

# **CHAPTER. 1**

## **INTRODUCTION**

# CHAPTER - 1

## INTRODUCTION

### 1.1 INTRODUCTION :

The financial system in Jordan has passed through successive stages of development since the establishment of the kingdom. This evaluation of the financial system has been associated closely with the overall development of the economy and with its rising needs for increased banking and credit facilities.

Industrial finance and various other economic variables are related to one another directly or indirectly. However, before we go deeper into the detailed analysis of the topic of industrial finance in Jordan, it becomes essential to look at the main features of the Jordanian Economy. Since our study mainly concentrates on the role played by the financial institutions in the progress of industrial growth in Jordan, it is also of importance to understand the concept of “economic development”.

Economic development is synonymous with an overall rise in the standard of living of the people, a rise in the standards of health and education also which can only be achieved by an increase in the per capita output and national income of the country and by an improvement in the skills, efficiency and earning power of labour. The term Economic development is used differently by different countries depending upon its stage of development and the contribution of different sectors of the economy in terms of growth rate of national income, per capita income and overall development of the people in general. The development in any country can be brought about by increasing simultaneous investment in different sectors of the economy but due to lack of resources

or incapability to utilise the available resources, it becomes very difficult for many countries to achieve expected growth rate. So, it becomes crucial for the economy to decide its priorities and allocate resources to different sectors accordingly.

In other words, industrial development has become synonymous with economic development of a developing country. This is true about Jordan also. One crucial input for the rapid industrial development of Jordan is the availability of institutional finance to the industrial sector. Policy measures directly affect industrial financing in several ways, most significantly through government purchases of shares, loans by semi-public industrial development banks and banking regulations channelling commercial bank lending to the industrial sector. Jordan with its network of commercial banks are specialized in providing short term loans to industries. The medium and long term needs to the industrial sector is met with by the specialized credit institutions particularly the IDB which has been empowered to help industrial companies raise capital by issuing guarantees for loans as well as by under writing of shares and debentures.

In a wider sense, they include the establishment of financial institutions like commercial banks, co-operative banks, specialized financial institutions and their role in increasing their financial assets. These financial intermediaries are “investment intermediaries linking the savers and the users of funds”. They are necessary for the direction and regulation of investments into proper channels.

The problem of ensuring an adequate supply of finance to industries has many facets. Industrial finance may be broadly defined as the “provision of funds needed by up-coming industries irrespective of the period for which they are made available”.

A versatile capital market is also very essential as it helps in providing an easy access to the distribution of finance particularly to those entrepreneurs -public or private- who are setting up new industrial plants or expanding existing companies.

Another noteworthy development in the Jordanian economy is the ability of Jordanian industries and entrepreneurs to cater to their capital requirements through the Amman Capital Market. A major break through in the activities of the capital market market has been its role as a place for organizing and facilitating trading of securities to the industrial and mining sector companies.

## **1.2 OBJECTIVES OF THE STUDY :**

The specific objectives of the present study are as follows :

1. To review and evaluate the existing knowledge on the relationship between industrial finance as well as the overall economic development of a country.
2. To assess the part played by various financial intermediaries in the mobilisation and promotion of finance to numerous industrial sector and entrepreneurs in the country which in turn would meet the credit needs of the different sectors.
3. To study the impact of the credit extended, that is, short term, medium term and long term credit by the financial institutions for the growth of industries in the kingdom.
4. To analyse individually every source and instruments of finance that has access to the industrial sector in Jordan.
5. To examine the significant changes undergone by various financial intermediaries between 1976 and 1990 with respect to the allocation of credit to the industrial sector.

6. To compare the working of the financial institutions providing industrial finance both in India and Jordan.
7. To make suggestion regarding appropriate sources and policies of finance to industry which would in turn enhance the industrial development and overall strengthening of the Jordanian economy.

### **1.3 METHODOLOGY OF THE STUDY :**

The study cover a period of one and a half decade ranging from 1976 to 1990. The reason behind selecting this period of study is because it is appropriate enough to analyze the changes and behaviour regarding industrial finance by the financial intermediaries in the kingdom. Moreover, it was only after the establishment of the central bank of Jordan in 1964, that the up coming industrial sector gained its importance.

Different statistical techniques are used to examine the importance and behaviour of different economic indicators pertaining to the present study, such as ratios, percentages, compound growth rates, averages, etc.

- Sources of Data :

The study is based on secondary data, information collected from different sources and publications published by government and private agencies. Various publications, yearly and monthly statistical books which cover data on different aspects of population, national income, gross domestic product, balance of payments, industry agriculture, balance sheets, liquid assets are used in this study.

At the national level, the useful and necessary data published in Amman, Jordan has been collected from :

1. The Central Bank of Jordan
2. Ministry of planning (formally known as National Planning Council).
3. Industrial Development Bank - Annual Reports.
4. Amman Financial Market - Annual Reports.

Moreover, different statistical year books published by the IMF and the World Bank, New York have been made use of. Many articles published in different Journals dealing with the present study has also been referred.

With regard to the information to be collected for the analysis of the present study in India data published in Reserve Bank of India Annual Bulletins, IDBI Annual Reports, Reports on currency and finance have been utilized.

#### **1.4 CHAPTERIZATION SCHEME :**

The present study of “Industrial Finance in Jordan - A Critical Evaluation of its growth and changing structure” comprises of the following seven chapters.

Chapter 1 - Introduction : It covers the research plan, a brief sketch of Jordan and review of the salient features of its economic development over the past four decades with special reference to it's industrial development.

Chapter 2 - Review of Literature : This chapter provides a review of literature on the subject of industrial finance. Extravagant literature being available on this subject, an attempt has been made to look into the arrangements made for providing finance to industries.

- Chapter 3 - Role of Commercial Banks in Industrial and Economic development of Jordan : This chapter is devoted to the study of the structure of commercial banks in Jordan along with a careful scrutiny of its developmental effect on the economy of the kingdom. The various banking laws established by the central bank of Jordan are studied with special attention being laid on their growth in terms of deposits, money supply, assets and more significantly the sectoral distribution of credit to the various sectors, highlighting the industrial sector. Islamic Banking in Jordan which stems from the principles laid down in the Koran has also been duly studied. The strengths and weaknesses of the commercial banks in Jordan have also been specified with critical comments offered for their structure growth.
- Chapter 4 - Specialized Credit Institutions in Jordan : In this chapter, an attempt has been made to examine the working of the SCIs in the country with particular attention being paid to the role played by the Industrial Development Bank of Jordan, the only institution that provides finance to industries. Analysis of the consolidated balance sheet of the specialized credit institutions has also been attempted and Critical comments are given on the basis of this study for its future pattern of growth.
- Chapter 5 - The Amman Stock Market : In this chapter, the exact working of the stock market of Jordan, its size and present structure has been dealt with, major concentration being paid to the distribution of shares amongst various sectors, particularly the industrial sector. This chapter also focuses on the volume of trading activities amongst the industrial sector of the Kingdom

along with its contribution in raising long term capital. This has been examined closely to assess its role in supporting future industrial growth of Jordan.

Chapter 6 - The Changing Structure of Industrial Finance in Jordan and India : This chapter is devoted to the study of the changing structure of industrial finance in Jordan and India. India has undergone tremendous quantitative and qualitative changes with new institutions and instruments being added over the past four decades. A comparative study has helped significantly in understanding the role of banks, capital market, as well as the specialized financial institution of both countries with regard to the question of industrial finance. This will further help in understanding the addition of new instruments to the existing structure of financial institutions of Jordan.

Chapter 7 - Summary and Conclusions : The final chapter gives the main findings of the study, on the basis of which some broad conclusion are drawn regarding the growth and structure of industrial finance in Jordan.

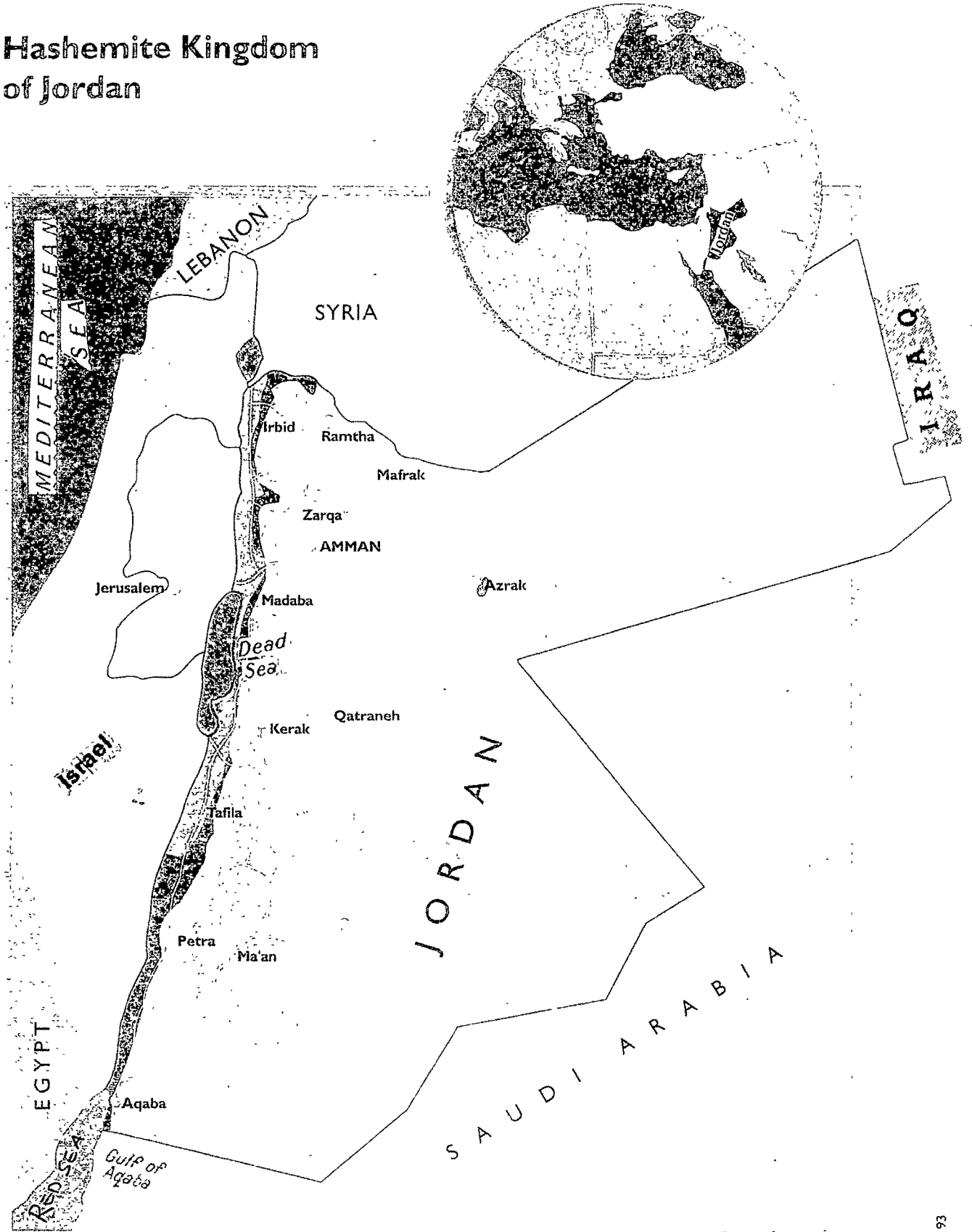
## **1.5 POLITICAL, GEOGRAPHIC AND DEMOGRAPHIC SCENARIO OF JORDAN :**

### **1.5.1 Political Sketch of Jordan :**

Jordan emerged as an independent state in the twentieth century. Before that it was not more than a backward appendage and a prey to more powerful kingdoms and empires. The area which is now Jordan became largely Muslim after AD 636, when the



Hashemite Kingdom  
of Jordan



Byzantine forces of the Emperor Heraclius were defeated by the Arab armies at the Battle of Yarmuk in Northern Jordan.

Jordan officially came into existence under its present name in 1947 from its initial name of Trans-Jordan. Jordan followed a slow pace of development in 1920's and 1930's. The regime of King Hussein started in 1952 with bouts of civil disorder which threatened the Hashemite regime in the mid fifties but by the end of the decade he proved to be a successful leader thus earning people's respect.

By the turn of two decades, King Hussein's position has become far more secured than what it was in 1980's. A patriarchal but autocratic constitution with many good democratic elements is being observed. The cabinet is the most important institution governing the country and the Prime Minister dominates and selects the ministers. Today, the Parliament has re-emerged as a very important debating chamber and a watchdog on the government policies.<sup>(1)</sup>

The Hashemite Kingdom of Jordan is a constitutional monarchy. His Majesty King Hussein ascended the throne in 1952. Executive power is vested in a Council of Ministers appointed by the King. The Council is accountable to a two-house parliament; the upper house with 40 members appointed by the King, and the lower house with 80 elected deputies. Freedom of religious beliefs, speech, press, association and private property are guaranteed by the constitution.

### **1.5.2 Geographical Location and Area :**

The nation of Jordan is the creation of recent political events as per the political sketch given prior to the twentieth century, no such entity existed. The major portion of

the area was between the East Bank and the West Bank neither of which ever had been a distinct unit. The kingdom was declared as international entity only after the world war I in 1921 when the Arab Emirate of Transjordan was established on the East Bank of Jordan River. The post world war I British mandate was extended to Transjordan whose autonomous powers continued till 1946, when Jordan achieved independence. After the 1948 Arab-Israeli war, resulting in the “defacto” partition of Palestine and creation of Israel, a national unity came into being between transJordan (the present East Bank) and the West Bank in 1949, consequently creating the Hashemite kingdom of Jordan.

Jordan is a Middle Eastern Country situated in the great land bridge between Europe, Africa and Asia, covering an area of 90,000 square kms. The Kingdom’s terrain provides a range of landscapes and climates; the Badia Plains lie to the east with mountains in the center. In the west, the Jordan river flows through its fertile valley into the Dead Sea, the lowest point on earth. The port of Aqaba, in the far south, gives Jordan a narrow outlet to the Red Sea. Jordan contains a wealth of archaeological and historical sites and offers great variety for visitors, including the resort of Aqaba, the ancient valleys of Wadi Rum and the Nabatean city of Petra. It is surrounded by Syria on the north, Iraq on the north east, Saudi Arabia on the east and south and by Israel and Palestine on the west.

Jordan is situated between longitude 34°, 52° and 39°, 12 East and latitude 29°, 17° and 33° 23, North. The climate of Jordan is known to be hot and dry in summer, cold and humid in winter.

### **1.5.3 Population profile :**

Jordan's population of four million is made up of a mix of Muslims and Christians, Muslim's constituting about 94 percent of the total population and Christians about 6 percent of the population. During the last three decades, the rates of population have increased and demographic distribution has been influenced by a variety of social, political and economic factors. A fundamental demographic change has been brought about by internal migration from the West Bank to the East Bank, and from rural to urban areas primarily Amman and Zarqa.

The exponential rise in oil price in the Gulf during seventies opened up employment opportunities attracting thousands of Jordanian workers to the Gulf countries. Owing to shortages in labour force as a result of migration to Gulf, Jordan resorted to the import of Arab and foreign workers. This contributed to a permanent change in the population growth patterns.

Data available indicates that the population of Jordan has risen from 900, 800 in 1961 to an estimated 4,012,000 in 1992. The population growth rate which was 3.8% in 1979, rose to 5.3% in 1991.

The increase in net migration during the same period from 0.5% to 2.5% was a result of the return of a large number of Jordanians working abroad because of the Gulf crisis.

The crude birth rate fell from 44 per thousand in 1979 to 34.6 in 1991. Moreover, the crude death rate has shown a decline from 10 to 6.2 per thousand due to improved health and living conditions.

The overall fertility rate has also indicated a downward trend from 6.9 to 5.6 births as a result of improvement in the level of women's education.

The ratio of male to female has been a little over one throughout. However, the average growth rate of the male population was 4.33% whereas that of the female population was 4.68% during 1980-1990. The population density has increased from 27.8 persons per square kilometer in 1985 to 40.5 in 1991.

With regard to the distribution of population into urban and rural areas, the urban population has risen remarkably from 49.7% in 1969 to 67.4% in 1989. On the other hand, the rural population decreased from 50.3% of the total population in 1969 to 32.6% in 1989. Life expectancy has risen from 53.6 years in 1969 to 69 years in 1980.

#### **1.5.4 Employment :**

The dividing line between unemployed and employed labour shows a sharp distinction amongst the developed countries, however this demarcation is very difficult to detect in the less developed countries. As a result of these factors, the concept of labour force is difficult to define. The number of employed persons have increased from 406,000 in 1979 to 763,000 in 1991, at annual growth rate of 5.3%.

According to the information given in the 1961 census, about 22.9% of the total population was employed. This low value was basically due to the fact that a large number of children formed a part of the labour force, hence only groups of males falling in the age group of 15-64 years were considered as employed. The unemployment rate as given in the 1961 census totalled upto 7%. There is a possibility of error in this estimate

because the census was taken at a time when the seasonal demand for agricultural labour was very low. Part time employment was also prevalent in both the urban and rural areas.

According to studies conducted in 1972, out of the 2.4 million estimated population, about 20% formed a part of the labour force. The total labour force amounted to 370,000 thousand of which 150,000 belonged to the non-agricultural sector. This decline in the overall labour force participation rate between 1961 and 1974 was the result of an active participation of the low age group with a very low female participation rate. It is sufficient to analyze the trends among males of 15-64 years old who comprised 85-90% of the labour force. Since males between 15-64 years of age were a smaller fraction of the total population in 1972-74 than in 1960-61, a fall in the relative size of this group reduced the overall participation rate. The decline in the proportion of males of 15-64 years in the total population is best explained by emigration for employment abroad.<sup>(2)</sup>

During the early eighties, the participation rate of women increased from 4.8% to 14%. According to the vocational training corporation law number 35 of 1976, an autonomous corporation was established which aimed at organizing vocational work and training. The problem of shortage of labour force participation still persisted. During this period, participation of women continued to be very low.

By 1991, the percentage of the working age population (15-64 years) shot up from 20% in 1972 to 54% in 1991. The early 1990's also showed an inability of the public sector to absorb more labour, hence availed the private sector for new job opportunities.

The distribution of employment in various economic sectors has also undergone a fundamental change between 1979 and 1991. Employment in the commodity sectors fell from 37% in 1979 to 25.1% in 1991. While employment in the services sector rose from 63% in 1979 to 74.9% in 1992. The decline was the most significant in the agricultural sector, whose share fell from 11.3% in 1979 to 6.5% in 1991. Concentration of employment was higher in the trade and government services sectors, their share soaring from 10.3% to 15.3% and from 37.6% to 43.5% respectively between 1971 and 1991.

## **1.6 GROWTH OF JORDAN :**

### **1.6.1 Economic Sketch of Jordan :**

It has been clearly postulated that the economic development of Jordan has been hampered by relatively poor natural resources and the unfortunate geo-political situation. Nevertheless, the country has shown marked success in recent years. Agriculture's low share is not surprising and the rising share of industry is certainly a sign of healthy growth.

The liberal economic policies adopted by Jordan allowed easy convertibility of the national currency, a free capital market, open frontiers for imports and exports and a restricted local demand for industrial goods. This policy provided no incentive for industrialization. Positive aspects for investments in Jordan were stated to be a consequence of the establishment of a strong and up coming market in the neighbouring oil producing countries and by early seventies, the private sector was supporting a market boom in the production of consumer goods. Though, it should also be stated that the high

level of Jordanian economy has become possible with the help of a massive influx of foreign capital and financial aid.<sup>(3)</sup>

A brief economic sketch of Jordan shows a very slow and steady progress during the 1950's. The basic fact about Jordan's economy during this time was that similar to the country's political life, the economy too had been completely disrupted due to the Arab-Israeli war of 1948. The main features of the economic life of Jordan have been agriculture meant for only sustenance of the country on the whole, having very few industries and that too the handicraft industries with almost no resources.

In the period preceeding the 1967 Arab Israeli war, Jordan enjoyed a great degree of social progress and economic prosperity. This came as a direct result of success in expanding services, utilization of natural resources, increase in employment, rise in GNP and a rise in the standard of living.<sup>(4)</sup>

The momentum of modernization and economic development in Jordan was accelerated after launching the five year plan for economic development (1962-67) which was later revised to become the seven year program for economic development (1964-1970). The available data indicate that the GNP increased from an average of JD 51.1 million in 1954-1955 to an average of JD 160.6 million in 1964, at a compound growth rate of 12.1% per annum.

The occupation of the West Bank in 1967 by Israel, deprived Jordan of an important part of its natural and economic resources, adversely affecting its development and diverting resources to military expenditure and armaments.

### **1.6.2 Real GDP at Factor Cost and GNP at Market Prices :**

A look at the table 1.1 indicates that real GDP at factor cost grew during the period between 1967-72 at an annual compound growth rate of 7.9%, keeping in mind that in 1970 the real GDP at factor cost dropped by 5.04% as against the previous year. During the same period GNP at market price rose from JD 142.5 million in 1967 to JD 221.0 million in 1972 experiencing a compound growth rate of 7.5% per annum.

By 1970-71, with the successful implementation of the seven year programme, the Jordanian economy became significantly less dependent upon external financial aid. As a result external indebtedness was minimal with prevalence of a moderate inflation rate.<sup>(5)</sup>

The public sector concentrated its development efforts on creating and strengthening the development infrastructure. The private sector too participated in the developmental process with the establishment of a number of new industries in the field of cement, petroleum refining, vegetable oil and other small industries<sup>(6)</sup>. Compared to economies of other countries which were passing through similar phases of development, the Jordanian economy was characterized by a relatively high share of the services sector in GDP. The country faced a chronic trade deficit, the major factors contributing to the deficit being serious challenges and sanctions imposed on the Jordanian economy by events of 1948 and 1967. The 1967 June war resulted in the occupation of the West Bank, as a result of which there was an increase in the military preparation at the expense of development plans, with the suspension of a large number of projects. The financial burden of the country was further increased with the migration of refugees to the East

Bank. This resulted in a substantial decline in the economic growth of Jordan. In spite of these adverse circumstances, the GDP at current prices increased at 5% per annum.<sup>(7)</sup>

The first five year plan (1976-80) after the previous seven year plan, was formulated in light of a set of new factors including a large increase in Arab assistance and loans to Jordan in the wake of the oil boom in the Gulf, and the growing demand for Jordanian manpower in the Gulf, other factors being higher oil price inflation, general wage and salary increase and a rise in government subsidies on staple foods and fuel. Economic performance during the plan period yielded an annual compound growth rate of GDP of 18.7% whereas GNP at market prices rose by 16.2% per annum. On the whole performance rates either exceeded or were close to the targets envisaged in the plan.<sup>(8)</sup>

The seven year plan of 1973-80, in place of the five year plan of 1976-80, also highlighted the necessity for developing an institutional framework for the banking system with regard to savings and credit. The implementation of the plan led to a strong inflationary pressure on the national economy, the annual rate of inflation for this period being 12.6%. Hence monetary policies were directed towards two directions - fighting inflation and spurring economic development.<sup>(9)</sup> The impressive performance of the country's economy came to a stand still in 1983. The growth of GDP dropped from 25.1% increase in 1980 over the previous year to mere 5.8% increase in 1983 over the preceeding year. GNP at market prices also recorded a small percentage increase of 5.4% in 1983 as compared to a rise of 22.5% in 1980. A fall in the oil revenues of the Gulf countries was reflected in the development of the Jordanian economy, the deficit on both the government budget and balance of payments increasing further.<sup>(10)</sup>

In view of a shift in the economic policy and of a heavy external debt burden which exceeded the capacity of the Jordanian Economy, the economic adjustment programme for the period 1989-93 was adopted. It aimed at correcting the main structural imbalances in both the balance of payments and the general budget while maintaining a reasonable growth rate. The GDP and GNP showed a compound growth rate of 8.13% and 4.82% during 1981-90 respectively.

The beginning of the 1990's witnessed major political and economic developments that affected the economic and social situation of Jordan. Most prominent among these developments was the gulf crisis, the subsequent war and economic sanctions. In order to avoid negative implications of these developments, an economic adjustment programme for 1992-1998 was adopted which saw the closing of the Iraqi and Kuwaiti markets and return of a large number of Jordanian workers from the gulf countries.<sup>(11)</sup>

Table 1.1

The real GDP at factor cost and GNP at market prices with compound growth rate (1964-1990)

JD Million		
Year	GDP at factor cost	GNP at Market prices
1964	135.5	160.6
1965	151.0	180.5
1966	149.6	185.7
1967	115.6	142.5
1968	138.2	166.4
1969	162.5	197.4
1970	154.7	187.0
1971	166.0	199.4
1972	182.8	221.0
1973	188.9	241.5
1974	242.4	279.3
1975	303.1	376.0
1976	378.0	562.4
1977	439.9	660.1
1978	551.2	781.0
1979	668.6	921.3
1980	893.2	1190.1
1981	1041.1	1482.7
1982	1169.6	1673.4
1983	1242.3	1770.3
1984	1315.0	1853.6
1985	1390.6	1881.8
1986	1772.2	2097.3
1987	1832.4	2112.5
1988	1901.4	2129.9
1989	2068.1	2206.4
1990	2275.3	2375.9
<b>Compound growth rate per annum</b>		
1964-70	1.91	2.19
1971-80	18.32	19.55
1981-90	8.13	4.82

Source : Central Bank of Jordan, Yearly Statistical Series, 1964-1993, October(1994), p.47.

### **1.6.3 Sectoral Distribution of Gross Domestic Product :**

Over the past four decades in the history of Jordan, tangible achievements have been made in all the economic sectors. The productive base has been diversified with competitiveness amongst the sectors growing tremendously. The government has been successful in expanding the infrastructure of the country with a marked improvement in the quality of social services. Jordan's economy is primarily dominated by the services sector.

An attempt has been made to give a sector-wise analysis of the economy from the time period ranging from 1960 to 1990 and trends and landmarks achieved under each sector.

#### **(i) The Agricultural Sector :**

Agriculture constitutes one of the major sectors in the Jordanian Economy. The importance of this sector stems from the fact that it is the main source of income for about 20% of the population, provides employment to 12% of the labour force, contributes in improvement of the balance of trade and is instrumental in achieving food security. In spite of its decline in its contribution to GDP in the last few years, its role in the economic development process still remains fundamental.

During the early fifties, agriculture showed good signs of harvest with this sector accounting for one half of the total production in the private sector. Major contributors for this overall increase in production were olives, wines and other rain fed crops, apples, pears, peaches and grapes. An annual planning target of 60,000 dunums (a dunum = 1000

meters) was fulfilled. While providing employment for more than 40% of the labour force, agricultural net income amounted to be only 17.3% of GDP during the period 1959-61.

The post war period of 1967 depicted an overall agricultural growth that averaged around 6% per year. Fruits and vegetables accounted for 40% of the total value of agricultural production, whereas grain output was almost negligible. The percentage contribution of agriculture towards GDP at factor cost declined from 25.16% in 1964 to 10% in 1970. GNP at market prices showed a similar trend, the percentage decline occurring from 21.2% in 1964 to 8.3% in 1970. The mid 1970 estimates also showed a decline in the growth of most crops. The production of wheat and barley declined markedly by 76.2% and 82.6% respectively.

Vegetables such as tomatoes and some citrus fruits also showed a downward trend. Agricultural income declined by 20.3%. The primary reasons for this decline were- dependence of more than 95% of the cultivable area on rainfall, this region being characterized by scarcity of rainfall. Again, with the fragmentation of agricultural holdings, there was a relative rise in the production costs and a low marginal efficiency of investment. There was also a low domestic trade alongwith lack of workable patterns to promote large scale intensive farming. All this resulted in a significant rise of price levels of foodstuffs.

Reluctance of farmers to invest in agricultural sector due to insufficient facilities with the non-availability of improved seeds further aggravated the situation resulting in a decline in the average contribution of this sector to the overall GDP of the economy.<sup>(12)</sup>

As a consequence of the acute problem faced by the agricultural sector, and due to the loss in livestock and poultry, the Central Bank of Jordan (CBJ) took steps to reduce the interest rates charged on loans and excluded land tax from irrigated areas. GDP at factor cost and GNP at market prices further declined by 9.3% and 7.2% during the mid 1970's.

Due to the very low level of agricultural production, the government of Jordan imported 55,000 tons of wheat and 35,000 tons of yellow maize from USAID, 12,000 tons of wheat from Syria and 45,000 tons from World Food Programme.

Fortunately the period of the early 1980's was accompanied with favourable weather conditions which consequently led to high levels of productivity. Field crops rose to 204.4 thousand tons from 32.4 thousand tons in 1979. All the major crops production doubled except for tobacco which dropped by 25%. Wheat and barley recorded impressive rises. Fruit production also rose significantly by 79.9%. The agricultural income rose to JD 99.1 million in 1983. Despite consistently increasing growth in the agricultural output (rising in current prices from JD 90.7 million during 1981-84 and to an estimated JD 112 million in 1985), its contribution to GDP at factor cost showed an almost negligible rise from 7.76% in 1980 to a mere 7.92% in 1986. GNP growth rate at market prices declined from 5.8% in 1980 to 5.7% in 1986.

Again, although there has been a noticeable growth in the output of fruits, vegetables and livestock products, the agricultural sector on the whole has failed to meet the increasing demands of the country, specially for meat and dairy products. Consequently this has allowed for a greater reliance on food and livestock imports which

has risen from an annual average of JD 41 million for the period 1973-75, to JD 179.9 million for 1981-85. Trends in the annual compound growth rate of GDP in the agricultural sector exhibited a decline from 13.2% during the period 1976-80 to 9.1% between 1981-90. The overall compound growth rate assumed a figure of 11% during the last 15 years.

Furthermore, agricultural output has been adversely affected by a constant shrinking of agricultural areas due to uncontrolled urban expansion. Increasing demand for labour and other economic sectors by Jordan and neighbouring countries has further eroded the farm families with the import of non-Jordanian Labour. By 1990, no significant change has been seen with regard to the contribution of agriculture to GDP, it being 7.8% whereas in terms of GNP at market prices it amounted to 7.5%.

In accordance with the Economic and Social Development Plan 1993-97, the agricultural sector suffers from problems such as :

1. limited area of cultivated land.
2. limited sources of water supply.
3. low level of marketing efficacy.
4. dependence on foreign labour.

(ii) The Industrial Sector :

After Jordan became independent in 1946, the course of industrialization progressed at a slow rate, with the industrial sector not keeping pace with the overall economic progress of the country. Reports of early fifties indicate that though a major attempt was made to expand the various industrial sectors of Jordan, the economy

suffered from major handicaps, a few of which included - limited supply of raw materials, very high cost of power, and a small Jordanian market. Nevertheless by the late fifties, in response to an increase in private initiative, assistance provided by foreign agencies and as a result of promotional activities undertaken by the government, a period of rapid industrialization set in. However, these industries did not progress beyond the handicraft stage. Industries concentrated on the Mediterranean coast where there was relatively cheap power and transport along with availability of skilled labour.

In general, the five year programme for “Economic Development (1962-1967) expected industrial development to take place in the private sector with the role of the government confined to the creation of an economic climate in which industry can flourish through the provision of encouragement, advice and credit”.

Independent expert opinion had confirmed the local view that the greatest single obstacle to private industrial development in Jordan was lack of access to medium and long-term capital.<sup>(13)</sup>

Needless to say, the 1967 June war, the occupation of the West Bank, and the closure of the Suez Canal had adverse effects of considerable impact on the continued growth of the industry and mining sector in Jordan. This was attributed to a loss of a substantial portion of the consumption market for local industrial products and shrinkage in the volume of exports. These difficulties retarded the willingness of the private sector to invest in industrial and mining projects.

Achievements by the industrial sector as accomplished during 1964-1971 included the conduction of economic and technical feasibility studies for industrial

projects with the establishment of a number of factories producing a variety of commodities. A very noteworthy accomplishment during this period was the setting up of the IDB in September 1965 which functioned by extending medium term loans to industrial projects. Enactment of the law No 1 of 1967, provided a number of incentives and facilities in order to attract both domestic and foreign investment for developmental projects.<sup>(14)</sup>

The restoration of internal stability in 1970 had positive effects on the resumption by the industrial and mining sector of its previous dynamism. The government continued to allow industries in the West Bank to market their products in the East Bank. A new Encouragement of Investment law was enacted in 1972 in which the total investments in new industrial projects enjoying full exemption under this law, were worth about JD 20 million. Credit extended to industrial establishments by the banking sector was expanded. The total number of loans granted during the three year period (1973-75) were 101 loans at a total value of JD 0.52 million. The small-scale Industry and Handicraft Fund at the IDB started functioning in March 1975 and by the end of the year, it was successful in providing loans of JD 88 thousand to 65 establishments.<sup>(15)</sup>

Jordan entered the 1980's after three decades of continuous efforts in development and modernization, the dimensions of which were determined by the social and political environment in the region. The industrial sector witnessed further expansion as a result of establishment of new industrial firms. Income in this sector at current prices rose from JD 64 million in 1975 to JD 154 million in 1980, at an average annual rate of 27.3%. Industrial licencing and export regulations were simplified. Between the years

1976 and 1980, 670 new factories were licensed and about 2,300 small scale industries and handicrafts were licensed.

Investment in the Mining and Manufacturing sector during 1976-80 was JD 317 million of which JD 60 million was in the private sector and JD 16 million in the public sector. The remaining JD 241 million was invested by mixed companies. Credit facilities advanced by commercial banks to this sector expanded from JD 15.1 million at the end of 1975 to JD 73.1 million at the end of 1980. Exports of products also rose significantly from JD 29.4 million in 1975 to JD 97.4 million in 1980.<sup>(16)</sup>

By 1985, the government's industrial strategy concentrated on large capital intensive industries, some export oriented industries such as potash and fertilizers and a few import - substitution oriented industries such as glass and timber. During the five year plan period 1981-1985, the total value of actual investments amounted to JD 599 million, compared to an anticipated JD 759 million by the plan, or 78.9% of the plan target. This was because of the economic recession after 1982, which caused a decline in the investment in all the economic sectors.<sup>(17)</sup> Market flooding and tough competition from imports contributed to further aggravation. Despite these difficulties, industrial growth averaged 4.8% annually during the plan period. The Encouragement of Investment Law No. 53 for 1972 continued to apply until 1984, when it was replaced by the new law no. 6 of 1984. The Customs Law and Income Tax Law were amended in favour of domestic industries.

By the late 1980's, industrial growth in the country was almost nil as the economy suffered from stagnant domestic demand and lower foreign demand for

industrial products. Consequently, the govt. took strict measures to ban the import of goods so as to enhance competence in the domestic market. By the beginning of 1990, there was an overall upward trend, with major industries such as phosphate and cement showing suggestively higher growth rate which was once again brought to a stand still with the advent of the Gulf crisis. A look at the annual compound growth rate of income in the industrial sector shows the highest growth rate of 19.7% during the period 1976-80 followed by a decline to 9.2% during 1981-90. The overall compound growth rate amounted to be 14.3% during 1976-90.

Though the manufacturing sector has acquired increasing importance in accordance with the Economic Social Development Plan of 1993-97, it is still facing a host of problems, some of the significant ones being;

- Uncompetitive local industries
- Excessive reliance on the domestic market and neighbouring Arab Markets
- Lack of appropriate technology.
- Shortage of human, technical and marketing skills.
- Smallness of value added in the manufacturing sector.<sup>(18)</sup>

(iii) Construction :

The construction sector derives importance from the fact that it can be closely interlinked with other sectors of the economy in terms of employment, investment, advancement of technology as well as growth in the investment volume.

An attempt was made to develop this sector of the economy such as to ensure a certain degree of competitiveness in the market which was otherwise dominated by foreign companies as well as to export construction services to neighbouring markets.

As shown in the table 1.2, the past one and a half decade has been marked by an accelerated development in the construction sector as reflected in the annual compound growth rate of 29.6% between 1976 and 1980, the overall growth amounting to 10% annually between 1976 and 1990.

Investments amounted to JD 26.6 million in 1976 which rose considerably to JD 114.1 million in 1985, the value declining to JD 111.6 million by the end of 1990, because of its vulnerability to economic fluctuations. Hence, it exhibited a modest growth rate between 1981 and 1990, the annual compound growth rate being almost negligible during the same time period. Between 1976 and 1980, the relative demand of enrollment in engineering and other specialized sectors was very high, this being reflected in the GDP of this sector. However by 1985, the figures indicated signs of over supply with a significant rise in the number of engineers. In 1985, the aggregate number of registered engineers was 14,000 as against a mere 581 registered in 1978.

In accordance with the Economic and Social Development Plan (1993-97), this sector absorbed some 10% of Jordanian labour by the end of 1992 with the total area covered by the construction permits amounting to 4.3 million square meters by the end of 1992. However this sector too is not free from problems. Some of the most significant ones are :

- (1) High custom duties on machinery, and building equipments.
- (2) Lack of an institutional structure
- (3) Poor technical level of supervisory staff.
- (4) Lack of Specialized information in the field of engineering.

(iv) Electricity and Water Supply :

Water is one of the scarest natural resources in Jordan, a country which depends to a large extent on rainfall to meet its requirements for domestic water supply particularly for agricultural and industrial purposes. The average annual volume of water in Jordan is estimated to be 6,000 million cubic meter, a major portion of which is lost through evaporation and the rest forms a part of the Dead Sea and Red Sea which cannot be utilized due to its excessively high salinity.

With the implementation of a number of water, waste water and irrigation projects, today water supply reaches more than 90% of the population of Jordan.

Yet another sector that occupies a special position owing to its important bearing on the development of the economic sectors specially that of industry and mining is the electricity sector. As a consequence of the government's keen interest in developing this sector, several electric power supply projects were implemented in the last few years. Electric power consumption per capita has increased from 990 kilowatts/hr in 1986 to 1,041 kilowatts/hr in 1991.

On observing table 1.2, it can be seen that this sector occupied the highest growth rate of 34.3% during 1976-80, though its relative contribution to the total GDP was only

1.9% by the end of 1980. It's relative contribution rose to 2.3% by the end of 1990, though the growth rate declined markedly to 9.7% between 1981-90.

Some of problems faced by this sector include :

- (1) Overconsumption of electricity by certain groups of consumers with its rising demand.
  - (2) Lack of attention to the nuclear energy sector coupled with dependence on external sources of funding.
  - (3) Scarcity and fluctuation of water resources and remoteness from consumption areas.
  - (4) High cost of water and sewage network construction.
  - (5) lack of sufficient rain water storage installations and scarcity of funding for the construction of dams and water harvesting facilities.
- (v) Services Sector :

The total service sector of the country's economy can be categorised into

- A. The tourism industry
- B. Foreign and domestic trade
- C. Transport and Communication
- D. Finance and Insurance
- E. Real estate services
- F. Government services
- G. Public Administration, Community and other services.

The services sector is the dominating sector in the Jordanian economy. As can be observed from table 1.2, the contribution of the services sector towards the total GDP has always been the highest, the average percentage being 63.32% over the past 15 years of the study. Its share in the GDP has fluctuated between a minimum of 59.79% in 1967 to a maximum of 70.4% in 1988. Moreover this sector has not experienced any negative growth rate unlike other sectors. This sector has shown a compound growth rate of 12.5% per annum.

- (a) Tourism Sector : Amongst the services sectors, the tourist sector has undergone changes slowly but steadily and is of potential importance to Jordan, as this sector is a major earner of foreign exchange. A number of initiatives have been taken by the government in order to ensure that the barriers faced by this industry are overcome. There was however, a drastic decline in the tourist activities after the Arab-Israeli war. Income for the tourism sector was increased from 35.7 million in 1970 to JD 160 million in 1980 and JD 339 million in 1990.

Its contribution to the GNP increased from 3.8% in 1972 to 13.1% in 1980, but declined to 9.2% in 1984 in wake of the regional economic stagnation<sup>(19)</sup>. Owing to insability in the region during and after the Gulf crisis, receipts decreased to JD 216 million in 1991.

- (b) Transport and Communication : The transportation sector is considered as one of the main sectors which has a direct influence on the economic activity of the country. In successive development plans, the overall strategy for the transport sector has been determined by domestic, Arab and international considerations.

Between 1981-85, the income accruing from the transportation sector increased from JD 80 million in 1980 to JD 152 million in 1985, at an average annual growth rate of 13.7% in current prices. In accordance with the Economic and Social Development Plan (1993-97), the transport and communication sector is planned to grow at an annual rate of 7.5% because of its close linkages with the high export commodity producing sectors.

- (c) Trade and Supply : The trade and supply sector plays an important role in stimulating the economic activities directly or indirectly associated with it. Since the free movement of capital and free trade lies at the heart of Jordan's economic system, most of the trade and supply activities fall under the private sector. The private sector conducts the bulk of foreign and domestic trade. The value of domestic commodity exports at current prices increased from JD 40.1 million in 1975 to JD 120 million in 1980 and further to JD 193.3 million in 1985 at a compound growth rate of 17% per annum. On the other hand, commodity imports have risen from JD 234 million in 1975 to JD 860.8 million in 1985. The relative contribution of the trade sector towards the GDP declined from 16.3% in 1981 to 3.1% in 1990. This decrease can be attributed to the financial and economic difficulties encountered by the national economy since the 1980's.
- (d) Housing and Communities Services : This sector witnessed a remarkable development in the 1970's which continued during 1980's and 1990's and included developments in housing institutions financing mechanisms and level of investment. The emergence of specialized lending institutions such as the Housing Bank has led to an increase in the volume of investments in this sector.

In accordance with the Economic and Social Development Plan (1993-97), the services sector is not free from problems which includes a limited supply of financial resources. The public sector is unable to satisfy the increasing demands of this sector with a low level of participation by the private sector which in turn has increased the burden on the public sector.

**Table 1.2**  
**Sectoral Distribution of Gross Domestic Product (GDP) (1964-1990)**

Year	Agriculture	Industry	Electricity and water supply	Construction	Services	Total GDP at the factor cost
1964-70	173.5	110.5	10.9	56.9	655.3	1007.1
1971-75	124.4	152.6	13.6	67.8	724.8	1083.2
1976	37.3 (9.9)	67.8 (17.9)	3.9 (1.0)	26.6 (7.0)	242.8 (64.2)	(378.4 (100))
1977	41.7	78.1	5.5	36.8	277.8	439.9
1978	58.6	94.3	7.2	51.0	340.1	551.2
1979	43.6	121.6	10.1	70.5	422.8	668.6
1980	69.4 (7.8)	167.1(18.7)	17.1 (1.9)	97.5 (10.9)	542.1 (60.7)	893.2 (100)
1981	75.1	208.3	21.0	110.6	626.1	1041.1
1982	81.8	230.3	25.3	121.9	710.3	1169.6
1983	110.0	214.5	28.3	126.8	762.7	1242.3
1984	986	250.8	33.5	127.0	805.1	1315.0
1985	118.7 (8.5)	252.9 (18.2)	35.2 (2.5)	114.1 (8.3)	869.7 (62.5)	1390.6 (100)
1986	111.1	242.1	42.0	113.0	892.9	1401.1
1987	126.6	280.5	48.5	126.0	1250.8	1832.4
1988	114.5	279.4	50.6	118.4	1338.5	1901.4
1989	131.7	409.2	52.8	106.7	1367.7	2068.1
1990	179.6 (7.8)	504.4 (22.2)	53.3 (2.3)	111.6 (5.0)	1426.8(62.7)	2275.3 (100)
1976-80	13.2	19.7	34.3	29.6	17.4	18.7
1981-90	9.1	9.2	9.7	0.09	8.5	8.13
1976-90	11.0	14.3	19.0	10.0	12.5	12.7

Source :

- (1) Central Bank of Jordan, Yearly Statistical Series, (1964-1989), October, 1989, p.58.
- (2) Central Bank of Jordan, Yearly Statistical Series, (1964-1993), October, 1994, p.47.
- (3) Figures in parenthesis indicate percentages

## 1.7 THE INDUSTRIAL PRODUCTION INDEX :

Table 1.3 shows the changes in the index of industrial production during 1976-90. Taking the index number of 1970=100, the general index of industrial production rose from 66.5 in 1976 to 317.1 in 1990, depicting a compound growth rate of 10.9% per annum. The year 1988 witnessed a decline in the index by 8.13 % over the previous year. This was a result of the prevailing economic conditions in the kingdom which continued to affect the Jordanian economy.

The production index of food items rose from 68.5 in 1976 to 119 in 1990. Production index of textiles and footwear and leather experienced growth rates of 6.2% and 0.6% per annum respectively. The production index of fodder declined by 0.46% per annum over 15 years and other major industries such as cement, petroleum products and phosphate showed remarkable improvement in the production index, their compound growth rate being 11.7%, 5.3%, and 8.5% per annum respectively.

Contribution of industrial sector to GDP and the relative share of the major sectors towards the Gross Domestic Product can be analysed from the Table 1.2.

Mining and manufacturing industries contributed 7% of the GDP at factor cost during 1959-60. It accounted for 18% of the total growth between 1959-66 which rose to 11.1% in 1972.

The total GDP at factor cost has risen from JD 378.4 million in 1976 to JD 2275.3 million in 1990, postulating a compound growth rate of 12.7% per annum.

**Table 1.3**  
**Industrial Production Index during 1976-1990.**

	Products	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1968-75
1.	Food items	68.5	60.2	63.7	100.0	106.8	111.1	130.2	117.3	136.8	142.2	97.9	102.8	117.5	112.8	119.0	50.5
2.	Soft drinks	46.6	68.0	74.2	100.0	109.7	118.6	62.1	65.7	86.9	78.1	69.0	77.3	87.5	89.4	89.6	43.2
3.	Fodder	98.6	81.3	100.2	100.0	93.0	108.0	124.7	119.1	118.9	90.3	87.8	85.7	95.8	99.9	91.9	492.5
4.	Cigarettes and Matches	65.8	73.1	78.0	100.0	123.7	140.4	139.8	119.6	131.8	107.7	100.1	125.9	115.3	86.3	97.3	387.0
5.	Clothes and textiles	64.6	61.4	80.6	100.0	112.5	94.3	81.8	96.3	126.4	167.3	148.2	167.3	175.9	149.8	159.6	377.3
6.	Footwear and leather	98.5	105.9	119.4	100.0	99.9	102.6	98.4	104.7	107.0	108.7	118.7	113.6	121.0	98.7	107.8	947.7
7.	Plastic and sponge	49.6	77.7	158.4	100.0	99.1	102.9	108.6	99.6	92.6	89.1	114.1	107.8	122.2	92.7	102.9	29.3
	<b>CHEMICALS</b>																
8.	General	56.0	55.8	75.5	100.0	132.1	141.5	146.3	139.9	193.2	184.5	217.3	226.8	193.1	266.7	271.7	176.4
9.	Pharmaceutical	76.4	63.0	86.5	100.0	173.1	172.0	209.3	223.8	291.3	341.1	339.2	377.1	345.1	498.4	449.7	62.0
10.	Paints	45.1	67.2	78.2	100.0	92.4	103.6	109.4	122.8	120.9	113.7	95.6	105.9	99.2	89.8	109.7	20.4
11.	Detergents and soap	45.4	46.4	66.6	100.0	117.5	133.7	114.9	86.1	149.8	98.5	175.3	164.1	119.2	166.4	204.5	158.5
	<b>CONSTRUCTION</b>																
	<b>MATERIALS</b>																
12.	General	82.0	81.1	83.1	100.0	118.8	164.1	152.7	176.2	177.8	191.3	182.2	201.6	176.2	174.7	207.7	490.0
13.	Iron	77.1	78.8	80.6	100.0	106.9	169.0	158.3	173.2	139.1	165.5	173.7	183.3	162.9	147.5	146.4	401.3
14.	Cement	93.5	86.3	89.0	100.0	146.4	154.7	126.5	203.6	325.1	324.6	287.9	380.5	285.2	309.7	494.1	636.0
15.	Wood products	-	-	-	100.0	166.7	142.1	149.4	103.3	134.6	128.4	65.0	36.9	85.1	101.3	74.2	N.A.
16.	Others				100.0	104.6	164.6	170.1	212.8	205.8	155.6	115.0	86.9	117.5	159.4	185.1	N.A.
17.	Petroleum Products	70.8	72.4	87.5	100.0	105.7	126.9	146.0	144.2	144.9	141.1	134.2	140.0	137.7	140.7	154.9	288.0
18.	Phosphate	60.1	62.5	82.0	100.0	138.3	150.1	155.3	167.8	219.7	214.6	221.0	242.1	199.0	234.7	203.3	304.5
19.	Paper and cardboard	75.3	73.4	64.8	100.0	91.6	162.1	148.3	111.7	160.8	200.0	170.5	245.3	208.0	263.0	274.8	327.7
20.	Batteries	102.9	118.1	95.9	100.0	106.6	90.1	37.4	49.7	66.4	65.8	72.3	73.3	84.5	91.9	78.2	925.9
21.	Electricity	51.9	62.2	76.3	100.0	121.9	135.0	169.8	207.1	240.6	263.5	323.7	381.8	353.0	375.3	401.7	251.3
22.	General Index	66.5	69.0	84.7	100.0	119.5	139.2	143.8	150.9	181.2	185.2	187.8	205.2	188.5	197.9	205.8	317.1
	% change general index		3.75	22.75	18.06	19.5	16.5	3.3	4.9	20.1	2.2	1.4	9.26	(8.1)	4.9	3.9	

Sources : (1) Central Bank of Jordan  
(2) Industrial Development Bank Annual Reports 1976 till 1991.

During 1976-90, the services sector has maintained its supremacy with regard to its total contribution to the GDP. Its figures have risen from JD 242.8 million in 1976 (74.2% of the total GDP) to JD 1426.8 million in 1990 (62.7% of the total GDP). This has been followed by the industrial sector whose relative share has risen from JD 67.8 million (17.9% of total GDP) in 1976 to JD 504.4 million (22.16% of total GDP) in 1990. The contribution of agriculture to the total GDP has fallen from 9.9% in 1976 to 7.8% in 1990, with the relative share of the industrial and services sector soaring over the years, while the share of the construction sector to the total GDP has shown a decline by 2.09% as it becomes evident on comparing the figures of 1976 and 1990.

#### **1.7.1 The Major Industrial Production of Principal Industries**

In table 1.4, the industrial production of major industries during the time period 1976-1990 has been depicted. The main industries contributing to the country's economy are the fertilizer industry, cement industry, Textiles, Tobacco, Tannery, Soap industry and petroleum refining.

With rapid industrialization, industrial production of major industries has increased by many folds. Potash and Phosphate are the major minerals of Jordan that are being commercially exploited. The Jordanian phosphate production has risen by 8.4% per annum from 1701.8 thousand tons in 1976 to about 5748.1 thousand tons in 1990. Exploitation of potash for commercial purposes started only in 1982 when 15 thousand tons of it was produced. This has risen to 1415.1 thousand tons by 1990, depicting an annual growth rate of 65.7%. Fodder industry has shown a slight decline of 0.53 per annum between 1976 and 1990.

**Table 1.4**  
**The Major Industrial Production of Principal Industries during (1976-1990)**

	Product	Unit	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990
1.	Phosphate	1000 ton	1701.8	1769.4	2320.2	2828.1	3911.3	4243.0	4390.5	4745.5	6213.1	6067.1	6249.2	6845.4	5628.2	6635.6	5748.1
2.	Potash	1000 ton	-	-	-	-	-	-	15.0	282.8	486.0	908.2	1102.0	1203.2	1298.9	1350.7	1415.1
3.	Fodder	1000 ton	50.9	42.0	51.8	51.7	47.9	55.4	63.6	60.9	61.2	45.9	44.6	43.7	48.9	50.8	47.0
4.	Cigarettes	Mill. cig.	2224.1	2464.3	2628.0	3414.1	4188.3	4711.4	4613.7	4067.4	4341.9	3538.1	3327.7	4000.4	3704.2	2791.8	3184.8
5.	Textiles	1000 yards	915.5	869.8	1140.9	1416.7	1641.2	1308.0	1123.5	1130.6	1314.5	2249.0	2249.2	1957.9	2136.4	1617.7	1436.7
6.	Spinning	Ton	-	-	-	747.9	762.3	667.6	571.9	1151.8	1831.1	1660.3	987.0	2179.8	2002.5	905.5	1936.3
7.	Upper leather	1000 sq.ft.	2216.9	2526.8	2807.9	2448.9	2502.7	2107.4	2268.3	2334.4	2145.7	1937.8	2393.1	2140.6	2133.8	1824.1	1878.3
8.	Sole leather and wool	Ton	162.5	345.6	197.9	190.7	103.0	118.3	38.8	37.2	43.9	29.3	18.1	34.4	58.1	76.9	87.9
9.	Fertilizers	1000 ton	-	-	-	-	-	-	116.4	301.6	541.0	510.5	551.1	604.0	615.8	602.7	595.8
10.	Chemical acids	1000 ton	-	-	-	-	-	-	-	632.5	1194.6	1007.6	1024.8	1103.2	1157.0	1169.5	1135.5
11.	Detergents	1000 ton	5.0	6.0	7.0	10.6	15.3	18.8	15.2	12.7	25.5	15.0	28.1	25.9	16.8	25.4	32.5
12.	Cement	1000 ton	582.4	537.6	553.0	623.2	912.7	964.7	788.4	1269.0	2026.3	2022.9	1794.7	2371.6	1777.6	1930.0	2786.5
13.	Iron	1000 ton	62.4	63.8	65.3	81.0	86.2	134.9	192.7	209.9	164.9	198.4	209.6	217.0	194.3	176.5	179.1
14.	Metallic pipes	1000 ton	-	-	62	10.8	11.8	15.8	12.5	12.9	14.7	14.2	12.5	18.5	15.6	14.0	9.6
15.	Petroleum products	1000 ton	1145.0	1145.5	1396.6	1612.4	1760.0	2126.0	2463.9	2499.0	2510.9	2423.9	2257.1	2404.5	2316.0	2335.1	2593.8
16.	Paper and card board	1000 ton	5.4	5.2	4.6	7.1	8.8	15.4	15.0	11.9	18.0	21.1	15.1	20.5	17.2	22.3	22.6
17.	Liquid Batteries	1000 Batt	47.0	51.0	44.3	62.9	66.3	57.3	40.4	36.5	50.1	49.6	55.7	54.4	63.2	68.4	59.5
18.	Electricity	Mill KWH	386.0	551.4	649.1	842.1	1051.4	1174.9	1387.2	1699.9	1967.0	2154.0	2646.8	3123.8	2887.1	3061.5	3284.8

Source : (1) Central Bank of Jordan Statistical Series (1964-1993) Oct. 1994  
(2) Industrial Development Bank Annual Report. 1980, 1985-1991.

The production of fertilizers on a national scale was started only in 1982 with 116.4 thousand tons of fertilizer being produced that year. Production has risen by 19.8% per annum achieving a target of 595.8 thousand in 1990. Another major industry of Jordan that has occupied an eminent position in the industrial sector has been the cement industry. Extraction of cement has soared remarkably from 582.4 thousand tons in 1976 to 2786.5 thousand tons in 1990, experiencing a compound growth rate of 10.9% per annum. Petroleum products manufacturing also exhibited a continuous expansion between 1976 and 1990 by 5.6% per annum. A similar trend can be noticed with regard to other industries also.

Industrial sector witnessed an overall improvement in its activities during the first seven months of 1990. This was reflected in the increase of production of major industries. Government measures helped to facilitate exports of products of many industries succeeding in boosting exports to neighbouring countries. Notwithstanding the improvements in the industrial sector activities during their first few months of 1990, the Gulf Crisis inflicted great losses on the sector. 80% of Jordan's exports were halted, excluding phosphate, potash and fertilizers. The industrial production of some of the major industries during 1990 declined sharply in comparison to its production in 1989. Phosphate declined by 15.4%, textiles by 12.5% and fertilizer by 1.15% over the previous year. Production of potash, leather, cement and petroleum products were not much affected.

## 1.8 FINANCIAL STRUCTURE OF JORDAN (1964-1990)

Smooth and efficient operation of the economic system pre-supposes the existence of an organised and integrated financial structure. While the primary function of financial institutions in the monetary economy remains that of providing necessary funds to finance the production process. It also becomes crucial that adequate resources are diverted into those investment areas which contribute most effectively to economic development. Hence, for self sustained economic growth, it becomes crucial that financial institutions participate actively in the development effort.

The pace of industrial growth in Jordan has not been commensurate with the size and demand of the country. The main reason being the paucity of adequate funds for financing industries. The ability of a firm to raise funds is significantly dependent upon government purchases of shares, loans by semi-public IDB, banking regulations channelling commercial banks lending to the industrial sector as well as grant of monopoly or tariff protection.<sup>(20)</sup>

The financial system of Jordan has passed through successive stages of development since the establishment of the Kingdom in 1946. This evolutionary impact on the financial system has been directly associated with the overall development of the economy. A brief introduction on the financial institutions has been considered necessary before the aspect of industrial finance is dealt with in detail in the following chapters.

### **1.8.1 The Central Bank of Jordan :**

For the first time in 1950, steps were taken to create a new Currency and establish the Jordan Currency Board (JCB). However, the JCB had “none of the functions of a monetary authority with no powers for implementing monetary policy ”

Therefore, on October 1<sup>st</sup> 1964, the functions of the JCB were given to the newly established Central Bank of Jordan (CBJ). Earlier with the enactment of law - 4, 1959, the government of Jordan recognising the importance of an independent central bank got the CBJ established. This Bank has been endowed with the responsibilities of regulating currency issuance, maintenance of a stable exchange rate and regulation of banking activities. The CBJ acts as a banker to the government, supervises banking operations and engages in open market operations. The CBJ has been given the sole right of currency issuance, represents the monetary authority in the kingdom and enjoys the status of an autonomous corporate body. The headquarters of the CBJ are located in Amman.

Beside performing banking activities, the CBJ has also undertaken the task of enhancing the economic activities of the country. This developmental role has been manifested in its abilities to create financial institutions.

The bank is authorized to see that minimum liquid asset ratios are maintained by the commercial banks. The CBJ has been authorized to purchase, sell and rediscount credit instruments of commercial banks. Yet another monetary policy of the Bank is to encourage saving by citizens and its utilization in production as well as attract foreign investment.

### **1.8.2 Commercial Banks :**

Commercial Banking in Jordan began with the opening of a branch of the Ottoman Bank, a British entity in Amman in 1925. In absence of a central bank, the Ottoman Bank acted as a fiscal agent of the Government. In 1936, the Arab Bank which had its head office in Jerusalem opened a branch in Amman. In 1948, the head office of the Arab Bank was shifted to Amman. Since then banks have experienced a steady growth with development of economic activities in the country. By the end of 1992, 20 licensed banks were operating in Jordan, of which 9 were commercial banks.<sup>(21)</sup>

In Jordan, the Commercial Banks are privately owned and allocation of commercial bank finance is in the hands of the banks itself and not the government. Nevertheless, commercial banks are the major sources of credit in the economy. The market for banking services in Jordan has been described as competitive, the market being far less oligopolistic than that of most European countries.<sup>(22)</sup>

Domestic needs of commercial bank services has increased rapidly in recent years, specially with the rapid growth of the Jordanian Economy. Banking habits have been strongly imbibed by the affluent class as well as small upcoming businesses with a greater confidence being placed on the commercial banks. The commercial banks satisfy the short term needs for credit.

Banks have to be licensed by the CBJ before they can operate in Jordan. They are also made to comply with the CBJ regulations with respect to their activities. No new branches can be opened without the permission of the CBJ.

### 1.8.3 Specialized Credit Institutions (SCI)

The SCIs are quasi-governmental institutions established with the intent of providing medium and long term loans to industries thereby assisting in the economic and social development of Jordan. Six such SCJs serve various sectors of the economy which include :

- (1) The Agricultural Credit Corporation (A.C.C.)
  - (2) The Industrial Development Bank (I.D.B.)
  - (3) The Cities and Villages Development Bank (CVDB)
  - (4) The Jordan Co-operative Organization (J.C.O.)
  - (5) The Housing Bank (H.B) and
  - (6) The Housing Corporation (H.C.)
- The earliest SCI to establish itself was the ACC in 1960 with the primary purpose of providing finance for various agricultural activities of the country.
  - The IDB was set up in July 1965 with the aim of assisting the manufacturing and tourism sectors by granting loans of a medium or long term nature for a period extending 3 to 15 years.
  - Next to be established was the Cities and Villages Development Bank in 1966, its major function being to grant long term loans to municipalities and the rural councils.
  - The Jordan co-operative organization was established in 1968 to promote the co-operative movement in Jordan. It now supplies loans to co-operative societies at varying rates of interest.

- The Housing Bank was established in 1974, its major objective being the provision of long term loans for buying or building residential houses and apartments.
- The Housing Corporation established in 1965 also helps in combating the housing problem in the country.

#### **1.8.4 The Amman Stock Market :**

The setting up of the Amman Stock Market (ASM) has been one of the most noteworthy developments in the financial sector of Jordan. Today the ASM is a government agency which is given the power of financial and administrative independence. The market functions as a place for organizing and facilitating trading of securities in the secondary market.

Besides, the ASM functions as one of the main controlling bodies of new issues in Jordan. The market also attempts at being approachable by the people so that their savings may become worthwhile, thus promoting the interests of the national economy.

A major development of this market has been the expansion of investment to the private sector institutions and individuals to invest in industrial, tourism and financial projects.

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