to be done to improve productivity. Within this context, **it is critically important to stress that there is no simple formula to improve labor productivity.** However, the Jordan Strategy Forum (JSF) points out the following recommendations:

1. Employee Engagement

It all starts with management. Better recruiting, improving employee skills (training), encouraging employees to take ownership over how they manage their own time and resources, focusing on the future with clear communication, listening to employees, offering feedback, establishing clear parameters for success, looking into, where relevant, getting more done with remote work, and others.

2. Competition

All relevant economic sectors should be evaluated in terms of their respective competitiveness. Where possible, rules and regulated should be adopted in such a way to improve competitiveness. Indeed, international evidence shows that competition promotes productivity.

3. Better infrastructure

One cannot underestimate the importance of heavy state, as well as private sector, spending on critical infrastructure. Indeed, this should improve the overall efficiency of the economy through, for example, reducing transport delays and increasing communication speeds.

4. New Technology and Innovation

Willingness of businesses to adopt new production technologies and process innovations must be examined, and remedial measures adopted. For example, the government should look into tax breaks for those companies that spend on matters like hard technology and technology.

5. Foreign Direct Investment (FDI) Effects

Global experience shows that high levels of inward FDI boost productivity. New manufacturing capacity and technology lift efficiency and lead to productivity spillover effects.

6. Openness and Global Competition

Global competition is a stimulus for efficiency improvements.

7. Education Spending and Efficiency

During the period 2014-2017, the mean annual total public spending on education in Jordan was equivalent to 3.8% of GDP. Irrespective of the efficiency level of this spending, this ratio is definitely lower than that which was spent by Japan (8.7%), Austria (9.6%), UK (12.0%), Poland (12.6%), Sweden (13.0%), USA 16.2%, Korea (16.3%), Switzerland (17.2%), and by , the OECD countries (12.6%)!



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Tel: +962 6566 6476

Fax: +962 6566 6376

info@jsf.org

www.jsf.org

[f /JordanStrategyForumJSF](https://www.facebook.com/JordanStrategyForumJSF) [t @JSFJordan](https://twitter.com/JSFJordan)