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Economic Dimensions of Jordan’s Privatization Policy

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ABSTRACT

We aimed to evaluate the economic impacts of Jordan’s Privatization policy. Implications of the privatization policy on: Gross Domestic Product (GDP) growth rate, national income, public revenue, debt, Economic freedom index and Competitiveness index were analyzed for the period from 2000 till 2012. The outcomes of the study show that the privatization policy of Jordan did not prove to be beneficial for GDP growth, public debt and revenue. The policy had no impact on the inflation rate. While the economic freedom index has risen as a result of the implementation of the policy, there has been a decrease in the competitive index owing to high budget deficit and decline in national savings. Our analysis reveals that there is a need to curtail the side effects of the privatization process. Rather than privatization Jordan should devise programs to achieve economic and social security for organizations which may be privatized. Jordan needs to look back and review the details of the privatization decisions and their impacts and reconsider the prevalent policy.

Keywords: *Privatization. Economic Dimensions*

1. INTRODUCTION

Privatization policy, which means: transfer of economic activity from public to private sector, is one of the most important developments in economic and political strategies. This policy was first introduced Britain in the late seventies, later on it was adopted by many other countries. In Jordan Privatization has two aspects, first aspect is the acceptance or rejection of privatization, and the second aspect is that the acceptance of privatization as a successful measure does not mean that every public activity should be privatized. So privatization should be subject to discussion and evaluation to make sure if it is necessary and to assess possible outcomes positively and negatively.

2. PRIVATIZATION METHODS THAT HAVE BEEN USED IN JORDAN

Jordanian government adopted several successive methods for the implementation of privatization as follows [6]:

1. Divesture

Divesture or Sale of public sector units is widely used in Jordan, it can be partial or total sale of public units. The selling process can take one of following forms:

a) Sale of shares to public: in which case either the government sets the share price in advance or leave it to be determined by competing buyers through auctions.
b) Direct sales to investors: where government negotiates directly with investors to agree on a price that suits both parties. Although the process is prone to Bribery and Corruption, the advantage of this mode is that government can get a quick return. The basic requirement of this form of privatization is highly qualified market and main difficulty is the determination of the right price, which could be affected by economic situation and the background operation of the foundation. Direct sale is one of the most commonly used method for privatization of Jordanian businesses. This mode of privatization was followed for the privatization of Jordan Phosphate Company.
c) Debt Equity Swaps: the state in this case swaps foreign debt with publicly owned assets.
d) Voucher or Coupon Scheme: Philosophy of this method is that every individual has the right to receive a percentage of privatized projects which will be funded by private sector, if the ownership of the project is not with the government but with the people.

2. Contracting-Out

The institutions remain in public ownership and some of the work or services are given to the private sector. Private sector competes for the contract to provide these services at the expense of government. Service can be of various types for instance cleaning cities, keeping street lights operational, utility services for hospitals, airports and ports. If managed well Contracting-Out can reduce the expenditures of the treasury.

3. Deregulation

This method provides an opportunity for units of private sector to enter into the fields and activities carried

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out by the public sector institutions. Main purpose is to to expand the extent of competition and improve the level of performance. Deregulation therefore breaks the monopoly of public sector units. This method was used in the privatization of Public transport Foundation as three other operators were awarded licenses to transport passengers in the city of Amman.

4. Build - Operate – Transfer (BOT)

According to this method, government agrees with a local or foreign private firm to complete a government project. After the completion of the project the executing company operates the project retains the earnings for a certain amount of time, decided in advance. At the end of this period the project is delivered to the government. This method was applied for rapid rail bus in Amman. But the project did not become function due to financial and administrative corruption during the implementation.

5. Build - Operate – Own (BOO)

This is different from its predecessor in that the investor building the project has complete control over the exploitation and operation without any condition of delivering to the government after a period of time. This method not only contributes in maintaining the efficiency of the project but also it can help the investor who may be foreign to take control of the projects.

3. POSITIVE ASPECTS OF THE PRIVATIZATION POLICY IN JORDAN

Privatization can be highly effective in achieving different goals of the state such as [9]:
1) Improved of balance of payments: Privatization is considered to be the main policy to achieve this goal through generation of revenue for the government, and relieves government of giving subsidies to troubled sector units and enables it to repay its debt therefore reducing the need to borrow.
2) Improved balance of trade: As a result of increased private investment there is increased local production, which improves export opportunities and reduces the imports from abroad, resulting in improved balance of trade.
3) Attract foreign investments and foreign exchange which improves balance of payments
4) Improved financial situation of the government: By increasing revenues and controlling expenses government can improve the overall financial situation:
A – Increased revenues through sale of recurring revenue style leases or management contracts.
B - Increased tax revenues because the projects transferred to the private sector pay taxes to the government while as public sector units they are exempt from taxes.
C – Decreased government expenditures due to reduction of government employment and stoppage of government support for troubled projects.
D –Use of Privatization Revenue to repay internal and external debt.
E - Getting rid of the public sector crowding out the private sector: the privatization policy can get rid of the crowding out of private sector institutions by public sector institutions, as is evident in many of the activities.
5) **Encourage investment and increase economic growth:** encouraging private investment, either by allowing private sector to establish more projects or break the monopoly of the public sector and change the laws and regulations that limit this trend.
6) **Improved performance of the national economy**: If the government adopts privatization as required, the public sector losses will be reduced, balance of payment will improve, and privatized units will be more efficient.

Negative aspects of privatization in Jordan
1 -Pricing of public sector units: the problem lies in determining a fair price for units to be privatized, determination of the value of the contract or of lease management and administration.
2 - Limited funding and lack of investors: Jordanian economy is small and not properly attracts investors.
3 -Legal problems: considering legal institution that has to formulate and organize privatization law,
4 – Delays in the process to benefit groups from the status quo.

4. ECONOMIC DIMENSIONS OF THE PRIVATIZATION POLICY IN JORDAN

The process of privatization in Jordan is part of an economic package, adopted by the government since early nineties as part of the economic reform program for self-reliance. This did not take into account the developments of global economic in the era of globalization, increased competition, the removal of tariff barriers, administrative liberalization of world trade and the flow of capital. Both Conventions partnership with the European Union, accession to the World Trade Organization (WTO) and the trend towards Arab Free Trade Zone will help to penetrate new markets [2].

The process of privatization in Jordan was one of the major economical actions adopted by the government since early nineties as part of the economic reform program for self-reliance. The privatization became a necessity due to the developments of global economics in the era of globalization, increased competition, the removal of tariff barriers, and administrative liberalization of world trade and the flow of capital. Also, it gave the opportunity for a partnership with the European Union, accession to the World Trade Organization (WTO) and the easy access to the Arab Free Trade Zone which will help to generate new markets to support the Jordanian economy[2].

According to reports on the performance of public sector companies in Jordan, considerable degree of inefficiency prevails in the public sector companies and institutions. In addition to the waste of public money and poor services provided these institutions are under huge debts. On the other hand private sector companies have delivered revenues and better services and generate better employment opportunities due to higher efficiency. Considering these circumstances privatization was introduced in order to increase the efficiency of projects and to improve productivity and competitiveness through the activation of market forces and to eliminate the imbalances and economic distortions, in addition to stimulating domestic savings, attracting private investment, minimizing monopoly and to reduce the wastage of public money resulting in reduced burden on treasury. This research aimed to analyze the economic dimensions of privatization during the period from 2000 through 2012 as follows:

Gross Domestic Product GDP

One of the fundamental objectives of development process in general is to increase the GDP, leading to increased per capita GDP. The economic reform policies were launched in Jordan in this spirit. According to World Bank's reports Jordan is among the Arab countries most committed to the implementation of privatization process. The private sector contributed more than 60% of GDP in the year 2000 [10]. Labor productivity in Jordan was around 35% before privatization, but it is rose to 83% after privatization due to improved management, use of modern technology, and human resource training in order to achieve a better standard of production and a higher profit rate. However, the Jordanian economy suffers from a significant problem that 70% of the Jordanian economy is services based economy and the risk here is that the service economy might be affected by any local or regional problem directly [11].

Table 1: GDP and National Income growth rate in constant prices (million JD)

Year	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
GDP	1235	1280,2	1373,8	1446,7	1569,8	165,8	1804,3	12131,4	15593	16912,2	187620	20476,5	2518,8
GDP growth rate	4,1	4,2	4,9	3,5	7,5	7,5	7,9	8,2	7,2	5,5	2,3	2,6	2,8
National Income growth rate	7	5,5	4,5	4,9	5,2	6	7	6,6	8,1	2,3	-1	4,5	5

Source: Central Bank of Jordan, www.cbj.gov.jo

According to Table (1) the value of GDP has increased at constant rate from 2000 to 2012, but the pace of growth in GDP and the rate of growth in national income have declined during the years of study. International Monetary Fund predicted growth rate of 3% in 2009 [5], while the real figure was 2.3%. Apparently the national economy has achieved an annual growth rate just below the targeted rate but as the population growth rate in Jordan in 2010 amounted to 3.04%, while the rate of GDP growth is 2.3%, so after excluding the population growth the rate was (-0, 74). This means we need a growth rate of approximately 5.3% to maintain the GDP growth rate, after excluding the impact of population growth. Therefore, the policy of privatization did not help to increase GDP in Jordan [4].

Government Debt

The use of privatization proceeds to repay internal and external debt and to achieve revenue for the government is one of the major aspects advocated by the corroborators of privatization. Table (2) shows the debt to GDP ratio in Jordan. We can clearly notice decreased ratio of debt to GDP from 189% in 2001 to 48% in 2005, but economic studies confirmed that the decrease of Jordan's debt was due to changes in exchange rate of foreign currency against dinar from 1.3% to 0.837% in 2005, and not only because of debt repayment.

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Table 2: External and Internal Debt during the period (2001-2012)

Year	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Debt/GDP Ratio%	189%	77%	67%	58,6%	48,7%	38,9%	24,3%	31,5%	34,2%	36,5%	43,5%	40,3%

Source: Central Bank of Jordan, www.cbj.gov.jo

In general, privatization contributed to the improved financial performance of the Jordanian government by reducing the debt balance. An agreement to buy back $ 2.4 billion of its debt owed to the Paris Club at a discount of 11% using the funds from Privatization decreased the ratio of external public debt to 24.3% of GDP. It is noteworthy that the cumulative balance of the privatization proceeds account in Jordan amounted to 13.9 million dinars by the end of 2012, while 4.1 million in the period (2001-2008) and 9.3 million in 2009, and 14.3 million dinar in the year 2010 [5]. But we must bear in mind that debt gives the government the opportunity to borrow again especially because of rapidly changing governments in Jordan and every government dumping the burden on the previous government, as the debt swap means that Jordan denied itself the chance of debt relief, which may take place after a short period as a result of developments in the middle east region.

Public Revenue

Privatization policy should help the government to get rid of the burden of offering continuous support for troubled sector units and this should increase revenue as a result of turning the privatized companies to tax payers instead of companies that the government supports or troubled companies. Table (3) note the continuing rise of the fiscal deficit in the budget until 2012, with a low ratio of revenue to GDP, which already conclude that the privatization policy did not have a positive impact on higher revenue in Jordan that was also expected to happen.

Table 3: External and Internal Debt during the period (2001-2012)

Year	2007	2008	2009	2010	2011	2012
Total Revenue	3971,5	5093,7	4521,2	4662,8	5413,9	5045,4
Revenue/GDP Ratio%	32,7%	33,7%	26,7%	24,9%	26,4%	19,6%

Source: Central Bank of Jordan, www.cbj.gov.jo

Many of the profit generating companies have also been privatized, such as Jordan Telecommunication Company that yielded 20 million dinars per month. This is in addition to the disastrous social consequences of abandonment of public sector institutions that have been privatized without being accompanied by a program of rehabilitation for Jordanians who become addicted to work in the public sector. Privatization was accompanied by the collapse and decline in the performance of public institutions and universities so that the graduates of these universities became unemployable because they do not hold any of the core skills required by the labor market.

Inflation Rate

The achievement of relatively stable inflation rate is one of the most important economic policies of a State. Privatization seems to have no effect on the rate of inflation. Jordan's inflation rates were well maintained at moderate level during the period prior to the implementation of Privatization policy (as shown in table 4).

Table 4: Inflation rate

Year	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Inflation Rate	1,8	1,8	1,6	3,4	3,5	4,7	5,4	5,2	5,5	5	4,4	5,9

Source: Central Bank of Jordan, www.cbj.gov.jo

2.5: Global Competitiveness Index and Jordan Sequence in terms of economic freedom

Improvement of the competitive position is one of the priorities of international political and economic decision-makers, in order to get a bigger share of world trade. According to the Global Competitiveness Report issued by World Economic Forum measuring indices of economic efficiency of competitiveness in business the index of Jordan has dropped from 45 in 2005 to 64 in 2012 out of 155 countries and the reasons for this decline are high budget deficit, decline in savings and that the national population growth rate is more than the percent growth of GDP.

Jordan stands at a similar level in terms of economic freedom on a global scale. The index represents the level of economic freedom and is measured annually by the Heritage Foundation; the growth index of economic freedom in Jordan over previous years is presented in (see Annex Table 5.

Table 5: Jordan Economic freedom scale

	Ranking among 155 country
World average economic freedom index	59,5
Jordan economic freedom Index year 2013	70,4
Jordan economic freedom index year 2012	69,9
Jordan economic freedom index year 2000	67,5

Source: Heritage Foundation: Index of Economic Freedom, 2013

5. RESULTS AND RECOMMENDATIONS

After the detailed analysis of the available indicators we conclude with following findings and recommendations:

First: privatization process in Jordan did not contribute to build a significant financial reserves for future generations, and did not lead to debt reduction to the contrary, debt has risen, and the ability of citizens to improve their standard of living has deteriorated.

Second: Privatization proceeds were utilized in deliberated expenditure and did not become part of the regular government expenditures.

Third: Projects subject to privatization should be brought to discussion and evaluation in order to make sure that they are properly prioritized and their possible consequences are compatible with the government policies.

Fourth: Privatization proceeds should be invested in vital project because the returns of privatization are a source of huge financial returns which cannot be repeated. If the government continued fragmenting privatization proceeds for use in small short-termed projects, this will lead to wastage of these returns.

Fifth: Government must provide an opportunity for the private sector to conduct economic development process without controls reflected negatively on the Jordanian economy, the profits of companies that have been privatized have fallen after their transfer to the private sector, which are often foreign companies, and the Jordanian citizens did not get any gains at the individual level.

Sixth: Government must give consideration to the reservations of those against the implementation of the privatization process and follow a programs aimed to achieve social and economic security for those who may be affected by the application of this policy.

Seventh: The government should retain some stock in the companies that have been privatized which will confer control over the helm of the decision-making in these companies, to safeguard the public interest.

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