Abdullah's First Half-Year:

An Economic Scorecard

Aug 5, 1999

Brief Analysis

August 8 marks six months since Jordan's King Abdullah II inherited not only a complex political landscape, but also an economy in poor enough shape to pose a significant challenge to Jordan's domestic stability. With a per capita income of $1,600, official unemployment of 16 percent, and an unofficial jobless rate closer to 27 percent, about 30 percent of Jordanians live in poverty. To maximize long-term growth and minimize short-term disruption, King Abdullah decided to seek external assistance and simultaneously push domestic reform. International efforts have focused on obtaining debt relief, soliciting bilateral aid, securing membership in the World Trade Organization (WTO) and aid from the International Monetary Fund (IMF) and World Bank, and increasing regional trade. Domestic reform efforts, ranging from privatization to increasing the sales tax, have been a lower priority.

Debt Forgiveness: The IMF estimates Jordan's $7 billion debt as being 132 percent of gross domestic product (GDP). Payments of principal and interest this year are supposed to be $812 million, nearly 11 percent of GDP; in 1998 they were about $500 million. The amount Jordan actually pays is much lower because of rescheduling, but debt payments remain a significant budgetary burden. Creditors could provide permanent debt relief to end the annual rescheduling process, but doing so would deprive them of leverage to demand reforms that will ultimately maximize the amount Jordan is capable of repaying.

To seek some form of debt relief, Abdullah traveled to many world capitals, including Washington, soon after taking the throne. Washington forgave all Jordanian debts following Jordan's 1994 peace treaty with Israel, but the king sought (and received) additional aid as well as U.S. support in international forums. The Paris Club agreed in May to reschedule approximately $1.15 billion ($800 million in current debt service and $350 million in overdue debts), reducing 1999 payments by $280 million. The G-8 countries also recognized Jordan's key role in the peace process and urged support, but actual decisions were left to individual creditor countries. Yet, the positive reaction and personal praise the king received during his travels created a premature sense of momentum. In the end, Jordan will receive at least the $1.15 billion in relief, but thus far no individual creditor has decided to be more generous.

Bilateral Aid: Jordan has focused primarily on American assistance. U.S. bilateral aid to Jordan, reduced after the Gulf War but reinstated after Jordan's 1994 peace treaty with Israel, is the largest it has ever been. The 1999 totalincluding economic and military grants, a special donation of 100,000 tons of wheat, and loan guaranteescomes to $271.6 million. Additionally, Washington expedited Jordan's share of the Wye agreement's supplemental funds; Jordan already received the initial $100 million tranche of its $300 million total share, whereas Israel and the Palestinian Authority (PA) have yet to receive their first tranches.

Amman initially hoped the Gulf countries would resume their bilateral aid to Jordan following Abdullah's ascension. Despite some encouraging rhetoric, however, that has yet to occur. Until recently, lower oil prices seemed to make the prospects for renewed aid an unrealistic prospect, but with oil prices 50 percent higher than Saudi Arabia or Kuwait projected when they made their budgets, bilateral aid could be back on the agenda. Jordan also remains hopeful that the Gulf countries will again allow Jordanian expatriate workers, which would both ease unemployment in Jordan and provide remittances.

Trade with Israel and the Palestinians: Jordanians complain, with some justification, that Israel restricts trade between Jordan and the PA; Jordanian exports to the self-rule areas stand at $26 million. Jordanians also bemoan the level of trade with Israel itself, although that figure almost doubled from $22 million in 1997 to $42 million in 1998. Although Israel's strict standards and inefficient transportation systems are not helpful, their elimination alone would not dramatically increase the level of trade. The basic fact is that Jordan has little to sell to Israelis and Palestinians. It needs to develop its manufacturing sector to compete in local export markets. According to its own statistics, Jordan actually exported considerably more to Israel in 1998 (24.2 million Jordanian dinars) than to either Syria (JD 15.3 million) or Egypt (JD 13.8 million).

Washington generally sympathizes with Amman's trade complaints. Israeli trade restrictions feed the widespread Jordanian sentiment that the kingdom is not receiving its rightful peace dividend. After a visit to Jordan in March 1999, thenUndersecretary of State for Economic Affairs Stuart Eizenstat urged Israeli officials to increase the list of items Jordan could export to the West Bank and to allow more transport between Jordan and the West Bank. Jordanian and Israeli trade officials had reached a "point-to-point" transport agreement in November 1998, but little was done to activate it. U.S. and Jordanian officials are hopeful that the new Israeli government will be more open to changing contentious policies.

Internal Reform and the Bid to Meet International Conditions: The goals of joining the WTO and maintaining assistance from the IMF and the World Bank are the primary motivating factors for Jordan's domestic reform efforts. Basic agenda items such as privatization, tax increases, and changes in the regulatory climate are conditions placed by international organizations for membership (the WTO) or aid (the IMF and the World Bank). Jordanian leaders also know that, in the long run, reforms will help them attract foreign investors, compete in a global marketplace, and ensure lasting economic growth. These reforms would improve Jordan's economy more than debt relief, aid, or trade access to Israel and the PA ever could, but Jordanians have stiffly resisted them, knowing the reforms will hurt initially. Labor laws and other policies that make it more advantageous for entrepreneurs to hire foreign laborers rather than Jordanians make it harder for Jordanians to see the benefit of attracting foreign investment. Given the country's high unemployment rate and poverty, it is economically absurd to have an estimated 1 million foreign workers, almost half of whom are Egyptian.

Privatization is occurring only slowly and with setbacks. A recent Jordan Times article described the program as "a half-hearted effort with rhetoric far exceeding action." With the exceptions of the Aqaba Rail Line and the cement industry, which have recently been partially privatized, most projects have been stalled. Resistance to the railway project, focused on concerns over job loss, demonstrated the difficulties inherent in privatization. But even when industries are privately owned, the regulatory climate and lack of transparency make some potential investors hesitant. U.S. investors complain that inspection policies for goods coming into Jordan are unnecessarily stringent and at times simply subjective. One popular American restaurant chain trying to open in Jordan found policies by Jordanian health inspectors to be so arbitrarya food shipment was turned away for having frozen meat in a container with other foodsthat it had to seek immediate U.S. government intervention.

Domestic struggles demonstrate the complications of financial reform. For example, the United States has urged Jordan to comply with the WTO requirement to reform its intellectual property legislation, which is considered among the worst in the Arab world. IMF requirements have also caused domestic protests. The IMF has agreed to renew its financial help to Jordan, provided that Jordan adopt a three-year reform program, including a 3 percent sales tax increase. Thirteen opposition parties, led by the Islamic Action Front, issued a statement of "shock" at the tax hike, which they said would serve only to increase poverty and suffering.

Conclusions: King Abdullah was well-received on his travels not only because of his personal qualities, but also because of Jordan's perceived importance as a stabilizing factor in a tumultuous region. Although results have been disappointing, Jordanians have succeeded at arguing for a degree of leniency on economic standards for aid and reform. Yet, Jordan's leaders cannot count on political exceptions forever; to ensure future support, domestic reform is crucial. At least in the short term, U.S. officials, who have been forthcoming with assistance to Jordan, should continue to help and encourage Jordan to move toward meaningful economic reform that will help ensure Jordanian stability in the longer term.

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