PUBLIC SECTOR ISOLATION: LABOR MARKET DIVISIONS IN JORDAN

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INTRODUCTION

Jordan’s ethnic economic divisions could undermine the regime; current U.S. policy does not account for the political risks of these divisions. Recent International Monetary Fund (IMF)-imposed privatization policies deepen ethnic tensions by economically benefiting West Bankers (also referred to as Palestinian-Jordanians) at the expense of East Bankers. Since the 1970 Jordanian Civil War when the Palestinian Liberation Organization attempted to overthrow the regime, the monarchy has depended on East Bankers for protection against disgruntled West Bankers, who are politically disenfranchised and prone to anti-regime protests. However, East Bankers are becoming increasingly dissatisfied with the monarchy’s new economic policies. As a result, their support is declining. This development is particularly dangerous since East Bankers comprise the bulk of the Jordanian military, police, and mukhabarat (Jordan’s internal security apparatus). In the context of declining support from the security sector, a West Banker revolt could threaten regime survival.

Current U.S. policy focuses on strengthening Jordan’s security against external threats and facilitating broad economic growth initiatives but fails to account for internal social cleavages. Washington cannot afford for Jordan, a vital ally in an increasingly unstable region, to succumb to civil unrest. With a well-educated, largely unemployed workforce, Jordan

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has high growth potential in skilled industries such as information and communication technology (ICT). To stave off unrest, the United States should alter existing ICT sector development programs to place more emphasis on the economic empowerment of East Bankers.

**POTENTIAL FOR INSTABILITY IN JORDAN**

*The psyche of the Jordanian people has gotten to a boiling point.*

-King Abdullah II, 2016 (Jordan Times)

As a strategic regional partner for the United States and European powers, Jordan’s stability is crucial. Recent threats to this stability are of international concern. Jordan’s high refugee intake and operations against the Islamic State in Iraq and Syria (ISIS) have led to terrorist infiltration and spillover violence that pose the greatest external risks to Amman. The Kingdom has long depended on the East Banker-dominated military and intelligence apparatus to maintain order in the face of internal and external threats, and it continues to do so in the wake of these new challenges. For this reason, growing East Banker discontent as a result of deteriorating economic conditions poses an existential threat to the regime. The labor market in Jordan is divided between East Bankers and West Bankers, and unequal economic growth prompts hostilities both between the two groups and against the regime itself.

**Underlying Causes: IMF Pressure and Divided Society**

The 2012 Jordan-IMF agreement has had unforeseen consequences due to the monarchy’s previous economic policies, which favored an ethnically divided labor market. This agreement has contributed to the risk of imminent economic crisis by deepening this divide.

- **IMF Stand-By Arrangement.** In 2012, the IMF approved a $2 billion USD Stand-By Arrangement (SBA) that provided liquidity to help Jordan reduce fiscal deficits while strengthening growth prospects (International Monetary Fund 2015). The terms of the SBA mandated that Jordan enact strict austerity policies. To reduce the deficit, improve the investment climate, and maintain fiscal sustainability, the monarchy increased fuel prices and cut water, electricity, and energy subsidies, thereby increasing the cost of living (International Monetary Fund 2015). Moreover, the policies failed to create enough jobs to compensate for these higher prices, provoking some Jordanians to protest (Satloff and Schenker 2013, 3).
In August 2016, the IMF agreed on a $723 million USD Extended Arrangement for Jordan to continue implementing economic reforms. Similar to the previous SBA, the broad goals would be to stimulate job creation, reduce Jordan’s high public debt, and reform governance and labor market policies (International Monetary Fund 2016). These changes have led to increased privatization, reduced government spending, and decreased subsidies on food and energy.

- **Ethnic Tensions.** Jordan’s population is divided into two groups: East Bankers and West Bankers. The term “East Bankers” refers to the population that historically lived in Jordan prior to the Hashemites’ ascension to the throne. They constitute the monarchy’s main support base. While they were once the majority, East Bankers now comprise between 25 and 40 percent of Jordan’s population (Sharp 2016, 6). The Hashemite regime has traditionally favored East Bankers, who consequently have a disproportionately large amount of political influence (El Muhtaseb 2013, 2). In exchange for loyalty, the government has historically provided East Bankers with public sector jobs, access to better health care, and larger pensions (Tell 2015, 3). Notably, many East Bankers work in the armed forces, police, bureaucracy, and intelligence apparatus (El Muhtaseb 2013, 2). These military jobs are often the only thing preventing rural East Banker families from slipping into poverty (Baylouny 2008, 287–301).

There are two subsets of East Bankers: the elite and Hirak. High-ranking officials in these agencies are the elite East Bankers, who provide consistent support for the monarchy. The survival of the regime is in their best interest so long as their benefits are maintained. Hirak is a group of East Banker youth who began organizing in opposition to the regime in 2011 (Yom 2014, 229). Unlike elite East Bankers, Hirak demands greater democracy and an end to corruption. Moreover, in 2011 Hirak protests demanded that King Abdullah step down, which was unprecedented and illegal in Jordan (Greenberg 2011).

West Bankers are refugees and descendants of refugees who have been living in Jordan since the 1948 Arab-Israeli War (Sharp 2016, 6). Since their arrival in Jordan, they have been politically disenfranchised, especially since the Palestinian Liberation Organization attempted to overthrow the Jordanian monarchy in 1970. For example, over 60 percent of Jordan’s population lives in urban areas, which are predominantly West Banker, but only one-third of parliament seats represent urban districts (Freedom House 2015).
electoral districting would weaken the political leverage of East Bankers. As such, East Bankers fight against political reforms that would benefit West Bankers (Shaikh 2012). The systemic political exclusion of West Bankers has fueled resentment against the monarchy.

- **Non-Inclusive Economic Growth.** Due to recent IMF-mandated reforms, approximately 70 percent of new jobs in Jordan are created in the private sector (International Labour Organization 2011). The main beneficiaries of these policies have been West Bankers, who have historically dominated the private sector. On the other hand, East Banker dependence on public sector jobs and perceived inaccessibility of private sector opportunities prevents smooth integration into the free market, thus decreasing their employment options in an increasingly privatized economy (El Muhtaseb 2013, 2). The few East Bankers who do work in the private sector complain of limited upward mobility, though the underlying reason is unclear (Sean Yom, in discussion with the author, March 2016). Since 2012, more than half of all labor protests have been in the public sector (Namrouqa 2014).

The combination of Jordan's ethnic divisions and the ongoing economic reforms has accelerated the institutionalization of economic inequality between the East and West Bankers. These factors are potential drivers of instability; however, it is unlikely that Jordan will reverse its economic reform program.

**Proximate Causes: Alienated East Bankers**

While the underlying causes lay the groundwork for potential instability, their consequences present a more immediate threat of civil unrest. These proximate causes are reaching a climax, but they can feasibly be addressed through policy changes.

- **High East Banker Unemployment.** In exchange for government patronage, East Bankers preserve the Hashemites’ political interests and prevent a West Banker uprising (El Muhtaseb 2013, 2–3). With diminishing opportunities for public sector jobs and hesitation to work in the private sector, many are left jobless. Unemployment rates in regions dominated by East Bankers generally exceed 20 percent (O’Toole 2014), compared to 16 percent in 2008 (Khamis 2011). Even though East Bankers tend to be well-educated, there are few job opportunities available upon graduation. In 2013, 200,000 college graduates applied for 6,400 public sector jobs (Schenker 2015). As of early 2016, over 200,000 graduates have passed the civil service exam requisite for a government position, but are still waiting for a job. Many believe that
a position will only become available if someone retires (Sean Yom, phone interview by author, March 22, 2016). Importantly, East Banker-dominated regions are significantly poorer than the West Banker urban areas. When given a government job, only one person per family works and the salary barely manages to keep the family above the poverty line (David Schenker, in discussion with the author, March 2016).

- **Disgruntled and Empowered West Bankers.** Although they are politically marginalized, West Bankers have benefitted the most from the government’s recent economic policies (Jordan Department of Statistics 2015). This wealth gives them slightly greater influence within Jordanian society (David Schenker, discussion). Despite this improved economic standing, since the Palestinian Liberation Organization attempted to overthrow the Jordanian monarchy in 1970, there has been a climate of suspicion towards West Bankers. This wariness impacts government policy and leaves West Bankers politically disenfranchised. Since 2007, West Banker-supported political groups have demanded reforms to address this inequity. These groups demanded a reduction of the king’s influence, an increase in the power of the parliament, and reforms to address government corruption (Bondokji 2015, 3). During the Arab Uprisings in 2011, West Bankers (mainly organized through Islamist parties) comprised the largest groups of protesters and encouraged rioting in the streets (Al Sharif 2013).

Combined, these two factors increase the likelihood for political instability. With the new economic reforms, East Bankers feel that the government is favoring West Bankers over its loyal supporters. In the meantime, persistent West Banker discontent toward the regime and the slow pace of political reform may eventually lead to another attempt to overthrow the government. As noted above, East Bankers make up the armed forces and the *mukhabarat* that has successfully quelled previous uprisings and threats to the regime. However, if the monarchy continues to implement policies at the expense of East Bankers, such as cutting government jobs, they may decide not to protect the regime from civil unrest. In the event of instability, the Hashemite Kingdom may be in jeopardy.

Below are original maps showing the location of non-violent and violent events over time, curated through reviewing six years of daily *Jordan Times*
archives. West Banker dominant areas are outlined in bold. These maps demonstrate that unrest has increased in East Banker dominant areas from 2010 to 2015.

**Figure 1: Reported non-violent incidents in Jordan from 2011 to 2015**

Nonviolent Events Per Capita

![Nonviolent Events Per Capita Maps](image)

Areas outside the bold line are East Bank dominant.

**Figure 2: Reported violent incidents in Jordan from 2011 to 2015**

Violent Events Per Capita

![Violent Events Per Capita Maps](image)

Areas outside the bold line are East Bank dominant.
Effect of Economic Instability in Jordan on U.S. Security

Jordan is one of the few remaining stable U.S. allies in the Middle East and has been a critical partner for furthering U.S. interests in the region. Not only has the Hashemite monarchy cooperated with the United States on various security and counterterrorism operations, but it has also maintained a strong commitment to other Western allies. Civil unrest in Jordan likely would deepen U.S. involvement in regional conflicts and hinder the achievement of Washington’s strategic goals in the Middle East. To protect U.S. influence in the region, American policymakers must prioritize stability in Jordan.

Destabilizing a Key Regional Ally

Jordan is an important ally for advancing U.S. regional security goals. The United States relies on Jordanian military cooperation and has given military aid to the monarchy since 1957, including helping the Royal Jordanian Air Force to maintain a technologically advanced fleet that enhances its border patrol and counterterrorism efforts. The United States classifies Jordan as a major non-NATO ally; areas of cooperation include counterterrorism efforts as well as supporting Iraq’s stability. Jordan has been instrumental in helping rebuild Iraq as the United States withdraws troops. For example, Jordan has trained over 50,000 Iraqi police cadets since the fall of the Saddam Hussein regime in 2003 (Sharp 2011, 15–17). If Jordan collapses, the United States will lose regional support for stabilization efforts in Iraq, a strong anti-Assad, anti-ISIS coalition partner, and access to vital intelligence regarding terrorist activity in the region. In short, U.S. operations in the region would be crippled, and it would take years to rebuild comparable infrastructure with another Arab ally.

Undermining Jordan-Israeli Peace

In 1994, Jordan became the second and most recent Arab nation to sign a peace treaty with Israel, a longstanding U.S. ally in the region (Sharp 2016, 4). Since then, Jordan has played a central role in the peace process between Israel and Palestine. King Abdullah strongly advocates for a two-state solution, with the guarantee that Israel’s security would not be compromised (Goldberg 2013). Continuing the peace process is a high priority for Jordan, as any solution will substantially affect the Hashemite Kingdom given Jordan’s high volume of Palestinian refugees. Additionally, the United States has taken steps to further strengthen ties between Jordan and Israel through Qualifying Industrial Zones (QIZs), with the objective of expanding
trade between the two countries. In these zones, goods made with specified levels of Jordanian and Israeli input may enter the United States duty free. Jordan’s peace treaty with Israel also has improved its standing with other Western governments and international financial institutions, allowing for greater collaboration between Jordan and the West (Sharp 2011, 9–14).

Despite the economic advantages of the peace treaty and the resulting QIZs, official ties with Israel continue to be politically unpopular among Jordanian citizens, especially among West Bankers. There are 1.9 million U.N.-registered Palestinian refugees residing in Jordan, and more than half of all Jordanian citizens are originally from the West Bank or from the territory that now makes up Israel (Sharp 2011, 9). Even during times of relative calm between Palestine and Israel, Jordanian citizens generally object to dealings with Israel, such as a recent agreement to import Israeli natural gas to lower energy prices in Jordan (Pizzi 2015). Despite domestic disapproval, King Abdullah remains committed to good relations between the two nations (Goldberg 2013). If he is deposed by domestic instability, the treaty is likely to be repealed, threatening Israel’s security.

Threatening the Pro-West Regime
Since ascending to the throne in 1999, King Abdullah has demonstrated an unwavering pro-Western orientation and commitment to furthering U.S. interests in the region. Jordan vocally supports the United States in its War on Terror, unlike other Middle East allies. Moreover, King Abdullah often expresses his desire to transition Jordan to liberal democracy with a constitutional monarchy, similar to the United Kingdom. Although political change has been slow and limited in scope thus far, his rhetoric continues to reflect his intention to reform once the region stabilizes (Goldberg 2013). In the wake of ongoing instability following the 2011 Arab Uprisings, the relationships between the United States and its regional allies are in flux. As such, Washington cannot afford to lose Amman’s support.

Current U.S. Strategies for Securing Jordan
While there are several United States Agency for International Development (USAID) projects currently being implemented in Jordan, most of U.S. policy focuses on enabling Jordan to protect itself from external threats from Syria, Iraq, and ISIS (Sharp 2016, 1). The United States works closely with the Jordanian Armed Forces to ensure that it is well-equipped to defend against terrorists and religious extremism.
Focusing on External Threats

Current U.S. policy seeks to strengthen Jordan’s military and its ability to respond to external threats. In July 2015, Congress passed legislation to accelerate military equipment sales to Jordan to support its fight against ISIS (Wilson 2015). It has also redirected defense aid originally allocated for Yemen to supply the Kingdom with more aircraft (Sharp 2016, 16). Currently, there are 2,200 U.S. military personnel in Jordan to support its security apparatus, and there is no known timetable for removing them (Sharp 2016, 3). In total, the United States gives Jordan $300 million USD in military aid annually, making the Kingdom the third largest recipient of U.S. foreign military financing after Israel and Egypt (Sharp 2016, 13; U.S. Department of State 2015).

U.S. foreign military financing enables the Royal Jordanian Air Force to maintain a technologically advanced fleet that enhances its border patrol and counterterrorism efforts. Since 2009, Jordan has received over $80 million USD worth of excess U.S. defense equipment. Moreover, the United States pledged $1 billion USD to Jordan annually to help defend its border with Syria between 2015 and 2017 (Sharp 2016, 12–14). In 1974, the United States and Jordan established a Joint Military Commission that aims to increase military cooperation between the two countries. Jordan regularly hosts joint military exercises and approximately 300 Jordanian military personnel study in the United States every year. In 2009, Washington helped fund the King Abdullah II Center for Special Operations Training, a regional headquarters for counterterrorism training.

Due to the large amount of U.S. support, Jordan is well-equipped to respond to threats, both internal and external. Its armed forces are among the most formidable in the region and have been successful in mitigating spillover violence, training Syrian rebels, and rooting out terrorist cells operating inside of Jordan (El Kurd 2014). The greater risk to Jordan’s security lies in internal pressures on its infrastructure, social services, and economy.

Economic Development Policy

In response to Jordan’s tepid economic growth, USAID started the Jordan Competitiveness Program (JCP) in 2013 with the aim of improving the Jordanian business climate and firm competitiveness. This five-year program focuses on job creation in the “knowledge economy,” including clean technology, healthcare and life services, and ICT. Through this initiative, USAID-JCP has built partnerships with Intel, Microsoft, and Cisco for ICT training to enhance workforce development. The program also hosts
ICT forums to attract other large technology firms to open and expand operations in Jordan (USAID JCP 2015, 5–9).

This project is designed to stimulate Jordan’s economy in a broader sense, but fails to account for the ethnically divided labor market. As previously mentioned, West Bankers dominate the private sector whereas East Bankers are largely confined to the public sector. Since USAID-JCP targets the private sector, there is a risk that East Bankers will not see the benefits of the project. This approach could succeed if the East Bankers were not discontented with and heavily reliant on the monarchy. However, in overlooking the grievances of Jordan’s East Bankers, USAID-JCP may actually worsen existing ethnic tensions and increase the risk of political instability.

Other Unaddressed Issues

Current U.S. policy does not adequately account for Jordan’s ethnically divided economy and ignores the impact of Syrian refugees on Jordan’s economy. In addition to poor economic growth, pressure from the IMF, and preexisting ethnic tensions, the refugee crisis exacerbates these other problems and increases the likelihood of instability within Jordan. Jordan has incurred direct and indirect costs of $6.6 billion USD since the Syrian crisis began in March 2011, which is almost 20 percent of its total GDP (Kaplan 2015). Moreover, Jordan provides free healthcare and public education to all refugees, adding to its budgetary shortfalls (Porges 2014).

While this refugee crisis is not the focus of this paper, it is the backdrop for Jordan’s current economic troubles and fosters Jordanian hostilities towards the regime. For example, 80 percent of refugees resettle in cities, a trend which has tripled the cost of rent for Jordanians (Reed 2015; Porges 2014). Moreover, new government initiatives to create jobs for Syrian refugees will lead to competition with Jordanians for employment opportunities, thus further fueling resentment of the regime and increasing overall unemployment in the country (Laub and Malkawi 2016). Although Jordan’s economic problems alone threaten the regime, the simultaneous refugee crisis adds to the urgency of resolving these issues. U.S. policy must account for Jordan’s political economy and the impact of Syrian refugees on Jordanian labor markets.

Policy Recommendations

Jordan’s ethnically-rooted political and economic problems cannot be solved through unilateral U.S. assistance. In the long term, the monarchy will need a comprehensive plan to smoothly transition East Bankers into
steady private-sector jobs while maintaining their support. In the short term, however, the priority must be shoring up East Banker support for the monarchy so that they continue to protect the regime from external and internal threats. This paper recommends a two-part solution: 1) refocus ICT training programs to benefit East Bankers and 2) coordinate these programs with existing special economic zones (SEZs) to maximize their impact on the Jordanian economy.

**Involving East Bankers in the Tech Industry**

The ICT sector already contributes 12 percent of Jordan’s GDP (Ghazal 2015). In 2015, Internet penetration in Jordan was 86 percent, ahead of Israel, and over 70 percent of Arabic web content already comes from Jordan (Al Emam 2015; Internet World Stats 2015). As such, the tech industry shows potential for growth, and USAID-JCP public-private partnerships will help accelerate development in this sector. However, most projects emphasize the expansion of the private sector, thereby excluding East Bankers from these programs. A revision of these training programs towards inclusion of East Bankers will provide them with skills necessary to work in the private sector, give them a steady source of income, and diminish their discontent with the monarchy.

- **Training program model.** Microsoft Jordan has been an industry leader in Jordan’s IT sector and provides a lucrative and sustainable model for the involvement of other U.S. tech companies in the Kingdom. One particularly successful training program is the Microsoft Innovation Center, which allows people of all work backgrounds to develop their ICT skills. Since its launch, it has trained over 3,500 Jordanians. Microsoft has also invested in 15 Jordanian startups, and as of 2010, every one Jordanian Dinar (JD) of revenue generates almost seven JD for the local ICT ecosystem (“Microsoft Jordan Factsheet” 2010). Moreover, in March 2015, Microsoft teamed up with USAID-JCP to build the Jordan Academic Accelerator Program, a six-month program that equips teams with the technical skills to design, launch, and sustain their own ventures (USAID 2015).

- **Engaging East Bankers.** In order to ensure that East Bankers benefit from these accelerator programs, USAID-JCP should target college graduates from rural areas. Although this metric is not perfect, East Bankers tend to live in rural regions of Jordan, while West Bankers concentrate in urban areas, namely Amman and Zarqa. While not preferred, a quota system may be necessary to guarantee East Banker involvement in these programs. Targeting East Bankers must not be limited to the Microsoft accelerator and training
programs; it should become a part of all USAID-JCP projects, especially those in the ICT sector. With Jordan’s well-educated population and growing tech start-ups, the kingdom is positioned to become a tech hub for the region.

Implementing these programs will likely have challenges. Incentivizing private companies to provide training programs for Jordanian youth requires sufficient funding, which is contingent on Washington continuing to prioritize foreign aid and development. Moreover, targeting East Bankers using rural regions as a proxy is an imperfect metric, as thousands also live in urban areas. Thus, the method of recruiting East Bankers into these programs may need to be adjusted in order to ensure their participation. Still, this method is a good place to start.

Reorienting programs to be inclusive of East Bankers is a crucial piece of any development policy that seeks to improve Jordan’s economy. Without their inclusion in the private sector, East Banker discontent will continue to grow, possibly leading to civil unrest. This unrest would be devastating to the Jordanian economy and negate any previous progress in the ICT sector.

**Linking with Special Economic Zones**

In addition to expanding East Banker access to ICT training programs, USAID should improve coordination with existing SEZs within Jordan. Several of Jordan’s SEZs have substantial tax benefits that could incentivize U.S. companies to operate in the region and provide an environment for Jordanian startups to grow successfully. Although some companies already have a presence in these SEZs, they are significantly underutilized. For example, HP, Dell, and Cisco have offices in the King Hussein Business Park in Amman, but they are predominantly used as call centers (King Hussein Business Park 2015). This approach squanders the economic potential of the SEZs.

The United States should work with the Jordanian government to encourage trainees of the USAID-JCP accelerator programs to operate in these SEZs. Not only are the business regulations significantly less stringent in these areas, but these areas also feature modern office accommodations and telecommunications infrastructure that fosters quick growth of startups. Additionally, the two governments should work together to encourage U.S. companies seeking a presence in the region to take advantage of these development areas for expanded operations. Pairing the USAID-JCP training programs with the existing SEZs will facilitate the success of Jordanian tech companies and improve the economic welfare of East Bankers.
This recommendation requires sufficient Jordanian political capital to adopt this policy change, and the current political environment appears to be focused on coping with the influx of Syrian refugees. However, Amman is also keen to improve its economic situation and promote job creation. Part of the regime’s strategy is promoting these SEZs and attracting foreign investment into these areas. As such, this particular challenge would likely be relatively easy to surmount.

This two-part policy recommendation would help alleviate East Banker economic hardships by providing them with marketable skills for the private sector and high-skilled jobs. Additionally, since these new measures would come partially from the Jordanian government, East Bankers would feel less neglected by the monarchy, and thus would be more likely to continue supporting the regime against West Banker discontent. Lastly, these policies would promote economic improvement through targeted private sector growth and by attracting U.S. tech companies to expand operations within Jordan.

**CONCLUSION**

Recent austerity measures and privatization policies have disproportionately harmed the monarchy’s loyal supporters, East Bankers, who comprise the country’s bureaucracy, internal security apparatus, and armed forces. Deteriorating economic conditions may cause East Bankers to lose faith in the regime, depriving the Hashemites of their protection against civil unrest. The resulting instability could derail U.S. interests in the region. As a stopgap measure to ensure Jordan’s short-term stability, the United States must promote growth and East Banker employment in private ICT industry. This policy would help to transition East Bankers into the private sector and temporarily reduce their discontent with the regime. It is important to note that this solution is not meant to solve Jordan’s dysfunctional labor market, curb its high unemployment, or boost its low labor force participation rate. Rather, it is a risk-mitigating measure to support Jordan’s stability in the face of heightened external pressures. In the long term, Jordan’s government must address its internal problems. The United States cannot save Jordan from itself.
Appendix: Maps

Figure A: Nonviolent Events between 2011-2015

Nonviolent Events

Areas outside the bold line are East Bank dominant.

Figure B: Violent Events between 2011-2015

Violent Events

Areas outside the bold line are East Bank dominant.
Figure C: Nonviolent Events between 2011-2015 (Logs)

Nonviolent Events (Log)

Areas outside the bold line are East Bank dominant

Figure D: Violent Events between 2011-2015 (Logs)

Violent Events (Log)

Areas outside the bold line are East Bank dominant
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