

Jordan:

Reform, Subsidies, and the Economics of Peace

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Brief Analysis

In 1989 Jordan began implementing an economic reform program. The program was interrupted by the Gulf crisis but resumed in 1992 encompassing both economic and political reforms.

Objectives of Reform The government's main objective in reform is to enhance the lives of Jordanian citizens. It would seem that basic economic growth would be the means toward reaching this objective, however, growth does not necessarily lead to development. Growth can be "jobless, voiceless, and futureless." Amman's program thus strives to increase employment, promote democratic practices, enrich cultural heritage, and allow for future growth.

>Economic tools can be deficient when promoting development, therefore Jordan has followed a more wholistic approach, not confining reforms solely to the economic arena. The three components of the reform program are: 1) economic reform, which aims at liberalizing and modernizing the economy and making it more competitive internationally; 2) political reform, which works to enhance popular political participation, and; 3) external relations/regional reform, which attempts to normalize relations and encourage regional cooperation for the mutual benefit of all involved.

Economic Reform The Gulf crisis subjected Jordan's economy to severe shocks. Gulf markets were closed to Jordanian agricultural exports and the sanctions against Iraq limited the especially high number of Jordanian manufactured exports to Baghdad. Moreover, 300,000 Jordanians (10 percent of the population at that time) returned to Jordan from Gulf countries, placing a heavy burden on the economy and depriving Jordan of a major source of foreign exchange. Unemployment soared to 25 percent and the hardships Amman faced after the Gulf War forced the government to rethink economic reform.

In 1992, Amman initiated a new program with a different orientation, focusing on opening up the economy, liberalization, and diversifying economic relationships as quickly and efficiently as possible. More emphasis was placed on the complete rehabilitation of the economy to strengthen Jordan's foundation for future growth. The program has several components:

- (1) Liberalizing trade systems by reducing tariffs, rationalizing tariff schedules, and removing non-tariff barriers to trade. Moreover, after signing an agreement with the World Trade Organization, Jordan amended numerous laws making them consistent with international trade laws. Finally, the signing of an association agreement with the European Union to establish a free-trade area between Jordan and the EU countries is currently pending.
- (2) Attracting and retaining foreign investment, by means of a comprehensive set of new laws to create a competitive and rewarding investment environment.
- (3) Streamlining procedures and making services more efficient.
- (4) Privatizing industries through three channels: the public sector, public enterprises, and by selling shares in public shareholding companies.

Political Reform This unprecedented program began by consolidating democracy through a policy of "inclusion." All political forces in the country are now able to operate legally. This policy is based on a national consensus which advocates pluralism and the pursuit of political objectives through peaceful means. Under the political reform program a lot has been achieved, including: two rounds of parliamentary elections, legalization of political parties, one of the most independent medias in the region, and an unparalleled human rights record. Jordan's democracy is still nascent yet Amman has succeeded in broadening popular participation in the decisionmaking process, and without this participation there can be no meaningful human development.

Regional Reform Within the context of comprehensive peace, there can be tremendous benefits for countries of the region if their relationships are solid. If such relationships translate into economic activity this could lead to prosperity for the region. Jordan signed a peace treaty with Israel not only because peace is a strategic objective, but also to expedite and facilitate the lasting goal of comprehensive peace. This goal involves more than just ending a state of belligerence; it is an acknowledgement of and commitment to the common struggle in the region to better the lives of all. Such a qualitative peace could provide opportunities for development for each country in the region and the region as a whole.

> Many see the progression from a state of war to a state of peace as a gradual process, moving first from belligerence to peaceful coexistence; initially characterized by skepticism and later by apathy. As time passes, according to this view, countries move from peaceful coexistence to cautious cooperation and it is only as trust develops that the relationship reaches one of proactive cooperation. Jordan, however, has skipped the first two levels and moved directly to a level of proactive cooperation. The numerous bilateral agreements Jordan signed with Israel are just one way to foster this type of cooperation for the benefit of both parties. Regional cooperation will bear fruit for social and economic development in Jordan provided the following three elements are in place: 1) the other tracks of the peace process move forward toward a comprehensive settlement; 2) the international community realizes the importance of Jordan's model and supports it, and; 3) the other parties in the region see the benefits of this approach and make every effort to assist in its success. With this regional reform program, Amman is attempting to safeguard peace by ensuring those involved have a vested interest in peace. This model can steer the region from hostility to prosperity.

A Model of Success? According to traditional economists, the Jordanian reform program has been successful. Since 1992 Jordan has sustained an average annual real growth of 6 percent. Unemployment has come down from 25 percent to 15 percent. The budget deficit has been reduced from 19 percent to 4 percent and the current account deficit is less than 4 percent. Exports achieved substantial growth, up in 1995 to 25 percent and they are estimated to increase by about 9 percent in 1996. This economic growth is "exemplary."

> After following this three-pronged program for several years, Jordan has made huge strides which bodes well for a promising future. Unfortunately the present is not as comfortable as it should or could be. The recent bread riots in August indicate that the overall performance of the program fell short of the population's expectations. Perhaps the expectations were too high, elevated after signing the peace treaty with Israel and by statements of world leaders promising more than what actually materialized. Or perhaps the program was not designed as well as it should have been with a 15 percent unemployment rate and one-fifth of the population living below the poverty line. Most likely elements of both high expectations and a less-than-perfect program have affected its outcome.

> Upon close examination, a number of factors hindered the program's success. First, transitional periods, such as the one Jordan is currently going through, tend to be difficult. Often, during such periods, reform programs fail. Second, by pursuing all three programs simultaneously, the model's impact was maximized, yet the risk of different interest groups converging to oppose the entire package has played out, as was the case during the August riots. Finally, the success of the program does not depend solely on Amman. Regional and global factors influence the program and have played a role in mitigating its success. For example, although the debt burden has been reduced

and the United States has played an important role in this, other countries have not been as cooperative. Also, economic relations with Israel and the Palestinians have not yielded the anticipated benefits because of restrictions imposed by Israel. As a result, job creation and economic activity did not materialize.

>Jordan has attempted to present a model for the region. It deserves the support of the international community, support which has not been as forthcoming as expected. If the model fails, the negative effects will be disproportionate to the whole region. Amman's commitment to progress will continue but international support for the model remains crucial.

This Special Policy Forum Report was prepared by Lauren Rossman.

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