Silicon Desert
Preempting Economic Instability in Jordan

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Jordan faces the threat of economically driven instability. Recent liberalization policies required by the IMF have disproportionately harmed East Bankers, who have traditionally staffed the government bureaucracy and security services. If the Hashemites lose the support of this critical group, civil unrest will likely pose an existential threat to the regime. To counter this potential source of instability, Washington should help Amman create a source of well-paying jobs for East Bankers beyond government service. Specifically, the United States should encourage the development of Jordan’s IT industry through joint training programs focused on regime supporters and a Special IT Economic Zone for international businesses and local entrepreneurs to circumvent Jordan’s unattractive business climate.

Introduction

Jordan’s current political economy is unsustainable. Recent IMF-imposed privatization policies deepen ethnic tensions by economically benefitting West Bankers (also referred to as Palestinian-Jordanians) at the expense of East Bankers. The monarchy has long 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, and as a result, their support is declining. This development is particularly dangerous since East Bankers comprise the bulk of the Jordanian military, police, and internal security apparatus. Under these conditions, a West Banker revolt threatens the survival of the monarchy.

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. As a vital ally in an increasingly unstable region, Washington cannot afford for Jordan to succumb to civil unrest. With a well-educated, largely unemployed workforce, Jordan has high growth potential in skilled industries, such as information technology (IT). To stave off unrest, the United States should alter existing IT sector development programs to focus on the economic empowerment of East Bankers.

Potential for Economic Instability in Jordan

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

-King Abdullah II, 2016

Jordan’s high refugee intake and military operations against the Islamic State in Iraq and Syria (ISIS) generate international concern. Terrorist infiltration and spillover violence pose the greatest external threats to Jordan’s stability. The Kingdom has depended on East Bankers to
maintain order in the wake of these new challenges. For this reason, growing East Banker discontent poses an even greater 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 recent 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 Jordan’s impending economic crisis by deepening this divide.

- **IMF Stand-By Arrangement.** In 2012, the IMF approved a two billion USD Stand-By Arrangement (SBA) that provided liquidity to help Jordan reduce fiscal deficits while strengthening growth prospects. 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. These measures increased the cost of living, and the entire Jordanian population suffered as a consequence. Moreover, they failed to create enough jobs to compensate for higher prices, provoking some Jordanians to protest.

Jordan and the IMF have not yet finalized a new agreement for beyond 2016, but both sides have begun discussing what this deal would entail. 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. While it is impossible to know how the government would implement these changes, it is safe to assume a similar pattern of privatization and reduced public spending will occur given the regime’s previous reforms.

- **Ethnic Tensions.** Jordan’s population is divided into two groups: East Bankers and West Bankers. There are two subsets of East Bankers: the elite and the Hirak youth.

East Bankers are tribal groups that historically lived in Jordan prior to the Hashemite’s ascension to the throne, and 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. The Hashemite regime has traditionally favored East Bankers, who consequently have a disproportionately large amount of political capital. In exchange for loyalty, the government provides East Bankers with public sector jobs, access to better health care, and larger pensions. Notably, many East Bankers work in the armed forces, police, bureaucracy, and intelligence apparatus.

High-ranking officials in these agencies are the elite East Bankers, who are the most loyal to the king. While they are dissatisfied with current levels of government largess, the survival of the regime is in their best interest so long as such benefits are maintained. Hirak youth are East Bankers who began organizing in opposition to the regime in 2011. Unlike elite East Bankers, Hirak demands for greater democracy and an end to
corruption. Moreover, Hirak Youth protests went further than those of the West Bankers in demanding that King Abdullah step down, which is unprecedented, and illegal, in Jordanian civil society.\textsuperscript{12}

West Bankers are refugees and descendants of refugees who have been living in Jordan since the 1948 Arab-Israeli War.\textsuperscript{13} Since their arrival in Jordan, they have been politically disenfranchised by the Hashemite monarchy.\textsuperscript{14} 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.\textsuperscript{15} Fair electoral districting would redistribute the political leverage of East Bankers. As such, East Bankers fight against political reforms that would benefit West Bankers.\textsuperscript{16} The systemic political exclusion of West Bankers has fueled resentment against the monarchy, which may result in an attempt to overthrow the regime, as occurred during the Jordanian Civil War in 1970.\textsuperscript{17}

- **Noninclusive Economic Growth.** Due to recent IMF-influenced reforms, approximately 70 percent of new jobs in Jordan are created in the private sector.\textsuperscript{18} 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 prevents smooth integration into the free market, thus decreasing their employment options in an increasingly privatized economy.\textsuperscript{19} The few East Bankers who do work in the private sector complain of limited upward mobility.\textsuperscript{20} Since 2012, more than half of all labor protests have been in the public sector.\textsuperscript{21}

The combination of Jordan’s ethnic divisions and the SBA has institutionalized economic inequality between the East and West Bankers. These factors are potential drivers of instability; however, they are exogenous and unlikely to change in the near future given Jordan’s current political climate.

**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.\textsuperscript{22} 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.\textsuperscript{23} 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.\textsuperscript{24} 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.\textsuperscript{25} Many believe that a position will only become available if someone retires.\textsuperscript{26} 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.

- *Disgruntled and Empowered West Bankers.* Although they are politically marginalized, West Bankers have benefitted the most from the government’s recent economic policies. This wealth gives them slightly greater influence within Jordanian society. Additionally, West Bankers tend to support Islamist political groups. Since 2007, Islamist groups have demanded reforms to reduce the king’s power and increase the power of parliament. These groups also want reforms that address government corruption and lack of accountability. 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.

Combined, these two factors create a high likelihood for political instability. With the new economic policies, East Bankers feel that the government is favoring the newly wealthy over its loyal supporters. 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*, Jordan’s internal security apparatus, 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 kingdom from civil unrest. In the event of instability, the Hashemite Kingdom is in jeopardy.

Below are maps showing the location of non-violent and violent events over time, according to the *Jordan Times* archive. West Banker dominant areas are outlined in bold. These maps show that unrest has increased in East Banker dominant areas from 2010 to 2015.

**Figure 1. Reported non-violent incidents in Jordan from 2010 to 2015**
Figure 2. Reported violent incidents in Jordan from 2010 to 2016

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 counter-terrorism operations, but it has also maintained a strong commitment to other Western allies. Civil unrest in Jordan 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.\textsuperscript{34} In 2008, the United States and Jordan agreed on a five-year deal providing Jordan an additional 300 million USD annually in foreign military financing.\textsuperscript{35} These funds enable the Royal Jordanian Air Force to maintain a technologically advanced fleet that enhances its border patrol and counter-terrorism efforts.\textsuperscript{36} Since 2009, Jordan has received over 80 million USD worth of excess U.S. defense equipment. Moreover, the United States pledged one billion USD to Jordan annually to help defend its border with Syria between 2015 and 2017.\textsuperscript{37}
In addition to providing military aid, the United States works closely with the Jordanian armed forces and classifies Jordan as a major non-NATO ally. 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 counter-terrorism training. Jordan has also 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 Hussein regime in 2003. 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 long-standing U.S. ally in the region. 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. 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.

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. 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. Despite domestic disapproval, King Abdullah remains committed to good relations between the two nations. If he is deposed by the West Bankers, the treaty is likely to be repealed, threatening Israel’s security. As such, supporting the Hashemite monarchy remains instrumental in securing the region.

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. Not only did
Jordan vocally support the United States in its War on Terror, but its intelligence agency also collaborated with the CIA throughout the war. Moreover, King Abdullah often expresses his desire to transition Jordan into a 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. 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

Although there are several United States Agency for International Development (USAID) projects currently being implemented in Jordan, most U.S. policy focuses on enabling Jordan to protect itself from external threats from Syria, Iraq, and ISIS. 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. It has also redirected defense aid originally allocated for Yemen to supply the Kingdom with more aircraft. 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. 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.

However, Jordan is already well-equipped to respond to external threats. 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. The far greater risk to Jordan’s security lies in internal pressures on its infrastructure, social services, and economy. As such, current U.S. policy is insufficient to ensure Jordan’s stability.

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 information and communication technology (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 tech firms to open and expand operations in Jordan.

This project is designed to stimulate Jordan’s economy in a broader sense, but fails to account for the ethnically divided labor market. Since USAID-JCP targets the private sector, it likely benefits more West Bankers than East Bankers. This approach could succeed if the East Bankers were not discontented with and heavily reliant on the monarchy. However, this is not the case. In overlooking the grievances of Jordan’s East Bankers, USAID-JCP will actually worsen existing ethnic tensions and increase the risk of political instability.

Unaddressed Internal Problems

Current U.S. policy does not adequately address internal problems and ignores the impact of Syrian refugees on Jordan’s economy. In addition to its poor economic growth, pressure from the IMF, and preexisting ethnic tensions, the refugee crisis exacerbates these other problems and renders instability within Jordan more likely. 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. Moreover, Jordan provides free healthcare and public education to all refugees, adding to its budgetary shortfalls. Jordan’s desperate need for additional funding to help cope with refugees has led King Abdullah to close its borders until other countries offer more support, leading to more than 20,000 Syrian refugees amassing at Jordan’s northern border as of this writing.

While this refugee crisis is not the direct focus of this paper, it is the backdrop for Jordan’s current economic problems and fosters Jordanian hostilities towards the regime. For example, 80 percent of refugees live in cities, which has tripled the cost of rent for Jordanians. Moreover, new government initiatives to provide 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. Although Jordan’s economic problems alone threaten the regime, the simultaneous refugee crisis adds to the urgency of resolving them. U.S. policy must account for Jordan’s political economy and the impact of Syrian refugees on Jordanian labor markets.

Policy Recommendation

Jordan’s ethnically-rooted political and economic problems cannot be solved unilaterally through 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 white paper recommends a two-part solution of 1) refocusing ICT training programs to benefit East Bankers
and 2) coordinating 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 twelve percent of Jordan’s GDP. In 2015, Internet penetration in Jordan was 86 percent, ahead of Israel, and over 70 percent of Arabic web content already comes from Jordan. 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 retooling of these training programs to be more inclusive 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 other U.S. tech companies’ involvement 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. 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.

- **Incorporating 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.

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 (also referred to as
Development Areas) 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 Development Areas, 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. This approach squanders the economic potential of these Development Areas.

The United States should work with the Jordanian government to allow provisions for trainees of the USAID-JCP accelerator programs to operate in these Development Areas. Not only are the business regulations significantly less stringent in these areas, but they also feature modern office accommodations and communication infrastructure that would foster 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 outside of basic call centers. 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 two-part policy recommendation will help alleviate East Banker economic hardships by providing them with marketable skills for the private sector and high-skilled jobs. Additionally, since these new regulations will come partially from the Jordanian government, East Bankers will feel less betrayed by the monarchy. As a result, they are more likely to continue supporting the regime against a West Banker revolt. Lastly, these policies will promote economic growth 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 would 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 IT industry. This policy would transition East Bankers into the private sector and temporarily stymie 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 preventative measure to keep Jordan stable until the external pressures on the regime abate. In the long term, Jordan’s government must address its internal problems. The United States cannot save Jordan from itself.

Schenker. "Political Economy of Jordan."


Schenker. "Political Economy of Jordan."


Ibid.

Ibid., 14.

Ibid., 12, 14.

Ibid., 14.


Ibid.

Ibid., 9

Ibid., 9.


Goldberg. "The Modern King in the Arab Spring."


Goldberg. "The Modern King in the Arab Spring."


Ibid., 3.


Ibid.

Ibid., 7-9.

Ibid., 7-8.


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