The money into the pockets of foreign companies

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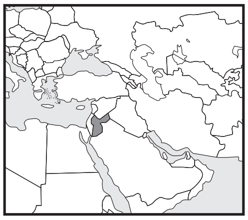

The political instability in the region, along with Jordan's maturing economy, has prevented the domestic private sector from playing an integral role in privatisation and has opened the way for foreign investors to take over many previously public enterprises. As a result, profits made from privatised companies do not contribute to the Jordanian treasury, as structural adjustment continues to challenge welfare policies. Reduced public spending combined with low growth will increase poverty, which is already aggravated by high population growth.

The regional and global context

In every decade since Jordan's independence, the Middle East has witnessed major wars. Most of these have had severely negative impacts on Jordan's economy and ability to make social progress for its citizens, especially children and women. This decade is no exception. The January 2000 entry of Jordan into the World Trade Organisation and the 2001 Free Trade Agreement with the United States are also very significant developments for Jordan's future. Major economic and legislative reforms have been made to bring the Jordanian foreign trade regime into conformity with WTO requirements. In addition, Jordan made commitments on a wide range of services with liberal access for foreign suppliers and investors. Tariff rates were lowered with bound rates ranging from 0% to 30%; by the year 2010, the highest bound rate for specific tariff lines will be 20%. Concern has been expressed in several areas, especially industry, banking and customs. These sectors are not fully developed and fear competition on a global level; the Jordanian economy is still too under-developed to thrive under the rules and regulations of the WTO.

Jordan is facing some very significant challenges, many of which are largely beyond its control. Since September 2000, when the Palestinian independence uprising escalated, Jordan's economy suffered greatly from the drastic loss of tourism, which had been one of its largest foreign currency earners. Continuing strife in Palestine has drastically reduced Jordanian-Palestinian trade, negatively impacting both economies. Since the September 2001 attacks on the United States, the global security situation has further undercut tourism and capital flows. Furthermore, continued international sanctions and US war threats against Iraq stifle Jordan's economy, as Iraq was one of Jordan's largest trade partners. Nonetheless, economic growth in 2001 was high and the Kingdom closed the year with a 4.2% growth rate.

In November 2001, the government presented an Economic Social Development Plan (1999-2003) to accelerate reforms so that ordinary citizens could better enjoy the benefits of the country's development. Recognizing that a high poverty rate of 30% and a high population growth rate of 2.8% are among the obstacles to development, the plan called for accelerated globalisation to encourage private capital investment, and strengthened export development. It also called for targeted investments in human development areas such as health, education and rural development, as well as public sector reforms.

Politically, until a just peace settlement is reached in the Israeli-Palestinian conflict, securing the right of return and indemnity for Palestinian refugees, Jordan is likely to continue to experience external shocks that will have a negative impact on growth and sustainable development. Properly navigating globalisation and structural adjustment poses, in addition to opportunities, great risks for Jordan. Poverty eradication may accelerate or be impeded. In such a situation, Jordan's continued foreign aid should be used strategically to nurture policy changes to strengthen the position of women and children.

Civil society organisations need to gain access to information related to future privatisation plans and develop strategies to challenge them to protect the rights of the poor to quality, affordable and accessible public services.

Structural Adjustment Programme and privatisation

The economy is private sector oriented, with direct state ownership being relatively rare. The state plays a major role only in the mining sector and in public utilities (electricity, water, communications, and bus, railway and air transport). A series of policy initiatives were launched to reduce the government's direct participation in the productive sectors and allow the private sector to manage them.

Jordan started privatisation in the year 1996 by reducing the government stake in state-controlled enterprises. The programme aims at increasing the efficiency and productivity of the privatised firms, attracting foreign investments, deepening and developing the financial market, and limiting the role of government to be a regulator rather than an inefficient producer of goods and services.

The government considers privatisation as one of the centrepieces of its economic reform policy agenda. With reference to the Privatisation Law, a Privatisation Council, an Executive Privatisation Commission, and a Privatisation Proceeds Fund were established. Consistent with the government's strategy to avoid an unsustainable increase in public expenditure as a result of privatisation, the bulk of the proceeds will be invested in financial assets, used to retire public debt, or re-train or compensate dismissed workers. Also, the government intends to spend up to 15% of the privatisation proceeds on infrastructure and social sectors as well as on poverty reduction objectives.

Jordan has adopted a multi-track approach to privatisation. The most commonly applied method has been the sale of government shares in the public shareholding companies. Other privatisation methods include exclusivity agreements, as in the case of the Public Transport Corporation (PTC); leasing contracts, as in the case of the Aqaba Railway Corporation (ARC); and management companies, as in the case of the water and sewage systems in the Greater Amman area.

Privatisation is being implemented in two phases. During the first phase, several entities within the telecommunications, tourism, energy, industrial, transport, mining and water sectors are at some stage of privatisation. Achievements to date are the sale of the Jordan Cement Factories Company (JCFC); the granting of four bus concessions in the Greater Amman area; the Public Transport Corporation; the granting of a concession for the Ma'in Spa; the sale of the Jordan Telecommunication Corporation (JTC); a water management contract for the Greater Amman area; the Water Authority of Jordan (WAJ); the granting of a concession for the Aqaba Railway Company (ARC); and the sale of government shares in approximately 44 companies. Privatisation proceeds to date have exceeded USD 900 million.

The second privatisation phase entails restructuring options for privatising the National Petroleum Corporation, the Arab Potash Company, the Jordan Phosphate Mines Company, Royal Jordanian Airlines (RJ), the electricity sector (distribution and generation), the Petra Drilling Corporation, the Assamra Water Treatment Plant, the Royal Jordanian Air Academy, the Ministry of Supply agriculture business facilities, the Customs Department warehouses, the postal services and others. Efforts aimed at privatising government services are in full swing and are scheduled for completion in the latter part of 2002 or in 2003.

Economists express fears at the growing multinational dominance in these sectors. The latest official reports indicate the government is considering the sale of even more of its shares in local companies to private sector entities, both foreign and domestic, in order to generate more revenues. Already 51 institutions have been privatised, and provide USD 1 billion a year in profits for their investors. Privatisation's greatest problem is that money made from privatised companies goes into the pockets of foreign and domestic owners instead of into the Jordanian treasury.

Research indicates local investment in Jordan was reduced between 18% and 20% in the second half of the 1990s. The main reasons behind this reduction are the economic recession, the increase in interest rates, and the gradual slowing of economic growth following the Gulf War. The political instability in the region along with Jordan's maturing economy has prevented the domestic private sector from playing an integral role in privatisation and has opened the way for foreign investors to take over many previously public enterprises.

Jordan's fiscal budget has a deficit of 7% of GDP, largely due to shrinkage in public revenues; to close this gap the only option for the government is to raise taxes and the prices of local state-controlled commodities, which is happening already. The government is currently paying out 30% of its budget to service its debt, a burden that hinders any real economic and social development in the foreseeable future.

Social impact of privatisation policies

For privatised enterprises, the government tailored its solutions to the labour issue on a case-by-case basis, but with some common underlying trends. First, the government set up general rules preserving the rights of employees in all privatised enterprises. Second, in some cases, packages including compensation with share ownership, training, and placement assistance helped the workers with the transition. But, in most cases, particularly in rural areas where alternative employment opportunities are limited, the government decided to privatise first and solve the redundancy problem later.

In fact, the little privatisation or divestiture that took place in Jordan over the past few years has had little local impact on employment. The three main examples of this have been the government's divesting itself of the majority of shares in the Jordan Hotels and Tourism Company and a minority holding in the Jordan Cement Factories Company, as well as the franchising of Public Transport Corporation bus routes in the Amman area. In these examples, most of the relatively small number of employees worked in areas of the country that enjoy relatively high employment. In such cases, the direct creation of new jobs and the elimination of old ones resulted in little net effect on unemployment. These three cases may prove easy compared to other, imminent privatisations, including Royal Jordanian Airlines (RJ) and the Aqaba Railway. The workforce of the former is bloated and nationally distributed, while cutting the number of workers in the latter will have an impact in areas with high unemployment.

The privatisation of the Rashadiya Cement Factory

The Rashadyia Cement Factory is located five kilometres North of Qadissiya in the southern part of Jordan and plays a significant role in the local economy. As the Jordan Cement Factory Co. Ltd., it was established by the Government of Jordan in 1984 as a state owned enterprise and was a major employer in the area. The factory hired local people and provided vocational training to develop necessary skills.

In the 1990s, the government adopted an IMF structural adjustment package, which included a commitment to privatise inefficient state owned enterprises. The cement industry was one of the first sectors to undergo this process. In November 1998, 33% of the JCF's capital was sold to the Lafarge Group. Lafarge also bought shares from private investors and entities increasing its initial shares to almost 43% by the end of 1999. One percent of the shares were sold at a subsidised price to employees.

Under the terms of the privatisation a considerable number of staff was laid off in order to increase efficiency. The company's clinic, security, transport and education (training) departments were privatised first. Those who were working in these departments were offered a compensation package as an incentive to voluntarily leave their jobs. Laid-off staff received between USD 21,000 and USD 85,000, depending on their years of service and their last salary. Although the total amount of cash compensation appears large in many cases, the local people questioned the terms of the deal, and the limited power they had to influence the process.

The loss was not simply one of direct income, but of security in the longer term. Few other jobs were available in the area. Few of the laid-off employees had reached the social security retirement age; therefore the majority would have to pay the full amount themselves (their share of the social security tax and the employer's) until they reached the age of eligibility. They also lost the other benefits of employment, like health insurance. As a result, they felt that in the long term their loss was greater than the immediate cash compensation. ■

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