



منتدى الاستراتيجيات الأردني
JORDAN STRATEGY FORUM

The Jordanian Economy

The Challenge of Economic Growth and Employment

June 2018





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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.

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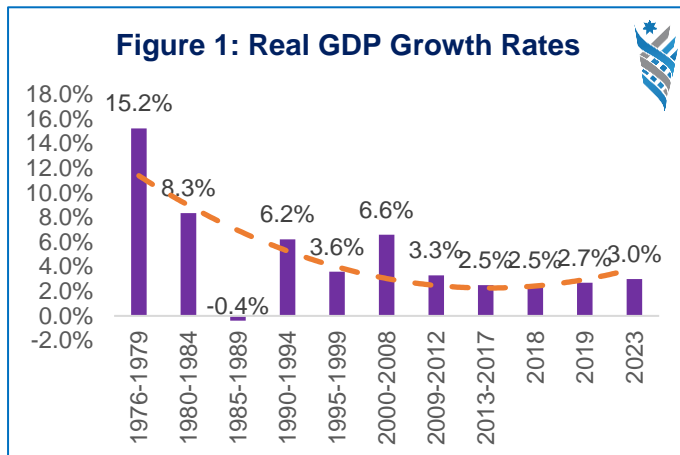


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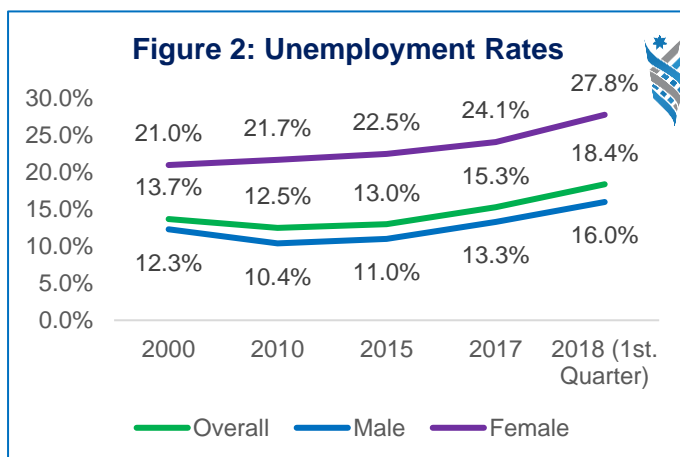
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Background

Strong and consistent real economic growth must remain the challenge facing all Jordanians. To appreciate this observation, one only needs to look at the recent performance of the national economy in terms of real GDP growth rates and unemployment rates, and the distribution of various age groups in the population (population pyramid).

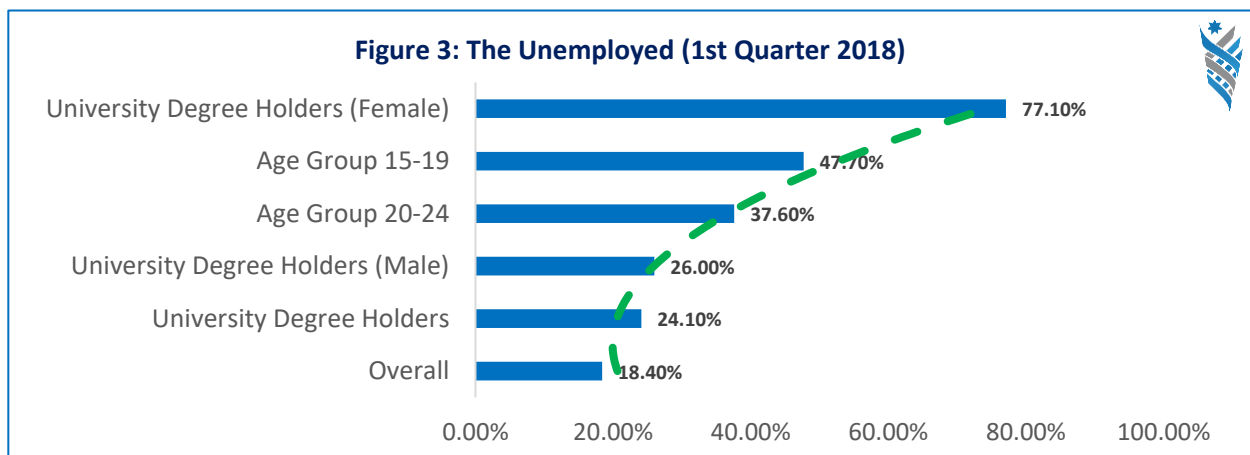


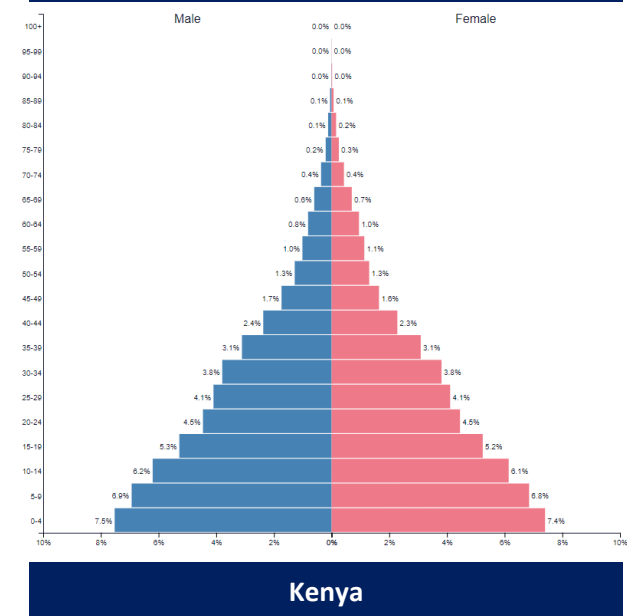
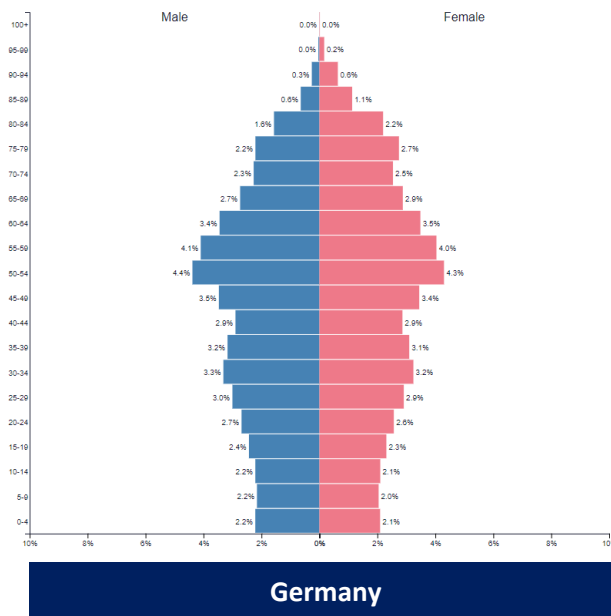
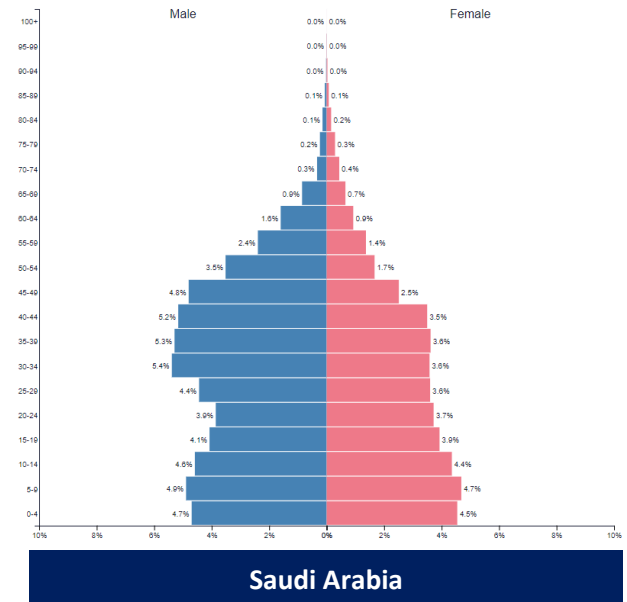
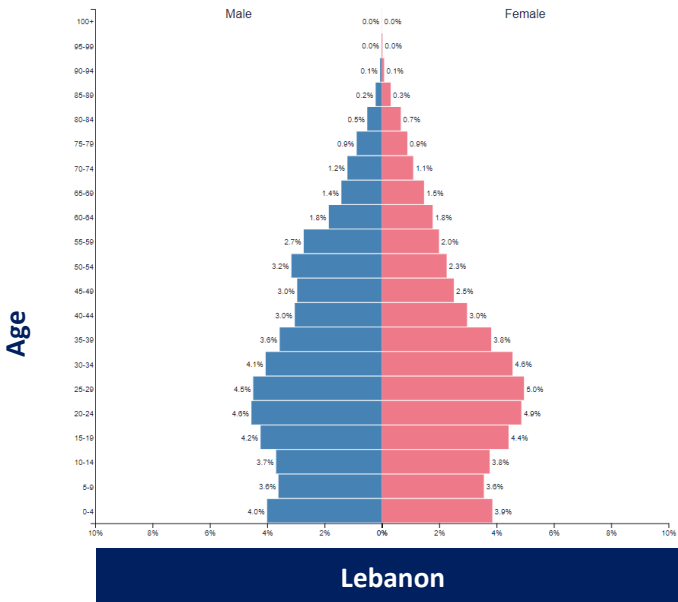
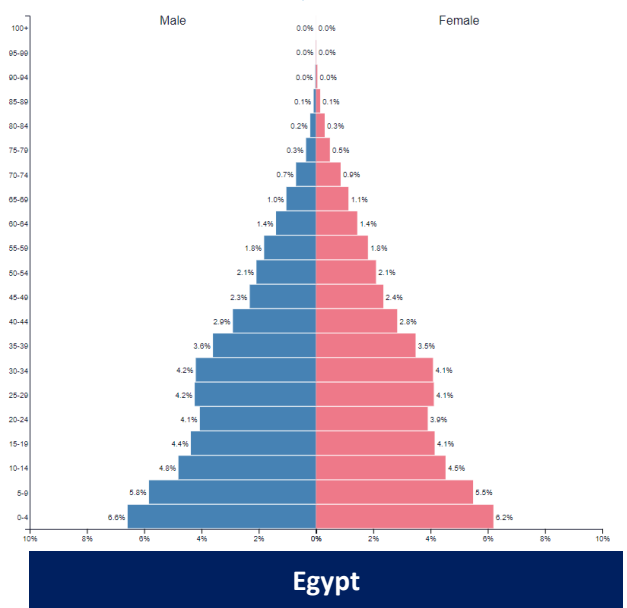
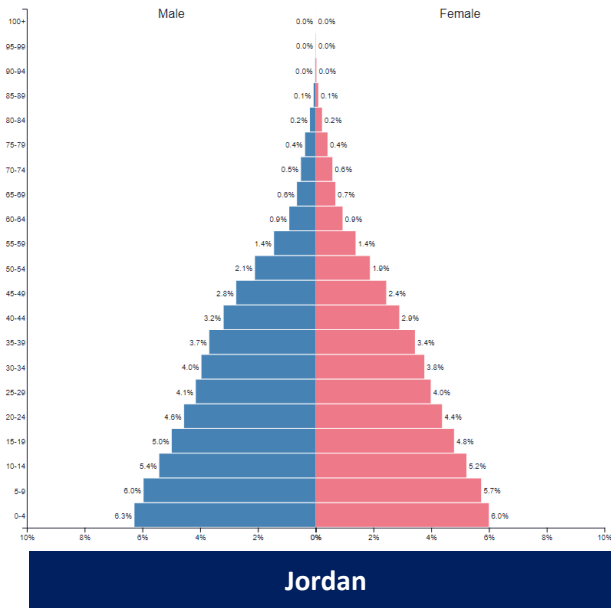
First, the strong economic growth during the period 1976-1979 has never been repeated. More disappointing, is the fact that since the healthy economic growth in 2000-2008, the performance of the national economy remains modest (Figure 1). In addition, growth is expected to reach an average of 2.5% in 2018, 2.7% in 2019, and 3.0% in 2023 according to the IMF forecasts.



Second, for so long, the unemployment rates have been rising and consistently high (Figure 2). Again, and more disappointing, is the age, gender, education, and regional distribution of unemployment (Figure 3).

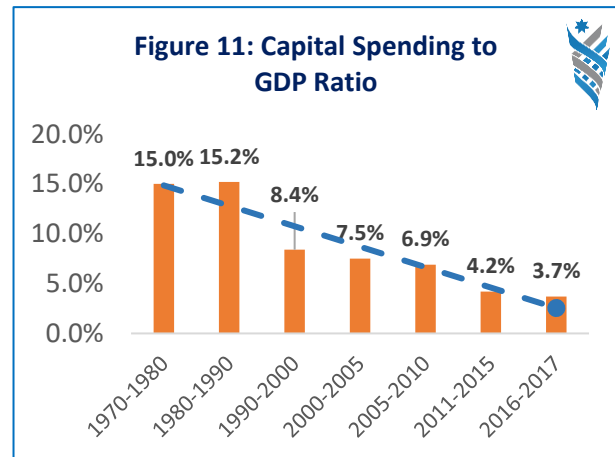
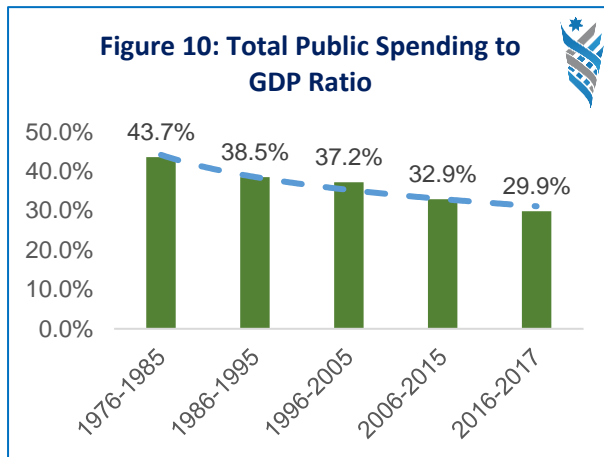
Third, the population of Jordan is relatively young. A large proportion of the population is under the age of 14 years old (Figures 4-8). This fact indicates that the economy must create a lot more employment opportunities than before to maintain current unemployment rates, never mind reduce them.





Percentage of Population

Within the context of economic growth, unemployment rates, and population pyramid, it is useful to note that the involvement of the government in the national economy has been falling. Official figures indicate that total public spending to GDP ratio has fallen from 43.7% (1976-1985) to 29.9% (2016-2017). However, what is disappointing is the fact that this fall has been largely due to the capital component of total public spending (Figure 10).



Over a long time period (1970-2017), the decrease in capital spending to GDP ratio must have had negative implications to the human and physical infrastructure of Jordan! These include public health, public education, and public transport!

Analysis, Results, & Recommendations

The Jordanian challenge is to promote real and sustainable economic growth large enough to reduce the currently existing high unemployment rates. Within this context, the JSF analyzed the relationships between capital spending (public) and real GDP growth, exports and real GDP growth, and real GDP growth and employment levels. For the technical reader, the results are reported in Appendix A.

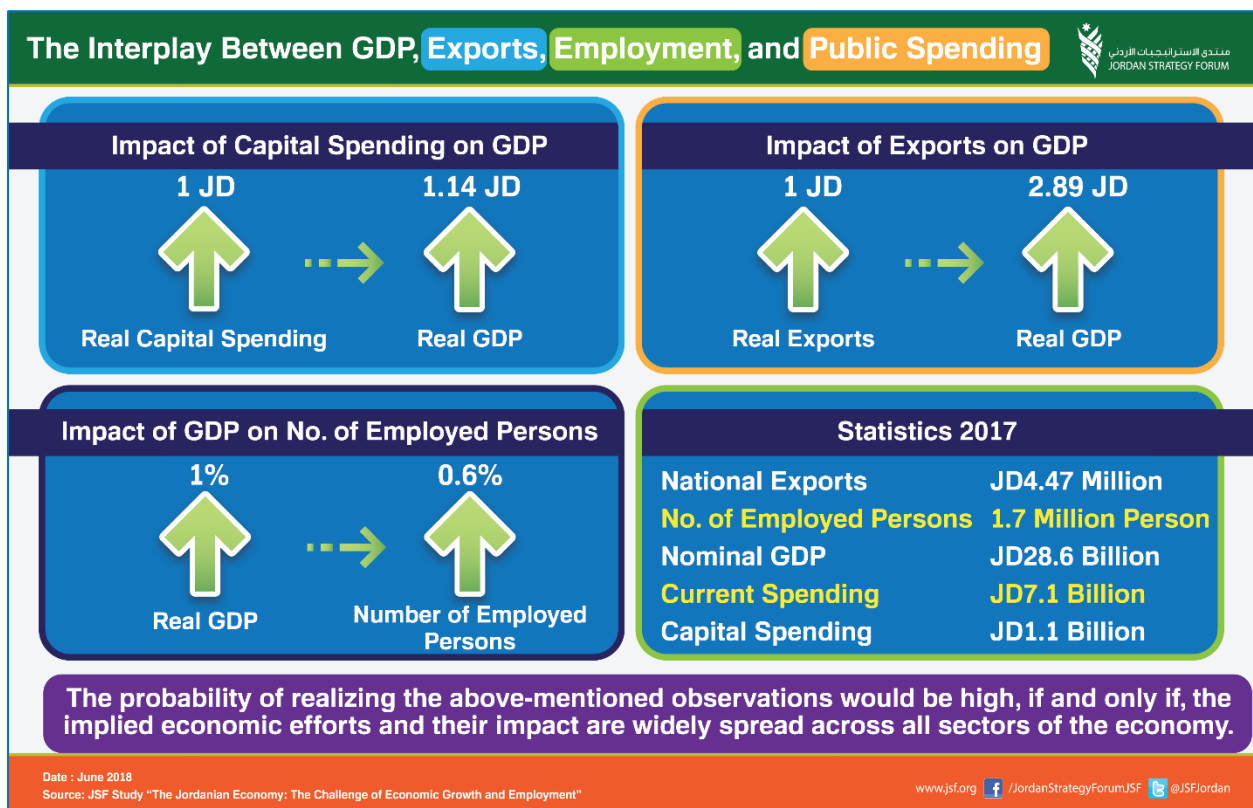
Based on our analyses, the results could not be more encouraging.

First, the impact of real capital spending on real GDP is positive. When capital spending increases, real GDP increases. For example, JD 1 real capital spending increases real GDP by JD 1.14.

Second, the impact of real exports on GDP is positive. When exports increase, real GDP increases. Again, JD 1 of real exports increase real GDP by JD 2.89.

Third, the impact of real GDP growth on employment levels is positive. When real GDP increases, the total number of employed people increases. When real GDP increases by 1%, the total number of employed individuals will increase by 0.6%.

Fourth, nobody should forget the fact that the above-mentioned results and conclusions would be accurate only if the implied economic efforts and their impact are widely spread across all sectors of the economy.



IN A NUTSHELL, based on the empirical results, and to realize strong and sustainable real economic growth, the JSF recommends the followings:

First, the JSF recommends giving exports special attention due to their impact on real economic growth and hence, on unemployment. JSF also recommends that Jordan should diversify & increase the sophistication of its export basket, IMF study which was based on analysis of 34 states, states that more export-diversified economies “experienced lower output volatility and higher average growth” (IMF, 2018a). Also, it is stated that export sophistication is the only robust determinant of growth among standard growth determinants such as human capital” (IMF 2018b). Within this context, it is useful to note that the JSF product space study (2017), based on the Theory of Economic Complexity of Harvard University, sophistication & prioritized sectors & products that Jordan should focus on to increase the sophistication of its export basket, has analyzed the current products manufactured in Jordan in terms of their complexity. +

Second, the JSF emphasizes the importance of capital spending in promoting growth especially if well spent on public services like health, education, and transport.

Third, it is worth noting that a number of factors determine the impact of capital spending on real economic growth. These include the propensity to import, public debt, and marginal propensity to consume. Based on the IMF (2009), the higher the propensity to import and the higher public debt is, the lower the impact of capital spending on real GDP. In addition, the higher the propensity to consume the higher the impact of capital spending on GDP.

Fourth, the fact that real economic growth creates new employment opportunities and reduces unemployment, the Jordanian economy must sustain macroeconomic stability (annual changes in real GDP and inflation) as such uncertainties have significant impact (negative) on growth and employment.

Fifth, the government must “prioritize” and “quantify” Jordan’s needs for public goods’ investment projects (human capital and physical infrastructure) in a comprehensive manner. If such an announcement is to translate into short-term trust, medium-term jobs and long-term competitiveness, growth, development, and confidence, this “comprehensive” and “large” commitment must be well-chosen and translated into action on the ground and quickly. The financing of such an ambitious plan, naturally, should also come from the public as well as the private sector.

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APPENDIX A

1. To evaluate the impact of real capital spending on real GDP, we estimate the following Fully Modified Ordinary Least Squares Regressions:

$$RGDP_t = \beta_1 RCSPENDIN_t + \varepsilon_t$$

where RGDP is the natural logarithm of real GDP, and RCSPENDING is the natural logarithm of real capital spending. ε is the error term.

The results are as follows:

Variable	Coefficient
RCSPENDING	1.139*
*implies significance at the 99% confidence level.	

2. To evaluate the impact of real exports on real GDP, we estimate the following Fully Modified Ordinary Least Squares Regressions:

$$RGDP_t = \beta_1 REXPORT_t + \varepsilon_t$$

where RGDP is the natural logarithm of real GDP, and REXPORT is the natural logarithm of real exports. ε is the error term.

The results are as follows:

Variable	Coefficient
REXPOR	2.988*
*implies significance at the 99% confidence level.	

3. To evaluate the impact of real GDP and total number of employed individuals, we estimate the following Fully Modified Ordinary Least Squares Regressions:

$$REMPLOYMENT_t = \beta_1 RGDP_t + \varepsilon_t$$

where REMPLOYMENT is the natural logarithm of real GDP, EMPLOYED is the natural logarithm of the total number of employed individuals. ε is the error term.

The results are as follows:

Variable	Coefficient
REMPLOYED	+0.604*
*implies significance at the 99% confidence level.	



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