

Jordan's Economy under Abdullah:

One Year On

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Feb 3, 2000

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Brief Analysis

After leaving Davos as one of the stars of the World Economic Forum this week, King Abdullah returns to a country that, in 1999, registered its fourth negative real growth rate in a row. Indeed, from the beginning of his rule, Jordan's new monarch has recognized that confronting Jordan's deep economic stagnation had to be his chief domestic priority. In the year since his succession to the throne, significant energy has been expended on seeking international debt relief, reforming local legislation, and fueling privatization of major industries. So far, results are mixed. On the one hand, little debt relief has been offered, few international investors have arrived, and unemployment remains dangerously high. At the same time, important building blocks have been laid for future growth should the kingdom persist on a path of strict, market-oriented reforms.

Background. Between 1996 and 1999, growth in Jordan's gross domestic product ranged between 1 and 2 percent per annum. With an annual population growth rate of about 3 percent, this translates into a decline, in real terms, of 1-2 percent per year in the nation's per capita income throughout the late 1990s. In other words, since the signing of the Jordanian-Israeli Treaty of Peace in 1994, the standard of living for Jordanians has shrunk by 8 percent--precisely at a time when most Jordanians were expecting to receive, after having been promised, a "peace dividend" that should have greatly boosted their economy. Although Jordan's economy has rarely been buoyant or robust--and it has never expanded without significant sources of outside aid or worker's remittances from abroad--such a sharp decline in the post-peace era sent political, not just economic, shock waves throughout the nation's ruling elite.

Focus on Economics. Unlike his father, for whom economic issues were rarely a high priority, the new King Abdullah quickly recognized the severity of the situation and placed repairing the economy at the top of his agenda. His activism has manifested itself in a number of ways:

Over the past year, the Jordanian Parliament has--at the prompting of the king--approved numerous new laws

designed to make Jordan investment-friendly and open to international investors. Under the watchful eye of a prime minister dubbed the "bulldozer" for his human relations skills, the government has introduced legislation to strengthen private investment, reform income tax laws, and liberalize the exchange and payments systems.

The Jordanian government has injected new momentum into privatization initiatives, some of which--admittedly--were well under way when the new king ascended the throne. Over the last twelve months, Jordan Cement Factories Company, the Aqaba Railway Company, and most recently the Jordan Telecommunications Company have all been fully or partially privatized. The cabinet has also taken steps toward the privatization of the national airline, Royal Jordanian.

The new king has also sought to shake up and even circumvent Jordan's dinosaur bureaucracy by forming the Economic Consultative Council, a group of twenty public and private sector representatives chaired by the monarch, that is mandated with monitoring the implementation of the government's socio-economic, administrative, and educational reforms. Similarly, Abdullah has tried to inject new blood into the cabinet by appointing a team of technocrats into key economy-related ministries. One of the cabinet's top priorities is to do everything necessary to win Jordan's admission to the World Trade Organization, a major Jordanian diplomatic and economic objective.

Internationally, King Abdullah has placed the goal of securing "debt relief" and "Arab aid" at the top of his diplomatic agenda. In the months following his father's death, the new king often stated that his goal was the cancellation of Jordan's entire \$7.5 billion external debt, and he traveled around the world--from North America to Europe to Asia--in order to lobby Jordan's creditors to wipe the slate clean.

No Short Cuts. Despite this year of effort, Jordan still has few economic bright spots; indeed, the kingdom's experience underscores the political problem leaders face when they must remind their citizens of the time lag between implementing reforms and reaping the benefits. This predicament has been aggravated by the premature heightening of expectations on the part of Jordanian officials over the past year. A close look at Jordan's record highlights the fact that there is no short cut to solving economic problems, and that difficulties--such as unemployment--may in fact worsen before they improve.

Specifically, in terms of securing external financial support, little has been achieved since Hussein's death. The only Arab aid extended to Jordan during this period was \$200 million, deposited in Jordan's Central Bank by the United Arab Emirates and the Arab Monetary Fund, money that can be withdrawn at any time. Non-Arab aid also increased by less than it might appear. Japan is a case in point. Recently, the Japanese government announced a three-year, \$400 million aid package to Jordan. On close inspection, this impressive-sounding package includes \$125 million worth of debt rescheduling which had already been agreed upon by the Paris Club in May 1998, and another \$75 million in tourism-promotion loans that were also approved in 1998. As a result, new money committed to Jordan by Japan is only about half of the original and highly touted \$400 million.

On the debt front, the Paris Club did decide in May 1999 to give very generous terms in rescheduling Jordan's debts owed bilaterally to its members (primarily Japan, Germany, and France). They rescheduled not only the principal but also the interest due with longer grace periods and for a longer term. Though undoubtedly a major achievement, it can also be interpreted as an attempt to pre-empt Washington's initiative to convince Jordan's creditors to cancel all the country's foreign debt. In effect, the creditors went a half step so as to deflect American requests to do even more. (Such a cancellation could have been difficult: more than half of Jordan's external debt is owed to multilateral agencies such as the World Bank and International Monetary Fund, which as a matter of principle do not cancel debt.)

Overall, Jordan's economic situation barely improved during 1999. According to preliminary figures in the Budget Speech for the Fiscal Year 2000, GDP registered a growth rate of 2 percent last year, which was still below the rate of

population growth, meaning that income per capita continued its multi-year decline. (GDP performance would have been 3 percent, according to official estimates, had the country's agricultural sector not suffered from last year's severe drought.) At the end of 1999, foreign currency reserves reached \$2 billion--an increase of \$600 million from the previous year, but only \$300 million above the level prior to King Hussein's illness--and that was largely due to the \$200 million deposited by the UAE and Arab Monetary Fund, plus another \$25 million from the sale of gold.

Economics and Peace. Viewed in regional context, Jordan's economic decline is politically worrisome. Even if there is little direct connection between Jordan's GDP decline and the state of peace and economic ties with Israel, it is difficult to dispel the popular perception that peace has--contrary to all expectations--actually hurt Jordan's economy. (Indeed, if it were not for enhanced tourism since the peace treaty, Jordan's economy would be in a much worse decline.) And even if Jordan is today the recipient of unprecedented levels of American assistance--combined with the fact that the United States is the only G-7 country to cancel Jordan's debt in its entirety--it is difficult to counter arguments on the Jordanian "street" that Jordan's "peace dividend" is tiny compared to U.S. aid to Egypt and a future U.S. pay-off for Syria.

Helping Jordan emerge from the economic doldrums is an investment in Jordanian--and wider Arab--commitment to peace as much as it is an investment in a friendly, moderate, pro-U.S. state. Much of the work, of course, must be done by Jordanians themselves--entrenching reform in the minds of the bureaucracy, empowering entrepreneurs, trimming unneeded workers from the government payroll, and fighting both the fact and perception of corruption which seems to be more rampant than ever. On the international front, a key focus will be the resolution of the Palestinian refugee problem and the compensation Jordan expects to receive for its role as host of more than a million registered refugees. Without greater effort on both the local and international levels, Jordanians may increasingly pin their economic future on Iraq, the next-door neighbor that was the source of the boom days in the 1980s and that, even today, provides Jordan with its single largest source of economic assistance in the form of discounted oil. In this respect, Jordan's economic health is a political and economic imperative for the West as much as it is for King Abdullah.

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