The Impact of Middle East Conflict on the Jordanian Economy

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Abstract
The purpose of this study was to explore the challenges that Jordanian economy may have to face based on different scenarios in his macro-environment. Specifically, the study focused on the development in the Iraqi, Syria and Palestinians fronts and their impact on the Jordanian economy. An exploratory research method was utilized. The study findings revealed that the majority of Jordanians believed that the level of conflicts at the three fronts are more likely to continue as is “no war-no peace”. Jordanians showed a tendency to be more optimistic than pessimistic about the reach for a final settlement for the three conflicts. However, Jordanians showed more concern for the situation in Palestine than it is in Iraq and Syria. Conclusion/Recommendations: were provided for Jordanian policy makers to deal with economic issues based on each scenario.

Keywords: Emerging Economy, Jordan Economy, Scenarios, and Future Prospects.

Introduction
Jordan's economy is among the smallest in the Middle East, with insufficient supplies of water, oil, and other natural resources, underlying the government's heavy reliance on foreign assistance. Other economic challenges for the government include chronic high rates of poverty, unemployment and underemployment, budget and current account deficits, and government debt. Government of Jordan, during the first decade of the 2000s, implemented significant economic reforms, such as expanding foreign trade and privatizing state-owned companies that attracted foreign investment and contributed to average annual economic growth of 8% for 2004 through 2008. The global economic slowdown and regional turmoil contributed to slower growth from 2010 to 2014 - with growth averaging 2.8% per year - and hurt export-oriented sectors, construction, and tourism. Through 2014, Jordan's finances were strained by a series of natural gas pipeline attacks in Egypt, disrupting natural gas exports to Jordan, and led Jordan to rely on more expensive diesel imports, primarily from Saudi Arabia, to generate electricity.

To diversify its energy mix, Jordan has secured several contracts for liquefied natural gas and is currently exploring nuclear power generation, exploitation of abundant oil shale reserves and
renewable technologies, as well as the import of Israeli offshore gas. In August 2015, Jordan completed a $2.1 billion, three-year IMF Stand-By Arrangement, which the government had entered to help correct budgetary and balance of payments imbalances. Jordan plans to expand on its fiscal reform measures enacted over the previous few years with a follow-on IMF agreement in 2016 to boost government revenues, reduce the budget deficit, and manage its burgeoning debt, brought on in part by an influx of over 650,000 Syrian refugees since 2011, which put additional pressure on expenditures (The world fact Book).

Materials and Methods
An exploratory research method was used. Data were acquired from 240 respondent from Amman the capital of Jordan. The character of the sample indicates that 100% of the respondents are familiar with economic and managerial terms and the situation in the Middle East. Of the respondents, 65% were male and 35% were female. The participants were asked to respond for series of questions related to the three scenarios. First optimistic scenario:
• The situation in Iraq and Syria will stabilize and solved. Resources are tapped, regional trade begins
• Israeli/Palestinian conflict subsidies, negotiations ensure. Tensions ease
• Jordanian government can focus on reforms and gathering investment
• A FDI flow to newly stabilized region in the near-term- Jordan is an immediate beneficiary
Second pessimistic scenario:
• The situation in Iraq, Syria and Arab-Israeli conflict will be getting worst and will have a negative impact on Jordan economy.
• The Palestinian- Israeli conflict will stay as is
• Government focused solely on maintaining security of nation, not investment and reforms
The third scenario:
• Crisis ends more towards Syria and Iraqi stability/implementation of effective governance
• Enmity between Israel/Palestine continues, dividing the Middle East and discouraging firms
• Government continuous to balance economic reform efforts with more pressing social concerns
• Many western firms remain hesitant to enter, await resolution and view larger-term options

An analysis of Jordanian economy has been made with secondary data. Data have been collected from government publications. Central Bank of Jordan publications (CBJ) like annual reports and monthly statistical bulletin, Department Of Satiations publications (DOS) like annual statistics.

Previous studies
Impact of Syrian refugees on the Jordanian labour market Findings from the governorates of Amman, Irbid and Mafraq (2015) Svein Erik Stave and Solveig Hillesund
This report presents the main findings of a household survey conducted in the Jordanian governorates of Amman, Irbid and Mafraq between February and March 2014, aimed at assessing the implications of the large influx of Syrian Refugees onto the labour market in the three geographical areas. The results were based on information gathered on the current
labour market situation, as well as some of the changes that have occurred since the beginning of the Syrian Refugee influx into Jordan in March 2011. Four main types of implications of the influx of Syrian refugees on the Jordanian labour market can be derived from the findings of this study: A loss of opportunity for increased employment of Jordanians in newly emerged low skilled jobs, increased unemployment and competition for existing jobs, and an overall deterioration in working conditions leading to increased decent work deficits in Jordan.

This study has attempted at providing an account and analysis of the costs and benefits associated with the Syrian refugee crisis, acknowledging that quantifying these costs and benefits would lead to an estimate that is at high risk of being inaccurate and far from reality. This report has also made a very important distinction: that the effects of the Syrian refugee crisis should be isolated from the overall effects of the Syrian conflict and regional instability. While making this distinction is difficult and sometimes impossible, the analysis of the effects of Syrian refugees will not be robust or accurate if other irrelevant indicators are analyzed, such as the disruption in regional trade routes, and plummeting investments. Therefore, this study focused on the impact of hosting Syrian refugees only.

The study finds that the most significant cost on the Jordanian economy is associated with increased pressures by refugees on the domestic labor market, in addition to the pressures placed on the country’s infrastructure and public services, which require significant investments to be upgraded. Large inflows of assistance has flowed into Jordan to support the country in coping with the Syrian refugee crisis, aiming to help both the refugee population in Jordan as well as the Jordanian host communities. On the other hand, the report presented a range of different benefits that may be attributed to the Syrian refugee crisis, including positive contributions to a number of economic sectors, leading to a positive effect on overall GDP levels. Syrians have also become a major source of foreign investments in Jordan. Such benefits also contributed positively to a number of macroeconomic indicators including those related to public finances and foreign reserves.

Economic Impact of Selected Conflicts in the Middle East: What Can We Learn from the Past? (2014) Randa Sab
Using narrative-based country-case studies, war episodes in the Middle East were examined to assess their economic impact on conflict and neighboring economies. The paper found that conflicts led to a contraction in growth, higher inflation, large fiscal and current account deficits, loss of reserves, and a weakened financial system. Post-conflict recovery depended on the economic and institutional development of the country, economic structure, duration of the war, international engagement, and prevailing security conditions. The net economic impact on neighboring countries varied according to their initial economic conditions, number and income level of refugees they hosted, economic integration, and external assistance.

The impact of the Syrian crisis on Jordan is immense. Jordan hosts an estimated 1.3 million Syrians, of which roughly half are refugees registered by the United Nations Refugee Agency (UNHCR). An estimated two out of three refugees live below the poverty line. The strain of the ongoing refugee crisis on host-communities has led to public discontent, directed at the Jordanian government. Syrians live mainly among Jordan's most disadvantaged communities. The sudden influx of large numbers of people exacerbates challenges Jordan has faced for many years – increased competition for jobs, overburdened infrastructure and strained social services, such as healthcare and education. Marginalized Jordanians have begun to mobilize around their grievances as public frustration grows. To confront these issues, Jordan will continue to depend on external assistance. The country has accepted that the bulk of the refugees will remain until the situation in Syria allows for their return, which may be many years from now. In this context, creating job opportunities for Syrian refugees without discriminating against Jordanians will be a key policy challenge. Jordan's stability is a high priority for the EU.

The country is an important partner in the European Neighborhood Policy, as well as in the fight against ISIL/Da'esh. It is one of only two Arab countries to have signed a peace treaty with Israel and is key to any future agreement between Israel and Palestine. Jordan remains a haven of stability in a turbulent region; any change to this situation, particularly if it were to threaten the monarchy, would further destabilize a region in the midst of an existential crisis, potentially also causing new refugee movements to Europe.

Jordan Economy

Recent years, 2017, will be neither easy nor light for Jordanians to handle. There are dozens of variables leading us into a hard and historic curb, in regards to our political and economic situations make no mistake, given the status quo. Domestically, the economic crisis is the prime concern of both the State and Jordanians, and there do not seem to be any promising signs that the economy will overcome the suffocation, or that somehow, an exponential and sudden leap in investment is expected. Quite contrarily, in light of the deteriorating regional situation, added panning terrorist activity, the possibility that businesses and businesspersons would even consider investing in any major projects here is almost absolutely out of the question. At least until the general situation clears out, for in the end, Jordan remains part of the regional map, affected by its circumstance, despite the characteristically advantageous level of stability. Still, investors are rightly susceptible to being swayed out of investment when it comes to security risks and concerns. That said, the main official premise is based on the attainment of three main goals: First, expediting the establishment of the joint Saudi-Jordanian Investment Fund. In this regard, it is expected that Saudi Arabia will pump USD3 million into the fund with the coming of the New Year. However, legislation, and actualization of these funds into investments, that would require more time; years, without tangible results on the short term. Second, addressing and resolving the issues hindering the revitalization of the Amman-Baghdad commercial route, which would stir the local market and reinitiate exportation and importation, as well as transportation. Indeed, the government has begun their endeavors to resurrect the
commercial lifeline to and from Iraq, over the last few weeks, which would explain the ongoing communication on both levels; political and economic. Jordan has been receiving Iraqi officials to mediate the undergoing domestic political reconciliation in Iraq. Third of all, Jordan is trying to abide by the International Monetary Fund (IMF)’s program to lower the overall public debt to gross domestic product ratio down to 77 per cent by 2021. In that discourse, so far, the standing economic indices are not optimistic; at least in regards to controlling public debt to not exceed the ceiling of 94 per cent. Additionally, the government will be raising electricity tariffs, next year, should the price of oil per barrel exceed USD55, to maintain the current balance. Notably, it is not easy to achieve the World Bank (WB)’s estimations for economic growth in 2018 to reach 3.1 per cent, compared to 2.3 per cent in 2016. The formula to attain it is hard and complex. There are low chances to secure immediate investments, that is one, and there is also the issue of limited international aid to cover the expenses of Syrian refuge in Jordan, as it only covers 40 per cent of the real cost. Nonetheless, the government remains hopeful of actually realizing the outcomes of the London Conference, should the Jordanian private sector invest in this opportunity and adapt the EU rule of origins, which would create plausible opportunities to employ Jordanian and Syrian labor force. Talking about the dangerous implications of the unemployment; economic, social, and security, especially with our officials obsessed with youth recently, there is a sum of JOD80 million allocated to support the foundation and establishment of entrepreneurial youth projects, in an endeavor to vitalize employment. Still, this is not much to hope for. Meanwhile, the House of Representatives is prepping a bundle of reformed legislation, particularly sales and revenue tax regulation. However, the government would like to verify its predictions and not rush it, to avoid further amendments, which would reflect negatively on the stability economic policy. Amidst all that, there are concerns that serious damage would be incurred on vital sectors and companies worth dozens of millions of Dinars (Abu Ramman, Alghad, 27/12/2016).

**Jordan Current Market conditions**

Over the past 10 years, Jordan has pursued structural reforms in education, health, as well as privatization and liberalization. The Government of Jordan has introduced social protection systems and reformed subsidies, creating the conditions for public-private partnerships in infrastructure and making tax reforms. More work needs however to be accomplished so the focus on identifying steps towards enhancing the investment climate and ease of doing business can lead to concrete outcomes. Adverse regional developments, in particular the Syria and Iraq crises, remain the largest recent shock affecting Jordan. This is reflected in an unprecedented refugee influx, in disrupted trade routes, and in lower investments and tourism inflows. The large number of Syrian refugees entering the country is having a strong impact on the country’s economy and social fabric. Other major challenges facing Jordan include high unemployment, a dependency on grants and remittances from Gulf economies as well as continued pressure on natural resources. Jordan’s economy remains sluggish as growth slowed down in 2016 for the second year in a row — to an estimated 2 percent from 2.4 percent in 2015 — as geopolitical repercussions take a toll and as reflected in worsening labor market indicators. Economic growth is expected to
marginally improve to an estimated 2.6 percent average over 2017-2019 anticipating improvements in tourism, exports, and the impact of investment climate reforms. Inflationary pressures appear after two years of deflation. Fiscal consolidation and monetary policy tightening are expected to continue.

On August 24, 2016, the IMF Board of Directors approved a three-year extended arrangement under the Extended Fund Facility (EFF) for Jordan to support the country’s economic and financial reform program. This program aims at advancing fiscal consolidation to lower public debt and broad structural reforms to enhance the conditions for more inclusive growth. Moving forward, it will remain critical for Jordan to continue diversifying its energy supply in the medium term in order to reduce its macroeconomic vulnerabilities. Sound economic policies and growth-enhancing reforms will also be necessary to reduce the country’s sensitivity to external shocks. Finally, creating conditions for increased private investment and improved competitiveness will remain indispensable for Jordan to stimulate job-creating growth (World Bank, 2017).

**Five-year Outlook with the Three Scenarios**

The challenge for the Jordanian policy makers and economists is to maintain the economic growth rate in the long run. Jordanian policy makers are aware with the changing nature of political, economical and social environment in the Middle East. This research will discuss three likely scenarios based on current situation.

**The First Scenario:**
- The situation in Iraq and Syria will stabilize and solved. Resources are tapped, regional trade begins
- Israeli/Palestinian conflict subsidies, negotiations ensure. Tensions ease
- Jordanian government can focus on reforms and gathering investment
- A FDI flow to newly stabilized region in the near-term- Jordan is an immediate beneficiary

Over a five-year period, assuming stability on all fronts, investment in the region would skyrocket and Jordan would be an immediate beneficiary in the light of their location and the reformed economy. GDP grow the rates of 4-6%, may be reached and needed attention would be paid to ongoing reforms. Perhaps most importantly, this scenario would allow the government to focus solely on the nation’s economic infrastructure without having to constantly address security and political concerns, while also counting potential investors. Given that a prime deterrent to investment in Jordan, along with geopolitical instability, are the “micro” issues in firm’s operational set-up, this attention is crucial. Continued emergence of the Amman Stock Exchange (ASE), as well as, consolidation and continued profitability in the banking sector are very likely in this case. Competition will increase as new participants enter, driving efficiency and encouraging borrowing by domestic business as well as the emerging middle-class. Some domestic banks are likely victims, but the gains for the citizens seen in improved burrowing rates and expanded bank services.
The Second Scenario:
- The situation in Iraq, Syria and Arab-Israeli conflict will be getting worst and will have a negative impact on Jordan economy.
- The Palestinian-Israeli conflict will stay as is
- Government focused solely on maintaining security of nation, not investment and reforms

This is the worst-case scenario and would lead down a very difficult road. Once again, they would be victimized by their sensitive location and uncontrollable factors. Growth levels plummet in the region especially in Jordan, now surrounded by conflict on all sides. Government would be primarily focused on maintaining rule in this situation. Economic reforms either are cast aside or abandoned altogether.

Quite simply, companies not in the market will stay away and companies with a presence in Jordan may leave. This will have a dramatic effect on FDI, both long and short term and be potentially devastating to the economy given the effort that they have made to make themselves appealing. The ASE would rapidly lose steam as the recent growth of foreign participation in the market dries up. The banks would likely survive, given their strong position serving the existing citizens and business. Unfortunately, this may also mean even less efficiency and local business and citizens paying the price. An important consideration is that planned unification of markets between Arab countries would undoubtedly be put on hold, to the determinant of each of them. The CBI would need to institute very strict measures to control inflation and interest rate in the face of what would likely be economic crisis.

The Third Scenario:
- Crisis ends more towards Syria and Iraqi stability/implementation of effective governance
- Enmity between Israel/Palestine continues, dividing the Middle East and discouraging firms
- Government continuous to balance economic reform efforts with more pressing social concerns
- Many western firms remain hesitant to enter, await resolution and view larger-term options

This is the most realistic of all scenarios. Importantly, it predicts a slower, but consistent, rebuilding of Syria and Iraq on both economic and political levels with continued regional tension. An expected short-term dip in the GDP (Due to lost FDI and DDI) will undoubtedly occur. GDP growth will turn into 4-5% growth by 2018 and continuous onwards given the reconstruction of Syria and Iraq and renewed hope for the region. The government can devote time to both the economy and political considerations. Businesses grow and the middle class continue to emerge. Some firms moving into the region take advantage of Jordan’s location and investment incentive programs. However, other firms remain on the sidelines due to tensions in the West Bank and Gaza strip. The continuation of conflict between the Palestinians and the Israelis considered a more polarizing issue to the citizens of Jordan and other Arab countries and a prime deterrent to potential investors. Based on careful analysis, these are the trends expected in the next few years. Continued development of the stock exchange seems very likely. This will lead to increased trade volume, transparency and capital liquidity.
In a country like Jordan, which is on Middle East, unfortunately economics and politics go side by side on the same tract and even at same pace. Reforms in Jordan involve many programs and plans; however, the previous governments tested this bitter experience in their tenure in the last ten years. To illustrate an example, the government had to face a stiff opposition from the various sectors in the society about decision related to introduction of new taxes in the country. Other key issues like cut in subsidies, the government had no other option but to roll back its decision. The strategic decisions related to disinvestments were halted due to various political and judicial reasons. It is high time now that the government should line up to its expectations of fulfilling the promises which it has made in the past. Irrespective of which government is coming, it should focus on carrying the reform process ahead, especially by passing the critical economic legislations during tenure of the parliament; there are many promises to be fulfilled by the governments. For instance, the promise to bring changes in labor laws, the policy issues related to small-scale industries and infrastructure financing, these are important issues which needs decision action. If Jordan can overcome or address these challenges, then after the next five years Jordan can have a great and bright future.

The Research Findings
240 participants responded for the survey. Of them 156 were male and 84 were female. As shown from Table 1 about one-third of the respondents seemed to be optimistic about the situation in Iraq and Syria. Of them (28%) was males and 24% was female. However, Table 1 also indicated that 45% of the respondents feels that no change in the situation in Iraq and Syria. There were a slight differences between male (40%) and female (55%). Both seemed neither optimistic nor pessimistic. While, 28 % of the total respondents (32% males and 21% females) indicated that the situation in Iraq is going to be worst. Table 2 revealed that only 19% of the respondents were optimistic about the ending of the Arab-Israeli conflict. Of them (16%) was males and 25% was female. Unfortunately, the majority of respondents 64% indicated the level of conflict between the Arab and Israeli are more likely to stay the same. Although there was no significant differences between the respondent according to gender, more male students (67%) showed that will be no changes more than their counterparts the female (60%), surprisingly, only 32% (17% males and 15% females) of the respondents demonstrated that they are pessimistic and level of conflict between Arab and Israeli will be worst than the current situation. The research findings revealed that Jordanians are neither optimistic nor optimistic about situation in Syria Iraq and the Arab-Israeli conflict. It sounds that there is a silent wishing for a solution for those conflicts because of their proximity of Jordan and their importance for its economy. Iraq is in the Eastern border, while Palestine is Jordan western neighbor. Jordanian sees Iraq is a major market for Jordanian product and services. Furthermore, Iraq is oil- rich Arab states and geographically located at Eastern border of Jordan. Historically, Iraq is an important source of energy for Jordan. As mentioned earlier, Jordan has been the safe haven for continuous waves of Palestinians refugees before and since 1948. Almost a large number of Jordan populations are originally Palestinians or Palestinians refugees. Additionally, Jordanian economy has a strong tie with the West Bank economy also the end of this conflict will give
Jordan another access to the Mediterranean Sea, such an access will contribute for reducing cost for Jordanian import and Export.

Table 1: Number and percentage of respondents regarding the Iraqi, Syria and Israel/Palestine Scenario

<table>
<thead>
<tr>
<th>Gender</th>
<th>1st scenario optimistic</th>
<th>2nd scenario more likely</th>
<th>3rd scenario pessimistic</th>
</tr>
</thead>
<tbody>
<tr>
<td>Male</td>
<td>44 (28%)</td>
<td>62 (40%)</td>
<td>50 (32%)</td>
</tr>
<tr>
<td>Female</td>
<td>20 (24%)</td>
<td>46 (55%)</td>
<td>18 (21%)</td>
</tr>
<tr>
<td>Total</td>
<td>64 (27%)</td>
<td>108 (45%)</td>
<td>68 (28%)</td>
</tr>
</tbody>
</table>

Table 2: Number and percentage of respondents for each scenario

<table>
<thead>
<tr>
<th>Gender</th>
<th>1st scenario optimistic</th>
<th>2nd scenario more likely</th>
<th>3rd scenario pessimistic</th>
</tr>
</thead>
<tbody>
<tr>
<td>Male</td>
<td>25 (16%)</td>
<td>105 (67%)</td>
<td>26 (17%)</td>
</tr>
<tr>
<td>Female</td>
<td>21 (25%)</td>
<td>50 (60%)</td>
<td>13 (15%)</td>
</tr>
<tr>
<td>Total</td>
<td>46 (19%)</td>
<td>155 (64%)</td>
<td>39 (17%)</td>
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Conclusion
The Jordanian government and people are highly, and rightfully, concerned about the potentially serious economic and social effects because of the unstable political conditions in the neighboring countries and the large influx of Syrian refugees to the country, including potential negative effects on the labor market.

The protracted conflict in Syria, Iraq and Palestine, and the associated deterioration in the security situation inside Syria and Iraq, has resulted in a massive unprecedented refugee crisis over the past four years, where it is estimated that over 4 million Syrian refugees have fled to neighboring countries by July 2015. This has in turn led to a large inflow of refugees into Jordan over this period, entailing large and significant costs for the Jordanian government and host communities, including rising costs of public services and high pressures on the domestic labor market. In spite of the generosity demonstrated by host communities for new arrivals through sharing scarce resources and accepting their needs to access health and education services within the community, the protracted nature of the crisis is increasing costs and pressures to unsustainable levels. Furthermore, the spillover effects of the Syrian refugee crisis are taking a heavy toll on the Jordanian economy, especially on the most vulnerable segments of the population in the northern part of the country, where over half of Syrian refugees currently reside.

Jordan, as located in the crossroad between the Middle-Eastern countries has been facing a sensitive situation to maintain a balancer role in the region. For instance, Jordan tried to play a neutral positive role in all the Middle-East conflicts. Ironically, Jordan’s economy has been highly integrated to the economies of his neighbors. The research findings revealed that
Jordanians are neither optimistic nor optimistic about situation in Syria, Iraq and the Arab-Israeli conflict. It sounds that there is a silent wishing for a solution for those conflicts because of their proximity of Jordan and their importance for its economy.

**Recommendations**

The research study strongly recommends that Jordan policy makers continue their efforts toward stabilizing the region because of its importance for Jordan development and progress. Additionally, Jordan policy makers are recommended to diversify the economy to be an industrialized instead of being a service based economy. Furthermore, Jordan policy makers has to be pragmatic and study toward lowering level of expectations among Jordanian to avoid social pressures on the decision makers to trade off short term stability for long term developments. In order to convert the challenges often associated with hosting refugees into opportunities for Jordan, authorities need to formulate a comprehensive integration and resilience building strategy to guide future measures and policies aimed at utilizing the status quo of Jordan and its hosting of refugees. Such policies may include the formalization and regulation of the domestic labor market, further facilitating Syrian investors, and creating an enabling legislative framework that grants refugees socioeconomic rights and freedoms. However, in order to move forward in this direction, the government needs to shift its attitude and perception of Syrian refugees from being a burden on the economy and society to being a resource that can contribute to the socioeconomic advancement of Jordan and Jordanians.

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