greater extent on energy imports from North Africa, the Middle East, and the Caucasus and Central Asia. This will impact Algeria and Egypt, the region's gas producers, first and foremost. But its broader implications for economic integration across the Mediterranean will benefit Morocco and Tunisia, which have been at the forefront of supply chains serving European economies. The energy connectivity is translating into plans for a network of pipelines to connect oil and gas from these sources to Europe. Türkiye sees a future as the transit hub for energy pipelines coming from the south and the east and on to Europe in the west. Saudi Arabia and Qatar are contemplating pipelines that would take their own oil and gas, as well as Iraq's, to that Turkish hub.

These plans depend on resolution of conflicts in and between countries along the way. Economic interest would, in turn, foster interest in continued peace. This is perhaps a distant goal but not impossible to realize. In November 2022 Israel and Lebanon (with Hezbollah's approval) signed a historic deal setting their borders in the Mediterranean—a necessary prelude to development of their respective gas fields. The United States helped negotiate that deal and, in recognition of these emerging trends, it hopes to supplant its own old order in the region with one that connects India to the Persian Gulf and Israel through a network of ports, roads, and railways. America's vision is partly aimed at containment of Iran and China. But insofar as it relies on economic ties, it too will confirm the new geopolitical reality of the region.

As has happened so often throughout history, great power rivalries will shape the future of the Greater Middle East. Yet in this case they are working to bind countries closer together economically rather than wrenching them apart. This will open up new possibilities for the region. F&D

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Jordan's Fiscal Ownership

COURTESY OF MINISTRY OF FINANCE, JORDAN

Mohamad Al-Ississ

Finance Minister Al-Ississ reflects on how his country spearheaded preventive and progressive fiscal policies against all odds

When I joined the Ministry of Finance in November 2019, I naively thought that our biggest challenge would be getting the budget through Parliament (it was in fact no small feat). Our relationship with the IMF, with a stagnating Extended Fund Facility (EFF) program, also left much to be desired. We believed that after these two issues were resolved, it would be smoother sailing.

Little did we know. By March 2020, we had passed the budget and had a fresh EFF program built on completely different principles. In this homegrown program, we aimed to widen the tax base instead of raising marginal tax rates. We also intended to instill discipline over our primary deficit, but not at the expense of safety nets or growth. Few people initially believed we would succeed; even fewer did when we were hit with three consecutive "black swans": COVID-19, the Russia-Ukraine crisis, and global stagflation.

Today, Jordan's macro-fiscal and monetary stability is acknowledged by all major credit rating agencies. Moreover, Jordan's April 2023 Eurobond issuance was six times oversubscribed. We still have a long way to go, but it's worth taking a look at how we got here.

Back in academia, we debated the fiscal paths and structural frameworks proposed by the IMF. For policymakers, however, managing fiscal risk is not about neat mathematical equations or econometric models; it is about the political economy of owning reforms and tailoring them to your country's circumstances. I'll first elaborate on how we strove to do that, then examine what this process revealed about the flaws of international financial institutions and what might be done to rectify them.

> "The IMF must empower countries' ownership of their reform agenda."

Reclaiming the reform momentum

First, we stopped relying on packaged prognoses and instead did our own evidence-based analysis in 2018 and 2019. After a deep dive into the causes of our fiscal challenges, we looked at which reforms would help achieve equitable macroeconomic stability. Previous shocks from the region, which amounted to 44 percent of our GDP, drove up our deficits and debt. There was a significant fiscal impact from these shocks, including closing our borders because of conflict in neighboring states, a disrupted energy supply, and an influx of Syrian refugees comprising 20 percent of our population essentially overnight. But when we stepped back from the pressing need for ad hoc measures, Jordan could identify the virtuous intersection of progressively widening the tax base, enacting countercyclical pro-growth reforms, expanding targeted safety nets, and managing debt service. Our new evidence-based path built credibility with the IMF and allowed us to challenge the standard approach of indirect taxation, subsidy cuts, and reduced procyclical expenditures.

Our approach was a feasible yet ambitious overhaul unique to Jordan. On the revenue side, we tapped into fighting tax evasion and avoidance rather than raising marginal rates (in fact, we cut sales tax rates on essential goods in the 2020 budget to signal a redirection, then lowered and unified our customs tariffs in 2022). We focused on improving the efficiency and equitability of revenue collection. We closed tax loopholes via legislative changes such as transfer pricing, unified the tax administration throughout the country, cracked down on tax evasion, and unified rates to limit arbitrage across multiple categories. On the expenditure side, we sharpened targeting while expanding safety nets, attempted to pay back arrears, and boosted capital expenditure for the first time in years.

The second step was to build trust by generating results. The revenue mobilization strategy is bearing fruit: in 2022, Jordan had met its income tax target for the year by August; in the first quarter of 2023, domestic revenue rose 9.1 percent year over year, driven mainly by taxes on income and profits. The country's fiscal discipline in 2022 yielded a primary deficit that outperformed the IMF program target, thanks to higher-than-expected domestic revenues. To say the plan was perfectly executed would be inaccurate, but instead of raising rates on the average citizen, we ensured that those who could afford to pay taxes paid their fair share. The revenue benefit was tangible, as was the greater social stability that followed. It is an example of good policy being good in itself—and growing more effective the more progressive it becomes.

The third step was flexibility and focus on the big picture. Within the Ministry of Finance, macroeconomic stability remains our key goal, but context matters, and context is malleable. For example, our IMF program was one of the first with a built-in COVID adjustor and other adaptive features. As a result, Jordan achieved its EFF program targets ahead of schedule, in June 2023.

Surviving within this global system, however, is not the same as thriving—Jordan faces many ongoing challenges. For instance, rising global interest rates mean that our gains on income tax revenue go toward the rising cost of servicing debt instead of improving public services. I believe the onus is on the IMF to continue its leadership position of adapting the financial system to global changes. Here are a few suggestions.

Setting benchmarks for the IMF

Our international financial institutions rose from the ashes of World War II. Their very premise is therefore reactive, not preemptive. These institutions often mobilize resources for a country only once a shock has occurred, leading to knee-jerk firefighting, not structural measures that preventively enhance resilience. Governments tend to provide aid after the middle class has fallen into poverty rather than working to prevent it; emerging markets need tools to navigate risks preemptively, which is more cost-effective than dealing with the aftermath.

First, the IMF should add preventive tools to its roster. Jordan's recent experience shows what can happen if this practice is encouraged on a larger scale. At the onset of the pandemic, under the directives of His Majesty King Abdullah II, we avoided the post-COVID global food supply and demand shocks most countries experienced by ensuring investment in better wheat storage facilities and reserve buffers. As a result, we averted some of the expensive repercussions of the Russia-Ukraine war and other price fluctuations. Moreover, we included an adjustor for unforeseen pandemic expenditures and were able to expand spending on vaccination and treatment. The IMF should systematically embed such adjustors in its programs.

Second, if international financial institutions stand behind globalization, they must provide buffers against globalization's challenges. We cannot assume that an unequal global system will miraculously spread the spillovers and costs of conflicts equally; we must pursue global solutions. As IMF Managing Director Kristalina Georgieva reminded us, "War in Ukraine means hunger in Africa." Yet resources are not mobilized in a way that balances need and availability.

Third, economy-wide stability is a prerequisite for household-level stability—but that alone does not guarantee it. Governments should take a more proactive approach to ensuring that the middle class has better, more affordable buffers, as opposed to expanding social safety nets following a crisis. Consider, for example, rising home mortgages, which put the squeeze on families. This must be remedied before we see widespread defaults.

Fourth, international financial institutions must be the world's apolitical institutional memory. As governments change, these institutions must keep reminding the global community of pressing, unresolved challenges before shifting resources to the crisis du jour. The international community should not abandon the Syrian refugees residing in Jordan just because headlines turn attention elsewhere. Jordan is left with a financial penalty for providing a global public good.

Last, the IMF must empower countries' ownership of their reform agenda, as it did with Jordan. In our case, equitable, progressive fiscal policies, when we were able to implement them, worked. It is not ethos, nor is it theory. The fairest policies—those that favored national interests over individual private interests—proved the most fiscally viable as well. F&D

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I thank my advisor Afaf Asad for her intellectual contributions to this piece.