

# Jordan's Economic Upturn

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## Brief Analysis

**J**ordan has always been regarded as a buffer state, wedged between turmoil to its east in Iraq and to its west in Israel and the West Bank. While those neighbors have faced turbulence in recent years, Jordan has enjoyed three years of substantial economic growth. Indeed, Jordan provides a positive example of what reform can accomplish in the Arab world.

### The Beginnings of Reform, 1989–1998

Jordan took its first steps in the pursuit of reform in the late 1980s, when the country was suffering from a deep economic crisis. In 1989, Jordan's foreign exchange reserves were less than \$100 million, its budget deficit was over 25 percent of gross domestic product (GDP), its inflation rate was 18 percent, and its external debt was 190 percent of GDP. As the economic crisis deepened throughout that year, riots broke out in the southern city of Ma'an, in addition to unrest in other parts of the kingdom.

At the time, Jordan was particularly vulnerable to economic shocks from abroad because it was heavily dependent on external income sources -- principally aid from Arab countries and remittances from Jordanians working in the Gulf -- rather than its own production. Change was needed urgently, and the late King Hussein undertook various measures toward liberalization and socioeconomic reform. In 1989 alone, the government held parliamentary elections and adopted an economic package supported by the International Monetary Fund and the World Bank.

This newly inclusive political approach certainly paid off. Without the approval of a viable, directly elected parliament, Jordan would not have been able to sign its peace treaty with Israel in 1994. Such political reform also helped the country survive the 1999 death of King Hussein. Many believed that Jordan would collapse after his passing, but the nation came through the period with flying colors.

Naturally, some painful economic measures had to be taken in the course of reform in order to restructure the budget. The macroeconomic situation showed much improvement; foreign debt, the budget deficit, and inflation were all reduced. Yet, economic growth merely kept pace with the increase in population. In 1999, the income of the average Jordanian was the same as it had been a decade earlier; the economic reforms had not touched the lives of ordinary citizens.

### Economic Reforms

When King Abdullah ascended the throne in 1999, he accelerated the pace of reform in order to integrate Jordan into the global market and community. Following a period of diplomatic aerobics, Jordan was admitted into the World Trade Organization in 2000. In October of that year, Jordan signed a free trade agreement (FTA) with the United States that was ratified by Congress in December 2001. Moreover, Qualified Industrial Zones (QIZs) have been created allowing immediate duty-free exports to the United States while the FTA is phased in, so long as production is done in conjunction with Israeli firms. The QIZs now employ 30,000 people, 20,000 of whom are Jordanian. In order to help Jordanians take over even more of these jobs, the government is subsidizing training programs; some 1,500 citizens are already participating in such programs. The QIZs are expected to create more than 9,000

additional jobs in 2003. Moreover, the zones helped boost Jordanian exports to the United States from \$8 million in 1997 to approximately \$400 million in 2002.

In addition to the unprecedented export boom, Amman has done much to invigorate the private sector. Instead of listening to his advisors -- who told him to distance himself from the economy because it was bound to fail and reflect badly on him -- the king has been active on issues of economic reform. For example, the government has enacted a series of laws to strengthen the private sector, gradually introducing capital to areas normally monopolized by the state as well as privatizing telecommunications, transport, and other government industries. As a result of such measures, Jordan's external debt has decreased to 75 percent of GDP, while its foreign currency reserves have grown to \$3.6 billion.

The healthy economic situation has in turn attracted more investors. The capitalization of Amman's stock exchange increased by over 53 percent during the last year, and its trading volume increased by over 83 percent in 2001. Moreover, investors from countries such as Saudi Arabia and Kuwait have expressed renewed interest in tourism projects. Even Jordanians living abroad are being lured back home, either to invest or to stay, infusing the country with new skills.

That said, there is much left to be done. Jordan needs economic growth of 6 percent per year in order to absorb the 45,000-65,000 new workers entering the labor force each year. The country also remains overly reliant on foreign aid, principally from the United States and from Iraqi oil subsidies (which generate a \$900 million profit). In order to follow up on existing reforms, King Abdullah has formed the Economic Consultative Council, consisting of experts from both the public and private sectors.

#### Social and Political Reforms

Under King Abdullah, Jordan has moved ahead in other areas besides the economic sphere. One of his principal interests has been educational reform. In a country where half the population is under eighteen years old, education is of vital importance; approximately 1.5 million youths attend Jordanian primary and secondary schools, with an additional 125,000 students in universities. Responding to these needs, the government created an educational package for unprivileged children to learn English and to use computers, helping them learn more about the outside world. Programs such as this one, and educational reform in general, are designed to ensure that Jordanian youths are not lost to extremism, alienation, or terrorism.

In the area of political reform, King Abdullah has not accepted the conventional wisdom that the region's instability must hamper the process of democratization and political liberalization. The government has focused on including citizens in civil society first, then integrating them into the decisionmaking process. Indeed, parliamentary elections are scheduled for June 2003.

Political reform is a necessary prerequisite to the economic reforms that King Abdullah would like to institute. Egypt serves as a clear example of this fact. Cairo did very well in the area of reform during the early 1990s. By the middle of the decade, however, three factors served to stall the reform process: the absence of courageous political decisionmaking required for further reform; a lack of trust and cooperation between the private and public sectors; and a failure to take advantage of the QIZ program when it was offered in 1997. Jordan has chosen to avoid similar stagnation by instituting political reforms alongside economic reforms. Consequently, the Jordanian model is one of success, despite the dismal realities of the region as a whole.

This Special Policy Forum Report was prepared by Merissa Khurma.

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