Interview: Dr. Fahed Fanek

Jordan, Israel expand commercial ties

Dr. Fanek is an economist, syndicated commentator, and a member of the Arab Thought Forum.

EIR: How are relations developing on the bilateral plane between Israel and Jordan, as far as economic cooperation is concerned?

Dr. Fanek: In the negotiations for the Jordanian-Israeli commercial agreement, there was a difference of interpretation regarding the Free Trade Zones. Israel takes this to mean that there will be no restrictions, no customs in trade relations between the two countries overall. They would like to see such a free trade regime implemented within 3-12 years. Jordan, on the other hand, thinks the treaty talks about specific Free Trade Zones, i.e., limited geographical areas where factories might be located. We already have FTZs in Aqaba, in Zarqa, and with Syria, for instance. In a political meeting of the trade ministers in the last week of June, Jordan agreed to accept the Israeli interpretation, provided there is no timetable set. There are hopes that the agreement will be signed before the end of July. [It was—ed.]

Israel will give us a list of exempted goods, which can be exported to Israel and a list of goods to be taxed at 50%. European and American goods are already exempted, i.e., there is not a tax on their import into Israel. The most important thing is to get Israel to give us access to the West Bank market. We want to sell cement, iron bars, and fuel [from Iraq].

EIR: There has been discussion of setting up automobile manufacturing plants here. Would these be actual production units?

Dr. Fanek: There are several groups working on this, among them Citroën and Hyundai. It does not involve production facilities, but assembly plants. Right now, imported automobiles are subject to a tax of 200%; spare parts, of 60%. If cars assembled here were sold here, the government would lose this tax revenue.

EIR: What changes are being proposed in legislation, related to the commercial deals born of the peace process?

Dr. Fanek: The sales tax would be increased from 7% to 10%, but income and customs taxes would be reduced. Industries would pay 15% instead of 35% on profits plus 10% of dividends, for a total of 19%. On banks' profits, the reduction would be from 50% currently to 30%, plus 10% on dividends. The tax on dividends is important because here, most profits are made abroad, and therefore are not subject to taxation. Other companies would pay 22.5% plus 10% on dividends, instead of the current 40%.

This will be a cost of 40 million Jordanian dinars to the treasury, or one-third its proceeds. If you factor in the reduction in customs revenue, the cost goes up to 80 million dinars. Here is where the increase in the sales tax will make a difference. There are currently three sales tax rates, 0%, 7%, and 20%. The 7% rate will be increased to 10%. Scholastic materials, paper, and books will be exempted.

EIR: What is the International Monetary Fund demanding that Jordan do?

Dr. Fanek: The IMF says the Central Bank should increase its reserves by $150 million. The Bank of Jordan says it can do $100 million. The IMF has predicted that the deficit will increase. It wants to hold the deficit at 4% of GDP, not 4.5%. The subsidies in the budget now account for 30 million dinars. If the consumption of rice and wheat increase, then the subsidies will go up to 100 million dinars. Therefore, we have to raise prices on these goods. They have been raised for barley, wheat, and water for irrigation.