

Peace in the Middle East and the Jordanian Economy

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Brief Analysis

On September 30, 1999, Rima Khalaf-Hunaidi, Jordan's deputy prime minister and minister of planning and the highest female official in the Arab world, addressed The Washington Institute's Special Policy Forum. The following is a rapporteur's summary of her remarks. [Read a full transcript. \(templateC07.php?CID=33\)](#)

High Expectations, Disappointing Outcomes

When Jordan and Israel signed their peace treaty in 1994, the forecast for Jordanians was for economic prosperity and improved quality of life. Five years later, the anticipated peace dividends have not materialized. On the contrary, the economy did better before the peace treaty than it has done since. The annual rate of growth of the real gross domestic product (GDP) has dropped from 10 percent during 1992–1994 to 5.6 percent in 1995, and then to 1.5 percent during 1996–1998. During the last three years, national income has been growing slower than the population, meaning that the average person's standard of living has been falling.

Several factors initially expected to improve Jordan's economic situation failed to meet their potential and thus contributed to this disappointing economic outcome:

Exports to Israel and the Palestinians. Peace was expected to open the Israeli and Palestinian markets to Jordanian industrial and agricultural goods. Access to the large Israeli economy was projected to facilitate prosperity. Opportunity for trade with the Palestinians was thought to be especially great given the similarities in per capita income and consumption patterns among Jordanians and Palestinians. By 1999, Jordanian exports to Israel and the Palestinian territories were anticipated to reach \$400 million. Yet, non-tariff barriers erected by Israel have prevented Jordan from realizing its export potential. As a result of this protectionism, Jordanian exports to Israel and the Palestinian territories in 1998 were a mere \$58 million (of which \$35 million was to Israel).

Expanded Tourism. Peace and free movement across borders were expected to prompt a boom in tourism-generated income for Jordan, which possesses many sites of archeological, geological, and recreational interest. Tourism has experienced growth, but it has failed to reach its full potential. More than 100,000 Israelis have visited Jordan since 1997. This helped drive tourism income up from \$600 million in 1994 to \$900 million in 1998. Yet, the stalled peace process, terrorism, and crises between the West and Iraq have discouraged tourism.

Reduced Military Expenditure. It was hoped that the era of peace and the removal of border threats would reduce military spending, allowing Jordan to reallocate funds toward vital economic development programs. In fact, the opposite has happened, largely because there is no comprehensive peace in the Middle East. The region still finds itself in a heated arms race. As a result, Jordan is still forced to expend valuable budgetary resources for military programs.

Technology Transfers. Technology is a powerful vehicle for economic progress. Jordan expected to reap the benefits of technology that would flow from Israel because of the open market. Given Israeli impediments to the flow of goods, and despite seventeen bilateral agreements between the two countries, substantial technology has not entered Jordan.

Heightened Foreign Investment. The stability of peace and the business-friendly environment it engenders was expected to attract substantial foreign investment and financial support. Such investments were expected to accelerate economic growth and expand exports and employment in Jordan. In fact, some progress has been made in foreign investment: The United States has granted duty-free entry to goods produced in the Qualifying Industrial Zone (QIZ) in Irbid. The QIZ has spurred investment and created 2,500 jobs, and it promises to create 20,000 jobs by the end of 2001. Moreover, there has been a significant Japanese investment in the Nippon–Jordan Fertilizer Company.

Increased Foreign Assistance. There were expectations for substantial increases in foreign aid. To some extent, those have been met. The United States has increased its financial assistance to \$100 million and then to \$226 million annually, while the European Union (EU), Germany, and Japan have also increased their support. In addition, the United States wrote off \$700 million of Jordan's debt, and Germany, the United Kingdom, and France also reduced some of Jordan's debt. Despite these positive developments, Jordan's foreign debt stands at more than 100 percent of its GDP. This in turn swallows up sorely needed budgetary resources and slows the pace of economic progress.

Regional Infrastructure. There was much talk of infrastructure projects that would benefit the entire region, such as a joint airport to serve Aqaba in Jordan and Eilat in Israel, as well as various water projects. None of these projects have taken place. Similarly, regional institutions that were supposed to facilitate cooperation—such as the Middle East and North Africa Bank (MENABANK) and the Regional Economic Development Working Group (REDWG)—are dormant.

Prescriptions for the Future

Five years ago, the majority of Jordanians endorsed the peace agreement between Jordan and Israel. Yet, the era of optimism ended in the wake of Israeli prime minister Yitzhak Rabin's assassination and the election of Binyamin Netanyahu as Israeli prime minister. Now, with the election of Ehud Barak, the agreement to implement the Wye River Memorandum, and the initiation of "final-status" talks, Jordan believes that the elusive peace dividend can be recaptured.

Lessons learned from the past five years include the following:

Reach Comprehensive Peace. Stability is a prerequisite for prosperity, and it can be reached only with a qualitative peace. Conversely, the absence of a qualitative peace presents serious dangers. The antinormalization movement in Jordan, which did not exist when the peace treaty was signed in 1994, is a direct consequence of the absence of qualitative peace. If the benefits of peace do not materialize, the dangerous notion of an inverse causal relationship between peace and development will rise. Once a qualitative peace is reached, the economic situation will improve, and antinormalization will cease.

Pursue Regional Liberalization. Too often, the attitude has been that cooperation between two parties takes place at the expense of a third party. Instead, regional economic relationships between all states must be normalized. That means protectionism should be phased out in favor of economic reform and liberalization. In particular, Jordan needs to have a level-playing field with Israel. Israel must lift its nontariff barriers to Jordanian goods so they receive the same treatment as Israeli products.

Expedite Economic Reform. A peaceful environment and international support will not in themselves bring prosperity. To become a competitive economic player, Jordan must liberalize its economy. Jordan has made great strides at making the country business-friendly through liberalizing its trade regime, creating a stable legal environment, and enacting new intellectual-property laws. Progress is also being made in Jordan's privatization program, and the kingdom faces the challenge of reforming its public sector. Political reforms should be deepened in

tandem with economic reforms. They are a necessary ingredient for Jordan's prosperity because economic success can be attained only when civic society is engaged in decision making.

Diversify Markets. Jordan must "go global" in order to go regional. In past decades, Jordan's economy was dependent on a limited number of markets and therefore vulnerable. For example, Jordan depended on the Gulf monarchies as the market for its agricultural exports, and it looked to Iraq for its industrial exports. When these markets were threatened by politics, the Jordanian economy suffered grievously. Therefore, Jordan must look to reduce its vulnerability by diversifying its economic partners on the global level. At this point, Jordan has signed an association agreement with the EU, is pursuing access to the World Trade Organization (WTO), and is looking to commence negotiations with the United States and Canada on free trade agreements.

This Special Policy Forum Report was prepared by David Honig.

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