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Eliyahu Kanovsky

Jordan's Economy: From Prosperity to Crisis

The riots in Jordan in April should not have come as a surprise for those who study and monitor economic developments in that country. The sharp drop in central bank reserves from the equivalent of over six months of imports in the later 1970s to a mere few weeks of imports last year; the devaluation of the currency by over 40 percent in the past year; and the failure to meet payments on its burgeoning foreign debt are all symptoms, not the causes, of the crisis.(1)

The seeds of the crisis were sown in the early 1980s, both as a consequence of external factors and gross economic mismanagement on the part of the government. The news media cite the external factors, mainly the sharp cutback in foreign aid from the richer Arab oil countries and the decline in remittances from the hundreds of thousands of Jordanians working in the Arab oil states. There are also other external factors including the end of the Iran-Iraq war, from which Jordan benefited through both transit trade to and from Iraq and increased exports of Jordanian goods to Iraq. Moreover, the recession in the Arab oil states and the development of some light industry and agriculture in these countries has adversely affected Jordan's exports to them.

1989 marks the seventh consecutive year of recession in Jordan, and the impact is all the more severe since it followed a decade of high level prosperity. The contrast is glaring. Between 1972 and 1982 the per capita GNP, which is a measure of production and of income generally, grew by a very respectable 5-6 percent per annum, on average. This is roughly the same as the economic growth rate of

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Israel before the Yom Kippur War, a rate of growth which was very high by international standards.

Jordan was the only non-oil Arab country which not only enjoyed full employment but also imported labor, mainly from the poorer Arab countries. Egyptians were the largest foreign contingent. Despite a very rapid population growth rate of about 4 percent per annum (this is extremely rapid -- the Egyptian growth rate is 2.8 percent, and even this is extremely large), living standards, measured by private consumption per capita in real terms, climbed by 4-5 percent per annum. It is interesting to note that about 10,000 women were brought in from Sri Lanka to serve as maids in the households of the upper classes. This is symptomatic of a rising standard of living. Health and educational standards were rising rapidly. Then came the change.

The change since 1983 has been both abrupt and destabilizing. According to official estimates, per capita GNP dropped drastically by a massive 25 percent, a full quarter, between 1982 and 1988, and living standards dropped by about the same rate. This is a massive decline, and following a massive rise this is very destabilizing.

The austerity measures announced by Jordan this year meant a further severe cutback in private consumption. What is noteworthy is not only the violent popular reaction to these measures, which took place in April, but the fact that the rioting took place in those areas populated mainly by settled Bedouins, generally viewed as the most loyal to the King.

Up to and including the 1970s, Jordan had generally been fiscally prudent. To the extent that it borrowed abroad it was on highly concessional terms, with long grace periods before payment and at very low interest rates. The balance of payments (which means the balance on the current account defined as exports of goods and services plus foreign grants, minus imports of goods and services) was positive for the 1972-1980 period as a whole. In addition to that, the concessional loans received from various friendly foreign governments helped to swell the central bank reserves, which rose very rapidly until the early 1980s.

Then there was a drastic change for the worse in the 1980s. Massive deficits were financed, in large measure, by expensive foreign loans and by running down central bank reserves. These deficits were aggravated by large-scale arms imports during the 1980s, according to foreign reports. (The Jordanians do not officially report arms imports.) The burden of the foreign debt, measured as the ratio of annual payments on account of principal and interest to exports of goods and services -- a measure of how broad is the burden of the foreign debt -- rose very slightly during the 1970s, from 4.5 percent in 1972 to 5.4 percent in 1980, and then escalated to 17.2 percent in 1987, and over 20 percent in 1988. This means that 20 percent of the exports of goods and services, including remittances from their workers abroad, which is by far their biggest export, is now going for repayment of foreign debt. Moreover, these figures do not include the foreign debt related to military purchases abroad. This they do not disclose. There are guesses about this part of the debt, and it is clearly substantial.

What aggravated the situation was that the authorities not only did not devalue the currency, but they actually revalued it, which means they raised its value from \$2.69 to the Jordanian dinar at the end of 1983 to \$3.04 at the end of 1987. The effect of this revaluation was to make things worse because revaluation stimulates imports and discourages exports. The large-scale devaluation of the currency was initiated in 1988, especially during the latter half of the year when the crisis erupted in full force.

The sharp drop in living standards, aggravated by the austerity measures taken mainly since the latter half of 1988, surely portend more instability in the country. But possibly the most serious and dangerous problem is the very sharp rise in unemployment, concentrated most heavily among university and college graduates.

One of the possible anomalies, similar in some respects to the situation in Israel, is that the number of foreigners working in Jordan is greater than the number of unemployed Jordanians. Of course the question is asked, why do they not expel the foreigners and give Jordanians the jobs? But the foreigners are overwhelmingly unskilled or semi-skilled manual laborers from the poorer Arab countries, employed in agriculture, mining, industry and construction, as well as domestic servants, whom the unemployed Jordanians, mainly university and college graduates, are unwilling to replace.

This is despite strong governmental pressure and high fees required for work permits issued to foreigners. On a per capita basis, the number of Jordanian university and college students exceeds that of any other Arab country. But the influx into the institutions of higher education was based not on the current or projected needs of the domestic economy, but on the anticipation that lucrative jobs were waiting for graduates in the rich Arab oil states. This is no longer the case.

These countries are suffering from their own recession, and even if few Jordanians have been fired, very few are being hired. Moreover, in Saudi Arabia and some other Middle Eastern oil states, the number of local university graduates is steadily rising, and the governments are under strong pressure to provide employment, very often make-work jobs, for their own people. The Saudis and other Arabs of the Gulf states also view manual labor as demeaning. The employment prospects for Jordanian students are grim, and the potential for trouble-making for the regime is certainly great. According to the World Bank, the unemployment rate in Jordan was 13 percent in 1986, and could reach a very dangerous 30 percent by 1990.(2)

How will the economic crisis in Jordan affect the peace process? Those in Israel and in Washington who consider Jordan a major player in any negotiations which may take place might well reappraise their assessment in view of the serious potential for instability in that country. On the other hand, a reduction in the burdensome arms race is a desirable development.

A few months ago, the Jordanian government announced indefinite postponement (which is another way of saying they were cancelled) of the plans announced in September 1988 -- to purchase Tornado ground attack aircraft from the U.K., at a cost of $350 million. The reason, of course, was Jordan's serious financial situation.(3)

It is most likely that the economic crisis will compel Jordan's leaders to further reduce its allocations to the military forces.(4) According to Jordanian accounts, military expenditures as a ratio of the GNP had been declining during the 1970s and early 1980s, and may be part of the reason for Jordan's economic boom at that time. But then there was a significant rise, from 10.6 percent of the GNP in 1984 to 13.5 percent in 1987. The current economic crisis may well reverse the uptrend in military spending and the military burden. However, since the armed forces also serve as a bulwark against any internal enemies of the regime, there may well be political limitations on cutbacks in the military budget. The King must, at all costs, retain the loyalty of the armed forces if he is to survive.

Mubarak's Inheritance: Egypt's Troubled Economy

Egypt is widely viewed as of central importance in the peace process because of its position as the most populous Arab country, the strength of its armed forces, and its role as the only Arab country which has formally concluded a peace agreement with Israel. However, here, too, its deteriorating economy may well undermine its relative political stability.(5)

Egypt's situation is a very bad one and it is deteriorating. Hardly an article is written or a book published about Egypt without noting the enormity of the problem it faces as a consequence of its burgeoning population. But why is Egypt's economy in such bad shape? In a growing economy, an expanding population can be a stimulus to further development. Our best years in Israel were years with a high rate of immigration and population growth. However, in a stagnant economy rapid population growth means dividing up the national product among more people, and that means a lower living standard. Why is Egypt's economy stagnant, and what are its prospects for the future?

Egypt's current economic ills stem, in large measure, from the policies of Nasser's Arab socialism proclaimed in the 1960s. Sadat, despite his proclaimed "open door" policies, did little to reduce the highly inefficient and very costly public sector enterprises, which had become dominant under Nasser. Moreover, Sadat greatly expanded subsidies of all kinds, including the employment guarantees to university graduates and demobilized soldiers, and other adverse economic policies inherited from Nasser. The stifling bureaucracy, which had grown rapidly under Nasser, mushroomed under Sadat. However, Sadat was lucky in that he was able to sustain these policies, especially when oil revenues were rising rapidly in the late 1970s and early 1980s, and the reopening of the Suez Canal in 1975 added a new source of foreign exchange for Egypt. The booming Arab oil states attracted millions of Egyptians who sent home billions of dollars annually to their families. Tourism also expanded after the 1973 war, and even more so following the 1979 peace agreement with Israel. But the underlying weaknesses in the main sectors of the economy -- agriculture and manufacturing -- were hardly addressed.

Mubarak assumed the presidency in 1981 at what turned out to be a most inopportune time. He inherited a most inefficient public sector, serious problems in agriculture, and very costly social commitments for education, health, and social welfare. Oil prices peaked in 1981 and Egypt's oil revenues plummeted despite rising production. Workers' remittances also began to decline. To make a bad situation worse, despite the Camp David agreements, arms imports have been rising sharply. Even after taking inflation into account, arms imports in the first half of the 1980s were over two and a half times greater than during the latter half of the 1970s, and about 60 percent of these purchases were from non-U.S. sources, based on credit arrangements. In other words, they were based on loans which Egypt has to pay back and is not doing so. Since 1984, U.S. arms sales to Egypt have been on a grant basis, but debts to the U.S. were incurred in earlier years, which Egypt is now unable to pay.(6)

The government of Egypt is trapped. In order to restructure the economy and sharply reduce inefficiencies and raise productivity, there would have to be mass dismissals from the bureaucracy and the state-owned enterprises and a sharp curtailment of a host of subsidies. This would lead to even higher prices as well as many other politically painful consequences. With unemployment now officially acknowledged to be 20 percent of the labor force, in addition to widespread disguised unemployment in the public sector with people sitting in offices and doing nothing, such measures would surely promote severe unrest. Yet to do less, as Mubarak has been trying to do, would do far too little to tackle the basic problems.

In the interim, the foreign debt has risen to very burdensome dimensions. In 1987, the International Monetary Fund concluded an agreement with Egypt which included various measures to improve the economy. In addition to financial aid from the IMF, about $12 billion of foreign debts were "rescheduled," a nice way of saying that if you cannot pay, your payments will be stretched out. But Egypt's government was politically unable to implement most of the reforms, and is again unable to pay its debts, even under the new, far less burdensome, schedule of payments. In the interim there are increasing signs of discontent. Unemployment is rising, inflation is rampant, and living standards for the large majority are rapidly declining.

The political implications of all this are that thus far the government has been successful in thwarting the plots of revolutionaries through mass arrests and other means of suppression. The Ministry of Interior announced in May of this year that over 2,000 Islamic fundamentalists had been arrested in the previous month. The arrests followed an April 7th gun battle between Islamic fundamentalists and the police in Fayoum, southwest of Cairo.(7) This is only one of a good number of other symptoms that we know about.

The deteriorating economy strengthens the extremist groups. There is little room for optimism regarding Egypt's economy and, hence, there must be doubts regarding the future stability of the regime. How this will affect Egypt's role in any future peace negotiations is difficult to know, but both Jerusalem and Washington would be wise to take into account the probability of increased political instability in Egypt and its possible impact on the region.

Saudi Arabia's Dismal Economic Future

In its heyday, in the early 1980s, Saudi Arabia was considered a key player in Middle Eastern affairs. Then Saudi oil revenues were an awesome $110 billion a year and its financial reserves were rising rapidly. (At that time the whole Israeli gross national product was about $20 billion a year.) Arab and non-Arab states were knocking at its door, hoping for large or larger financial handouts. It was building up its own military forces. This was the period when in 1981 there was a controversial debate about the AWACS in Washington.

Saudi Arabia was also financing the foreign arms purchases of Syria, Jordan, North Yemen and others. The industrialized Western countries, as well as the newly industrializing countries, were trying desperately to increase exports to the booming Saudi market, and were usually willing to condemn Israel in the hope of currying favor with the Saudi leaders. The conventional projections of the so-called experts in the West at that time were that the demand for Middle East oil would continue to rise, and so would its price. With Saudi Arabia alone in possession of about one-fourth of the world's known oil reserves, Saudi oil and financial power was destined to rise to unprecedented dimensions. It is not hard to understand why during that period Washington consulted Riyadh on almost every Middle East issue.

Yet the very opposite occurred during the mid-1980s. Despite all their gyrations, oil prices today are far lower than in the early 1980s, even in terms of nominal dollars, as well as in terms of real purchasing power. The demand for Saudi oil is down drastically, and Saudi oil revenues declined sharply to about $20 billion a year in the past few years. But the Saudi authorities were politically unable to reduce their expenditures so drastically, and huge budgetary and balance of payments deficits have been the norm since 1983. Central bank foreign assets have dropped almost steadily, from a peak of $145 billion in 1982 to about $30-35 billion currently, and are continuing to decline.(8)

In the last few years, many of the so-called oil experts have projected that in the 1990s dependence on Middle Eastern and especially Saudi oil will again rise, and a new mini-cartel, consisting of Saudi Arabia, Kuwait, Iraq and other Arab oil producers in the Gulf, will dominate the oil markets and raise prices, with the projection of a new oil crisis and an increase in Arab oil power. This author's own projections, however, are that while oil prices may well fluctuate for various reasons, they are likely to remain in their current range, at least when measured in real prices, and may even fall. While there are many reasons for this, the major one is the heightened demand for revenues on the part of the oil-exporting countries, and hence the constant drive to increase oil exports. Each member of OPEC wants a bigger share because they need the money, including Saudi Arabia. Saudi Arabia and the others are unable to curtail spending drastically, and are therefore more and more anxious to push up production and exports. It is noteworthy that the two main "cheaters" on OPEC quotas are Kuwait and the United Arab Emirates, both with tiny populations. The end of the Iran-Iraq war means that these two countries will also push as rapidly as is physically possible to expand production and export capacity. Their potential is vast, especially that of Iraq, and their financial needs are almost insatiable for reconstruction, catching up with delayed development after the eight-year war, and repayment of foreign debts.

What does this mean for the Arab-Israeli peace negotiations? Clearly, the pressures brought to bear in the past on Washington and on other Western countries who feared Arab oil and financial power are not likely to be nearly as effective in the future -- a plus from the Israeli point of view. The economic and financial difficulties of the Arab oil states will probably reduce the pace of the regional arms race, which is another plus. Any hopes on the part of Jordan, Egypt, and Syria for increased financial aid from the richer Arab states are not likely to be realized. They might consider themselves fortunate if Arab financial aid does not decline any further. It is noteworthy that at the recent Arab summit, no commitments were announced regarding financial aid to the so-called Arab confrontation states. The ten-year commitment made at the Baghdad summit in 1978 to provide an annual grant of $1.8 billion to Syria and $1.2 billion to Jordan expired last year, and no new commitments were announced. In any case, even prior to this past year there had been an almost steady decline in actual grants given to the poorer Arab countries since the early 1980s.

What of Syria?

The Syrian economy is also deteriorating. Helping them somewhat are new oil discoveries in the northeastern part of the country, but, on the other hand, the Iranian gifts of oil that they were getting have been declining. And, as was stated by Defense Minister Rabin two years ago, there has been a decline in their arms imports from abroad.

Another relevant factor is that the Soviets are in a difficult situation economically, and if the Arabs cannot finance Syrian arms purchases from Russia, the Russians themselves are not in a position to do so. If the Soviets think that their vital interests are involved, then they will do so, but the cost today for the Soviets is greater than it was in the past.

Profound economic changes have been taking place in the neighboring Arab countries over the past seven years. Moreover, barring miracles, the end of their economic problems is nowhere in sight, and rising social and political instability may well afflict those countries over the next decade. Those seeking options for peace in the Middle East would be well advised to take these developments into account, as fully as one possibly can.

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NOTES

1. In a study completed in March 1989, this author anticipated serious political unrest in Jordan as a consequence of the worsening economic crisis. See "Jordan's Economy: From Prosperity to Crisis," Occasional Paper, (Tel Aviv: Dayan Center for Middle Eastern Studies, May 1989).
2. Middle East Economic Digest (1 August 1987), p. 16.
3. Economist Intelligence Unit, Country Report-Jordan, No. 2, 1989, p. 9.
4. MidEast Markets (1 May 1989), p. 7.
5. See this author's last study of Egypt's economy, "Mubarak's Inheritance: Egypt's Troubled Economy," Middle East Contemporary Survey, Vol. VI (New York: Holmes and Meier, 1984).
6. World Military Expenditures and Arms Transfers 1986 (Washington, D.C.: U.S. Arms Control and Disarmament Agency, 1987), p. 115.
7. MidEast Markets (15 May 1989), pp. 2-4.
8. See this author's last study of Saudi Arabia, "Saudi Arabia's Dismal Economic Future: Regional and Global Implications," Middle East Contemporary Survey, Vol. IX (New York: Holmes and Meier, 1987).

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THE INTIFADA'S MINIMAL ECONOMIC IMPACT

Yakir Plessner

Economic relations between Israel and Judea, Samaria, and Gaza are basically independent of the existing political situation. In other words, if relations are nonhostile, then whether Israel remains there and the intifada is crushed, or it does not remain there and there is some Palestinian entity established there which wants to keep good relations with Israel, economic relations will be the same whatever happens. On the other hand, if the atmosphere is hostile, again whether or not Israel remains there, hostilities will greatly impair its economic relations with these territories. Therefore the real question is, are there going to be hostilities or not? Other than that, we do not need to pay any attention to the exact sort of economic relations that will exist between the territories and Israel.

In point of fact, economic relations between Israel and the territories are relatively unimportant. In 1987 Israel imported close to a billion dollars from the territories. Out of that about two-thirds was in the form of labor services. Israel exported roughly $1.2 billion to the territories. Out of that, almost a billion was in the form of goods. In other words, Israel had an export surplus of roughly $200 million with the territories.

Usually when people talk about imperialism and domination of nations by other nations, they take the fact that the dominating nation exports more to the dominated nation than it imports as a sign of exploitation. Yet the truth is exactly the opposite. By sending more goods and services to the territories, Israel is giving them more than it is taking from them. Japan is not exploiting the United States; it is the other way around. The Americans use a lot of Japanese products in return for American IOUs. So excess exports indicate a transfer from Israel to the territories, and not the other way around.

But in 1988 the foreign account of Israel with the territories was completely balanced. There was virtually no difference between imports and exports, and they were much lower than in 1987. The intifada pared about one-third off trade in both directions, in real terms.

How can something that sounds so dramatic be really unimportant? Because that decline translates into a mere decline of one-half of one percentage point in business sector activity in Israel. Given the fact that Israel exports something on the order of $16 billion annually, a decline of $300 million in exports is really a drop in the bucket.

As for labor, the situation is roughly the same. In 1987 labor from the territories constituted about 10.5 percent of total labor input. Now this figure is not a measure of the number of Arabs from Judea, Samaria, and Gaza who work inside Israel. Here there was virtually no decline. In other words, the same number of people continued to work throughout the intifada. What did change considerably was the number of days per year those people had been working. They had been coming to work a lot less than they used to. Consequently, their share in total labor input declined from 10.5 percent to slightly less than 8.5 percent in the business sector, and from 9 percent to 6.5 percent in total employment.

Still, the unimportance of these numbers is even more glaring when taken against the background of what has been happening inside Israel during the same years. The fact is that Israel is in a slump. (I do not want to use the word "recession" because I do not think that the economy is in a regular recession. Hopefully, it is undergoing the first stages of what will prove to be a revolution in the economic structure of Israel.) At present what we are seeing is actually not the result of anything associated with the intifada, or indeed anything associated with what has been going on in 1987 or 1988, but in fact we are seeing the results of some of the more important steps that were taken by the government following the 1985 stabilization program.

One of the major components of that program was a drastic reduction in subsidies to exports. Exporters in this country used to enjoy a subsidy which could constitute up to one-half of their profits. They are now enjoying subsidies which probably are no more than 10-15 percent of their profits, and for some exporters the drastic reduction of those subsidies meant the elimination of their profits altogether. This is probably why the current slump in the Israeli economy is characterized by something which is very uncharacteristic of usual recessions, namely, a decline in exports. It used to be that recessions were accompanied by a rise in exports; this time it happened the other way around.

As a result, unemployment in Israel is growing totally unrelated to the intifada, which means that the intifada cannot be blamed for anything. One might have expected that the decline in labor input from the territories would have created a tight labor market in Israel, if anything, and that as a consequence, if there was unemployment, it would have declined. Yet the process is exactly the other way around. Not only that, but wages keep going up, despite the fact that the decline in employment from the territories has not put a dent in the increase in our own unemployment. Therefore, it is more or less immaterial what happens in Judea, Samaria, and Gaza as far as the Israeli economy is concerned.

What is going on inside the Israeli economy is the fruition of economic policies that have lasted for decades. To be blunt, what is happening now in Ofakim, with 13 percent unemployment, is the reaping of the fruit of what Pinchas Sapir planted there, thinking in his arrogance that he could say where towns should be located. We are even unable to explain with hindsight why towns exist where they are, why some towns succeeded and others failed, let alone plan them in advance.

Some of the factories that have had to shut down because employment from the territories has declined sharply are factories that could not find Israeli workers who would accept the same level of wages that the Arabs accepted. Israelis have the alternative of collecting unemployment insurance. In that sense Israel is in the same boat as all the Western European countries. And this is one reason why exports are declining. In other words, Israel could have perpetuated some of these industries if the Arabs would have been willing to go on working at these lower wages. Since the usual prognosis is that such industries cannot continue forever, and when better industries are established the less well-paying ones disappear, that process would have taken place anyway.

The question really is, can these territories survive economically without extensive economic relations with Israel? And if one adds a slumping West Bank to a slumping Jordan, that is probably not the best prescription for creating anything remotely resembling prosperity in either Jordan or the territories, and this should be of political concern.

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