

## CHAPTER II

### HISTORICAL CORRELATES AND THE CONTEXTUAL PROFILE OF JORDANIAN ECONOMY

#### 2.1 History of Jordan

The history of modern Jordan is very recent. The state of Transjordan came into being in 1921 under the rule of Hussein's second son Abdullah, who, with the help of Winston Churchill (the then British Secretary of State for the Colonies) became the king of Transjordan. Though his independent Kingdom of Transjordan was announced on 26th May, 1923, Britain however retained the military and some financial powers, and asked the king to establish a constitutional government with an elected legislative council. Abdullah had a few problems to control the revolting Bedouins. With the solid military force of F.G. Peake Pasha and John Bagot Glubb Pasha, the state of Transjordan became internally and externally powerful after controlling the Bedouins.

Britain recognized Transjordan as a fully independent state in March 1946 under the treaty of London. In 1948 the League of Arab States took part in the Arab-Israel war and occupied a considerable portion of Palestine. The ruling dynasty adopted its official name as The Hashemite Kingdom of Jordan<sup>1</sup>. An armistice agreement between Jordan and Israel was signed in April 1949. Consequently Jordan faced crucial economic and political problems.

Some of the immediate problems faced were the following:

- The problem of half a million refugees because of the establishment of the State of Israel which made these people homeless.
- Loss of territory and consequent sustenance of people because of the occupation of West Banks in June 1967 by Israeli military forces<sup>2</sup>
- Because of the influx of the refugees the scanty resources became scantier and dependence on outside economic aid increased.

King Abdullah was assassinated in June 1951. As Talal, King Abdulla's son was mentally incompetent to establish the order necessary for a strong government, sixteen year old Hussein, Talal's son was chosen as his successor. King Hussein dismissed the British commander of the Arab legion, Glubb pasha in March 1956 and dismissed the cabinet, abolished all political parties and aligned himself with Iraq to neutralise the advance of Egypt across the Jordan river and the part of Aqaba in April 1956. However Jordan's honeymoon did not last long with Iraq when it separated itself from Iraq in 1958 due to the fall of regime in Iraq, mainly because the rulers of both the countries were cousins belonging to the Hashemite family. It was therefore not possible for the regime of Jordan to continue its alignment with the new government of Iraq. Consequently Jordan continued to be under political tension which in turn aggravated various economic problems.

However, during 1960s Jordan achieved economic progress and sectors like industry and communications developed. This was adversely affected as a consequence of Israeli attack on Egypt in June 1967. Subsequently Jordan got involved in the war as a front line state with Israel. The war resulted in Israeli military occupation of the West Bank of Jordan. The problem got further aggravated by the influx of more than 0.3 Million Palestinian refugees in Jordan. On 21 March 1968 Israel was defeated at the Battle of Karamah by the Jordanian army under the leadership of king Hussein.

Two years after the Karamah Battle, Palestinian guerrillas tried to overthrow the regime and hold a government to fight Israel. However they were defeated by Jordanian army in 1970 after a civil war in Jordan.

During 1970s the Arab Gulf region witnessed the oil boom. Jordan was benefitted because of the remittances of the Jordanian workers abroad and also aids from the Arab Gulf countries. Because of these reasons Jordan achieved economic prosperity during the 1970's. The Aqaba port thus became an important source of transportation of goods to Iraq during 1980-88. However, the administrative and legal ties with West Bank got severed in July 1988, because the Palestinian people in West Bank were offered to rule themselves. The elections to the Parliament were held to adopt a democratic form of government in the country and the National Charter was drafted in April 1990<sup>3</sup>. Soon Jordan had to face political and economic difficulties due to the Gulf Crisis in 1990-1991. Consequently, the country was on the brink of war and lost its political relations with many friendly countries as

well as some of the fraternity in the Arab countries. The Gulf crisis created economic problems, related to social service sectors. Returnees also aggravated the problem of unemployment in the country. The major political crisis however has been solved, because of the peace treaty with Israel and now the Government is looking forward to make faster economic development.

## **2.2 Geopolitical Aspects**

Jordan is situated off the south eastern shores of the Mediterranean between longitudes  $34^0$  -  $52^0$  North and  $39^0$  -  $12^0$  East and extends eastwards into the Arabian desert. Jordan is a hilly and generally arid country with a land area of about 97 thousand square kilometers and a population of about 4 million. Eighty four percent of the total land area is desert, and the population is therefore concentrated in the North West around the capital city of Amman in about 11.4 percent of the total area of the land. On the western border in the central part there exists the Dead Sea, the lowest area in the world (about 1300ft below mean sea level). The Jordan river cuts across Israel and Jordan on the North West border. The country is land locked from all sides except for one access to the Gulf Via Aqaba port, which is located at the tip of the southwestern corner. The North-Western parts are cultivable, while the eastern and southern parts are desert plateaus<sup>4</sup>.

The neighbouring countries of Jordan are Syria (North), Iraq (East), Saudi Arabia (South) and Israel and Palestine (West). The

important cities in Jordan are Amman, Zarqa And Irbid. The principal river is the Jordan river, which flows through the Jordanian territory for 156 km and falls into the Dead Sea, which is 65km long and 15 km wide with a surface salinity seven times higher than that of an ocean.

### **2.3 Economy of Jordan**

Jordan is one of the scarcely endowed countries of the world in natural resources. It is one of the 39 lower middle incomes countries of the world, which has a free market economy and private enterprises<sup>5</sup>.

Foreign assistance has played an important role in Jordanian economy. It has accounted for a considerable part of the rise in employment and the increase in the national product since 1952<sup>6</sup>. United Nations Relief and Works Agency play a key role in stabilizing agricultural income through the purchase of wheat, the major cash crop of the nation. Government sponsored improvements in agricultural techniques have also increased the production of certain crops. Besides other economic and political problems, Jordan throughout its history, has had numerous problems in the field of agriculture mainly due to excessive fragmentation of land. Apart from poor agricultural base , the industrial sector has not developed much. There are few industries mainly cement, phosphates, textiles etc. It is the service sector which contributes the maximum to the national product and here it is public administration, social services etc which is predominant. In the last 25 years, one hardly finds structural transformation of the economy which can sustain the

growth process. Basically Jordanian economy can be classified as urbanized, service based economy with backward commodity producing sectors.

### **2.3.1 Gross National Product**

The Gross National Product at current prices grew significantly during the period 1968-1993. It rose from Jordanian Dinars (JD) 166.4 million in 1968 to JD 3459.2 million in 1993. The annual average growth rate of Gross National Product at market prices between the years 1976 and 1993 was 9.1 percent.

The information contained in table 2.2 is on major economic indicators at constant prices. It can be seen from the table that information is at different base years, hence they are not comparable.

The Gross National Product at constant prices achieved high growth rate during the period 1975-1979 as the growth rate was 13.3 percent per annum. However the period 1980-1985 was of economic recession. The growth of Gross National Product at constant prices was 4.6 percent. During 1986 to 1994 Jordan experienced two economic crises. The economic crisis of 1988 as described earlier, which resulted in a sharp decline in foreign exchange reserves due to reduction in remittances, and Arab financial assistance. Thus Jordanian Dinars lost 60 percent of its value in 1990. The other was the Gulf crisis in 1990-1991. Consequently, the annual average growth rate was negative during this period.

### **2.3.2 Gross Domestic Product**

The Gross Domestic product at current prices rose from Jordanian Dinars (JD) 156.1 million in 1968 to JD 3595.7 million

by 1993 (see table 2.1). It increased during 1976-1993 at a rate of 9.8 per cent per annum. During 1986-1994, Gross Domestic Product at constant prices increased only at a rate of 1.5 per cent per annum. Per capita income at 1985 prices declined from 1170.6 JD in 1986 to 948.7 JD 1992. The rate of growth therefore was negative, i.e. -5.7 per cent per annum.

### 2.3.3. Investment

Foreign Investments in Jordan have been encouraged since 1973. Since 1977 Jordan has also encouraged the establishment of Merchant and Investment banks<sup>7</sup>. Arab - Jordanian investment Bank was established in April 1978, though capital Arab - Finance Corporation, and Lebanese Arab Finance Group had been set up in January 1971<sup>8</sup>.

The rapid growth of investment caused the ratio of Gross Domestic Fixed Capital Formation to Gross Domestic Product (at factor cost) at current prices to rise from 21.6 percent in 1973 to 43.8 percent in 1980. However from 1982 onwards one finds a decline in the ratio and it was 22 percent in 1985. Thereafter there was a rise and in 1993 it was 42 percent (based on table 2.1). The Gross fixed capital formation grew at an annual rate of 8.3 percent (1976-1993) at current prices (Table 2.1). However at constant prices gross fixed capital formation grew at an annual average growth rate of -1.7 percent during 1980-85. The growth rate was also unsatisfactory during the period 1986-1994. It was negative, -0.7 percent. Thus due to decline in investments Jordanian economy suffered, as higher rate of investment is necessary for growth.

As a consequence of the peace treaty with Israel, Jordan expects foreign investment to sustain its economic growth. Now hundred percent foreign ownership of local enterprises is permitted by law and industrial Free Zones have been established. The present government which has been formed in the beginning of 1996 aims to introduce structural changes in order to achieve economic and social prosperity. The new government is also trying to improve its relations with neighbouring countries. The Arab countries like Saudi-Arabia and Kuwait in all its likelihood would open their markets for Jordanian exports. Hence in the future the economy is expected to achieve higher growth.

#### 2.3.4 Agriculture

Agriculture sector is relatively backward and underdeveloped in Jordan. Out of the total area of 92 lakh hectares, 88 percent is desert and per capita arable land is less than an acre, and the farming is mostly of a subsistence kind.

The annual average growth rate of agriculture at current prices was 10.1 percent during 1976-1993. The agriculture production was 35.2 JD million in 1976 which increased to 244.9 JD million in 1993. (see table 2.1). Its share in GDP was 7.3 percent in 1976 which increased to 8 percent in 1993.

At constant prices, (Table 2.2) during 1975-1979 the annual average growth rate of Agriculture was the lowest among all the other sectors of the economy. During 1980-1985, and 1986-1994, it was the highest among all the sectors. This might be due to a low base and partly due to less dependence of this sector on



external economies. The share of Agriculture in Gross Domestic Product at factor cost increased from 4.9 percent in 1986 to 7.3 percent in 1994. From 1987 onwards the share has remained around 6 or 7 percent, except in 1990, when it was 9 percent.

The relatively lower share of Agriculture to Gross Domestic Product can be attributed to small portion of cultivable land and the shortage of fertile land and inadequate irrigation facilities.

#### 2.3.5 Industry

Industrial potential in Jordan is limited due to scarcity of fuel resources and raw materials. The principal industries are phosphates, cement, textiles, chemicals and oil refining. Most of these industries are raw material based and traditional.

The high cost of transportation and lack of skilled labour and managerial personnel were obstacles for the Jordanian industry during the fifties<sup>9</sup>. Despite these handicaps, the industry in Jordan has progressed more in relation to agriculture.

The upcoming industries consist of cigarettes, cosmetics, textiles, shoes, plastic products, leather tanning, pharmaceutical products, iron pipes, detergents, aluminium and ceramics.

The annual average growth rate of industrial production at current prices was 9.4 percent during 1976-1993 and the share of industry to Gross Domestic Product was 26.5 percent and 26.2 percent in 1976 and 1993 respectively (see table 2.1). Throughout the period of 1976-1993 it ranged between 25 to 30 percent.

The annual average growth of industry at constant prices of 1975 was 13.3 percent during 1975-79. The growth rate during 1980-1985 was 4.0 percent at 1980 prices and was 2.5 percent per annum during 1986-94 at 1985 prices. The growth rate was thus higher than that of service sector, but lower than that of agriculture during 1980-1985 and 1986-1994 (Table 2.2).

The share of industry in Gross Domestic Product was 25.3 percent in 1975 which was next to service sector. The share remained around 27.6 percent during 1986-94.

Jordan has shown considerable progress in the industrial field. It is hoped that there will be significant development in the industry because of its economic co-operation with Israel in near future.

#### **2.3.6 Services**

The annual average growth rate in the services sector at the current prices was 10.4 percent during 1967-1993 (Table 2.1). The share of services to Gross Domestic Product was 66.2 percent in 1976 and did not show changes. It was 65.8 percent in 1993.

The annual average growth rate at constant prices was 12.0 percent during 1975-1979 which was slightly less than that of the industrial sector. During 1980-1985 and 1986-1994, the growth rate was the lowest among all the sectors of the economy.

The Share of services sector to Gross Domestic Product at factor cost at constant prices constitutes more than two thirds of GDP, e.g., 65.1 percent which remained the same in 1994 (see table 2.2). Thus service sector is the largest contributor to the national income of Jordan.

Table 2.1 : Major Economic Indicators of Jordan, 1968-1993 (at Market Prices, in JD Million)

Year	GNP	GDP	GDP at Factor Cost	Gross Fixed Capital Formation	Agriculture to Sector	Agr. as % to GDP Fac. Cost	Industrial Sector	Inds. as % to GDP Fac. Cost	Service Sector	Service % to GDP Fac. Cost	Per Capita Income JD	Population * (in '000s)
1	2	3	4	5	6	7	8	9	10	11	12	13
1968	166.4	156.1	-	-	-	-	-	-	-	-	118.1	1409.0
1969	197.4	183.4	-	-	-	-	-	-	-	-	135.4	1457.8
1970	187.0	174.4	-	25.2	-	-	-	-	-	-	124.0	1508.2
1971	199.4	186.2	-	30.7	-	-	-	-	-	-	127.7	1562.0
1972	221.0	204.2	-	36.3	-	-	-	-	-	-	136.6	1617.5
1973	241.0	218.3	-	47.2	-	-	-	-	-	-	143.9	1675.1
1974	279.5	247.3	-	63.2	-	-	-	-	-	-	161.1	1735.0
1975	376.0	312.1	-	87.9	-	-	-	-	-	-	207.7	1810.5
1976	562.4	421.6	479.7	138.0	35.2	7.3	127.1	26.5	317.4	66.2	297.7	1889.3
1977	660.1	514.2	565.3	197.0	39.8	7.0	147.3	26.1	378.2	66.9	334.8	1971.6
1978	781.0	632.2	668.5	229.1	60.5	9.1	175.9	26.3	432.1	64.6	379.6	2057.5
1979	921.3	753.0	842.0	294.6	50.4	6.0	233.7	27.8	557.9	66.3	431.9	2133.0
1980	1183.6	1151.2	1033.5	452.9	72.9	7.1	308.8	29.9	651.8	63.1	534.4	2215.0
1981	1484.2	1426.7	1267.8	672.6	69.7	5.5	385.3	30.4	812.8	64.1	645.3	2300.0
1982	1702.5	1638.1	1466.0	649.4	81.6	5.6	442.9	30.2	941.5	64.2	712.6	2389.0
1983	1815.0	1765.8	1543.2	570.0	97.2	6.3	448.3	29.1	997.7	64.7	731.6	2481.0
1984	1905.0	1891.4	1677.5	546.6	79.6	4.7	504.1	30.1	1093.8	65.2	739.5	2576.0
1985	1965.1	1969.8	1732.5	385.2	84.4	4.9	466.8	26.9	1181.3	68.2	734.6	2675.0
1986	2097.3	2114.6	1772.2	410.3	96.2	5.4	450.7	25.4	1225.3	69.1	755.0	2778.0
1987	2112.5	2162.7	1832.4	468.4	126.6	6.9	455.0	24.8	1250.8	68.3	732.2	2885.0
1988	2129.9	2218.4	1901.4	508.2	114.5	6.0	448.4	23.6	1338.5	70.4	710.9	2996.0
1989	2206.4	2329.9	2068.1	547.4	131.7	6.4	568.7	27.5	1367.7	66.1	709.2	3111.0
1990	2375.9	2612.5	2275.3	691.4	179.6	7.9	668.9	29.4	1426.8	62.7	692.5	3431.0
1991	2559.1	2779.4	2420.1	608.7	174.3	7.2	656.3	27.1	1589.5	65.7	698.6	3663.0
1992	3135.8	3234.2	2759.6	980.2	220.4	8.0	750.7	27.2	1788.5	64.8	824.3	3804.0
1993	3459.2	3595.7	3077.2	1303.5	244.9	8.0	807.5	26.2	2024.8	65.8	875.7	3950.0
Anul.Avg.	9.1	9.8	9.7	8.3	10.1		9.4		10.4		4.8	4.3
Growth Rate												
1976-1993												

Note : 1) \* Excludes the population of West Bank

2) Anul.Avg. Growth Rate = Average Annual Continuous Rate of Growth in this and all the other tables.

Sources : 1. Central Bank of Jordan, Yearly Statistical Series - Special Issue, (1994)

2. Central Bank of Jordan, Monthly Statistical Bulletin - Vol.31, No.8, August 1995.

3. Amman Chamber of Industry, Jordan Facts and Figures, 1992-1994-1995.

4. Dr. Issa Ibrahim, Study of Current Status and Future of Jordanian Labour Market, Part 3.

5. Royal Scientific Society (RSS), 1989. (For Population data 1968-87 and GNP data 1968-74), Jordan.

Table - 2.2 : Major Economic Indicators of Jordan, 1975-1994 (at Constant Prices in JD Million)

Year	GNP	GDP	Gross Fixed Capital Formation	Agriculture Sector	Agr. as % to GDP Fac. Cost	Industrial Sector	Inds. as % to GDP Fac. Cost	Service Sector	Service % to GDP Fac. Cost	Per Capita Income JD
1	2	3	4	5	6	7	8	9	10	11
(at 1975 Prices)										
1975	368.0	269.0	-	26.0	9.7	68.0	25.3	175.0	65.1	203.3
1976	476.5	294.0	-	32.7	11.1	77.0	26.2	184.3	62.7	252.2
1977	503.2	324.5	-	34.2	10.5	82.9	25.5	207.4	63.9	255.2
1978	566.6	379.8	-	39.7	10.5	96.9	25.5	243.2	64.0	275.4
1979	623.5	429.8	-	34.1	8.2	117.8	27.4	276.9	64.4	292.3
(at 1980 Prices)										
1980	1189.2	893.2	397.8	69.4	7.8	281.7	31.5	542.1	60.7	536.9
1981	1344.8	948.3	517.5	73.1	7.7	314.7	33.2	560.5	59.1	584.7
1982	1442.3	1004.4	533.7	76.1	7.6	322.9	32.1	505.3	50.3	603.7
1983	1506.0	1035.8	455.6	94.8	9.2	323.7	31.3	617.3	59.6	607.0
1984	1541.6	1064.0	419.8	79.9	7.5	352.8	33.2	631.5	59.4	598.4
1985	1501.5	1096.2	414.5	97.5	8.9	347.1	31.7	651.5	59.4	561.3
(at 1985 Prices)										
1986	3252.0	1779.0	419.0	86.7	4.9	482.9	27.1	1209.0	68.0	1170.6
1987	3348.0	1884.0	488.0	116.1	6.2	479.0	25.4	1249.2	66.3	1160.5
1988	3403.0	1857.0	478.0	140.4	7.6	448.8	24.2	1267.2	68.2	1135.8
1989	2898.0	1663.0	378.0	113.4	6.8	474.5	28.5	1074.8	64.6	931.5
1990	2974.0	1659.0	380.0	149.8	9.0	473.0	28.5	1036.2	62.5	866.8
1991	2992.0	1689.0	366.0	129.7	7.7	470.1	27.8	1089.1	64.5	816.8
1992	3607.0	1844.0	515.0	143.0	7.8	529.0	28.7	1172.4	63.6	948.7
1993	-	2013.4	-	154.3	7.7	550.5	27.3	1308.6	65.0	-
1994*	-	2127.5	-	155.8	7.3	586.7	27.6	1385.0	65.1	-
Anul. Avg. Growth Rate										
1975-1979	13.3	11.9	-	7.9		13.3		12.0		8.1
1980-1985	4.6	4.0	-1.7	6.3		4.0		3.7		0.9
1986-1994**	-0.2	1.5	-0.7	5.6		2.5		0.9		-5.7

Notes : \* Preliminary Estimates based on figures of Economic and Financial Situation Evaluation Committee constituted under the Economic Adjustment Programme.

\*\* Shows growth rate for 1986-1992 or 94 depending upon the data.

Sources : 1. Central Bank of Jordan, Annual Reports 1977 to 1986.  
 2. Central Bank of Jordan, Monthly Statistical Bulletin, Vol.31, No.8, August 1995.  
 3. Ministry of Planning, Five Year Development for Economic and Social Development, 1986-1990.  
 4. Ministry of Planning, Economic and Social Development Plan, 1993-1997, (Tables 1 and 2).

### 2.3.7 International Trade

Prior to the oil boom in 1973, the middle East markets were not important in terms of world trade. The trade sector improved in the whole region of the middle east after the oil boom. Due to economic prosperity in the region, Jordan's trade with neighbouring countries improved but could not fill the widening gap between exports and imports. Trade deficit has been a characteristic feature of Jordan's balance of payment.

The value of exports (FOB - Free On Board) rose from US \$ 34 million in 1970 to US \$ 402 million in 1979<sup>10</sup>. This occurred due to hike in oil prices and increase in the demand for Jordanian Food Stuff (eg. Fruits and vegetables) by neighbouring Arab countries. Other factors which had favourable effect on Jordan's exports were Arab common market preference, low tariff markets in the oil exporting countries, bilateral agreements with Jordan and in addition to these geographical proximity of Jordan to various nearby countries.

The imports during the 70s surpassed the exports as the imports (CIF - Cost Including Freight) rose from US \$ 185 million in 1970 to US \$ 731 million in 1975 and to US \$ 1.949 billion in 1979<sup>11</sup>.

After 1982, international trade of Jordan was affected by the regional recession, which was when the oil prices crashed. By the end of five year plan of 1986-1990, the gross annual growth rate of commodity exports reached only 6.8 percent, against 28

percent envisaged by the plan. Also the actual annual growth rate of commodity imports amounted to 3.9 percent, in contrast to 13.8 percent projected in the plan<sup>12</sup>.

In the begining of <sup>the</sup> 90s exports suffered heavily due to Gulf crisis as 40 percent of total domestic exports were directed to the Gulf states before invasion of Kuwait<sup>13</sup>. During the recent years Jordanian exports have risen. They grew by 16 percent during 1993-1994<sup>14</sup>. Jordan has given more importance in developing potash industry as it is considered to be one of the major items of exports. It contributed 13 percent of total Jordanian exports during 1996 and about 3 percent of Gross National Product (GNP) during the same year<sup>15</sup>.

The terms of trade in Jordan are effected by economic factors in the region mainly due to the fluctuation in the oil prices. Inspite of improvement in the Jordan's' export the trade deficit remains enormous. In future Jordan can improve its position through increasing exports of agro based products and potash etc.

#### **2.4 The Impact of Gulf War of 1990-1991 on Jordanian Economy**

The Jordanian economy witnessed two economic crises during the period 1988-1991. The first one was in 1988 and the second one was in 1990-1991 due to the Gulf war. The impact of these has been damaging to Jordanian economy.

During 1988-91 the country had to devalue Jordanian Dinnar, due to a sharp decline in the foreign exchange reserves with the central Bank. There was a drop in Arab financial assistance, and also in the remittances of the Jordanians working abroad. Exports to Arab countries also declined. During this period of economic crisis the government was not able to serve its foreign debt, and there was a sharp decline of 9.1 percent in real Gross Domestic Product<sup>16</sup>. So was the case of the most macro-economic indicators. As a result of this economic castastrophe, an economic structural adjustment programme was formulated in co-operation with the International Monetary Fund (IMF) and International Bank for Reconstruction and Development (IBRD) to revitalize economic activity and to overcome the economic crisis. In August 1990, the economy faced another crisis of war due to which Real Gross Domestic Product decreased and the adjustment programme came to a halt.

The first casualty of the Gulf War was the 'Economic Adjustment Programme' which Jordan embarked upon in 1989. A team of United Nations experts in cooperation with Jordanian Authorities put losses at U.S. \$ 1.3 billion for the year 1990. Foreign exchange losses emanating from Jordan's adherence to Security Council Resolution (No. 661 of 1990 which imposed economic embargo on both Iraq and Kuwait) were estimated at U.S. \$ 728 million. Some more losses amounting to \$568 million resulted from the cessation of Arab official budgetary support. Moreover, Jordan was unable to disburse loans extended from Kuwait - based development funds<sup>17</sup>.

The outbreak of the Gulf War in 1990-91 affected the following economic variables.

**i) Imports**

It was projected that if alternative oil sources from any other sources except Iraq were sought, Jordan's losses would be around U.S. \$ 115 million at the price of U.S. \$ 35 per barrel. It may be noted that Jordan procures about 80 percent of its oil supplies from Iraq. Jordanian imports of the Saudi oil were greatly impaired by the Gulf Crisis, as oil supplies through pipes were halted.

Another consequence of the war was an enormous rise in the cost of freight and insurance. It became expensive to ship phosphates, potash and fertilizers on the return trips of their vessels carrying Cargo to Aqaba port.

**ii) Exports**

During this period Jordan's losses in commodity exports were put at approximately U.S. \$ 229 million, resulting from the loss of Iraqi and Kuwaiti markets which absorbed about 26 percent of total exports. The Iraqi market used to receive 20 percent of total Jordanian exports. During the Gulf War, Jordan's losses of exports to other countries of Gulf Co-operation Council (GCC) were estimated at 40 percent of the total export of Jordan due to the partial closure of the Gulf markets and the serious reduction in agricultural exports to the Gulf countries.



### iii) Services

The direct losses in services sector were estimated at U.S. \$ 674 million. There were additional losses in services sectors such as in the remittances of Jordanians working abroad. Such losses are considered enormous for a modest economy like that of Jordan as services sector is the largest contributor to Gross Domestic Product and has approximately 50 percent share in foreign exchange earning.

### iv) Tourism

The loss in tourism sector was evaluated at U.S. \$ 274 million. The influx of tourists was practically stopped during war because Jordan had become an 'unsafe' country due to its vicinity to Iraq which was directly involved in the war.

### v) Transportation

As for transport sector and transit trade, the loss was estimated at U.S. \$ 138 million. This was due to the cessation of exports and transit trade to Iraq, Kuwait and Saudi Arabia. The transit sector constituted 12 percent of Gross National Product in 1989.

As for land transport, 3000 trucks of different sizes and 1200 refrigerator trucks stopped operating following the crisis - a consequent loss worth U.S. \$ 425 million. Other 3000 trucks owned by Jordanian nationals but registered in the neighbouring countries also had to cease working.

Maritime transport through Aqaba port - the sole Jordanian sea outlet - suffered great losses. Shipping companies started charging beneficiaries U.S. \$ 25 thousand per week for each ship coming to Aqaba.

Air transport suffered due to the sudden rise in insurance fees, and the decreasing number of passengers passing through and from Jordan and cancellation of all trips to Baghdad, Kuwait and other Gulf States.

#### vi) Government Budget

The government budget was severely hit by the crisis as evidenced by the reduction of revenues especially that from foreign aid and loans. The budgetary situation was further aggravated by the allocation of emergency expenditures to cope up with the influx of returnees both Jordanians and others.

The flow of financial assistance from Kuwait and Saudi Arabia was stopped. The estimated loss due to this flow was of U.S. \$ 310 million.

#### vii) Balance of Payments

Prior to the Gulf crisis (1990-1991), Jordan had a comfortable balance of payment situation throughout the period 1985-1989 as shown below.

OVERALL BALANCE OF PAYMENTS				
POSITION OF JORDAN, 1985-1989 (\$ Million)				
1985	1986	1987	1988	1989
-41.9	42.5	141.3	203.9	464.7

During the first seven months of 1990, the figures of the balance of payments were satisfactory. The current account achieved a surplus of JD 123 million during this period. However the adverse effects of the Gulf crisis on various economic activities led to a daily deficit in the current account of JD 285 million for 1990, which was 11.1 percent of Gross Domestic Product in comparison with 2.0 percent as projected in the program. The current account in the first seven months of 1990 achieved surplus in the balance of services on one hand and the deficit of the balance of trade on the other. The Gulf crisis created a chain of losses with a serious bearing on Jordan's balance of payments in 1990.

#### **2.4.1 Gravity of The Problem of Returnees**

The influx of thousands of Jordanians from the Arab Gulf States<sup>18</sup>, particularly Kuwait overburdened the government of Jordan by providing additional basic social and economic services and provisions to the returnees.

The country received about three lakh returnees from the Arab Gulf States mainly from Kuwait. Of these about 70000 belonged to the labour force, of whom about 35000 i.e., one half remained unemployed during 1991. The unemployed returnees accounted for 27 percent of total unemployment rate. There was thus an increase in a short time in the unemployment rate from 5.1 percent to 18.8 percent in 1991<sup>19</sup>.

The impact was felt even more deeply in the labour market as the returnees further worsened existing high rate of unemployment which prevailed before the crisis.

In addition to this, the cessation of the inflow of remittances of such returnees adversely affected their relatives living in Jordan, which was further adversely affected by the influx of a huge number of Asians and Egyptians (including Indians)<sup>20</sup>, who had been working in Kuwait and Iraq before the crisis to Jordan during the war. Approximately 8 lakh of them crossed over to Jordan between August and November 1990.

Available data showed that Jordan incurred an expenditure of approximately U.S. \$ 48 million to provide them with shelter, food, transport and adequate medical and human assistance. One of the negative results of the temporary stay of these displaced people, was the deterioration of environmental and public health conditions, which were already under heavy pressure.

The normal domestic revenues were far lower than expected, the foreign assistance decreased and the public expenditure dampened because of revenue-crunch. Consequently, the demand for labour inadvertently decreased due to the decline in government developmental expenditure<sup>21</sup>.

There is no wonder why Jordanian government and the economists regard the problems related to labour market as the most important ones in the context of the state of the Jordanian economy.

#### 2.4.2 Partial Solution of the Crisis

To alleviate the financial situation created by this crisis, financial aid and soft loans were extended by the Gulf Crisis Financial Co-ordination Group. Countries like Japan, Germany and the European Community also promptly took some actions to help Jordan in response to the appeals of the United Nations. The amounts disbursed from these sources were U.S. \$ 352 million of which U.S. \$ 140 million were in the form of aid and U.S. \$ 212 million were in the form of soft loans. Jordan's loans worth \$ 645 million maturing in 1990 were also rescheduled so as to help avert the drainage of foreign reserves of Central Bank of Jordan<sup>22</sup>. On the domestic front, efforts were made to increase exports. Due to the magnitude of fiscal deficits, the government was asked to refrain from adopting the inflationary policy of borrowing from Central Bank of Jordan.

Jordan's economy thus is vulnerable to both economic and political pressures. Though the country was established in 1921, Jordan has not achieved peace and stability since 1947. This is mainly due to its geographical location in the Middle East which has been an important theatre of war during the past three decades. The country has also experienced military conflicts with Israel. As a result Jordan always faces the problem of refugees which disturbs the employment level of the country. Consequently, the economy remains sluggish and dependent on foreign assistance and remittances. There are imbalances in the growth of various economic sectors. Jordan is basically services based economy. The growth of Agriculture and Industry has been unsatisfactory.

The investment growth is not enough to solve the problem of unemployment. Thus both due to indigenous and exogenous factors the economy continues to remain backward and the labour market is in perpetual state of disequilibrium.

## **2.5 Development theories and their Relevance to Jordanian Economy**

The above discription of the Jordanian economy clearly indicates that this economy does not have well sustaining agriculture or industrial sectors. The predominance of service sector in the national income is mainly due to public administration and defence, the sectors which by themselves cannot ensure the growth of the economy. In the growth process of any economy, it is generally expected that the economy transforms itself from agricultural based economy to industrial and eventually to service based economy. However this is not the case with Jordanian economy which has not undergone such transformations.. It would therefore not be out of place to give a brief overview of development theories and try to apply them to Jordanian economy.

Economic development, in the last fifty years, is studied under four major theories which were mainly the result of various economic experiences of most of the Third World countries. The four groups of theories are i) the linear stages of growth model, (ii) theories and patterns of structural change, (iii) the international dependence revolution and (iv) the neo-classical,

free market counterrevolution. In the last ten years or so there is also a fifth approach which is developing as the new theory of economic growth.

During <sup>the</sup> 1950s and early <sup>the</sup> 1960s, the economic development was viewed as a series of successive stages of economic growth through which all the countries must pass. Rostow's theory<sup>23</sup> explains the transition of any economy from the stage of a traditional society, to the pre condition of the take off, self-sustaining growth, the take off, the drive to maturity and finally to the age of mass consumption. This linear stages approach was replaced in the 1970s by two competing theories. The first set of theories emphasized the internal process of structural changes of an economy which can sustain its growth and the second viewed the process of development in terms of international and domestic power relationships. These theories are more radical and political in their approach as they emphasize external and internal institutional and political constraints influencing economic development. The main emphasis of these theories is on the removal of poverty, provision of employment opportunities and on reduction in income inequalities.

During 1980s the fourth approach of Neoclassical counterrevolution prevailed, which emphasized the philosophy of free markets, open economies and a less significant role of public sector in the economic life of the people. According to this school of thought, a given nature of growth of an economy is not the result of exploitative nature of relationship between developed and developing world as propounded by the dependence

theories, but it is due to more than necessary government intervention and regulation of the economy.

In the early Nineteens, one finds the development of a new set of theories which can give rise to fifth approach to development. This new approach attempts to explain the reasons for rapid growth of certain economies in comparison with others and the emerging important role of government.

Some specific models worth enumerating here are the Harrod Domar Growth Model<sup>24</sup>, emphasizing the role of saving and investment in the growth of economy and under structural change models, Lewis theory of Development<sup>25</sup>. It was in a way general theory of the development process of a labour surplus third world nation. The focus of this theory is to explain the process of labour transfer from agricultural sector to high productivity modern urban centre, resulting in growth of output and employment. The speed at which the expansion of output occurs is determined by capital accumulation in the modern sector. However, the problem here is that capital accumulation is not the sufficient condition for economic growth. An economy also requires for growth other interrelated changes in terms of international trade, composition of consumers demand, changes in socio economic factors such as urbanization. Thus both physical and human aspects need structural transformation. The best known model of structural change is the one propounded by Hallis B. Chenery<sup>26</sup>, who examined development patterns of the Third World countries in the post war period. The structural change analysts believe that despite the differences in the pace and pattern of development which are due to an economy's resource endowment,



policies etc, certain common pattern emerges in all the countries.

The development of International Dependence approach during the 1970s was the result of inefficacy of linear stages and structural change models to explain economic development in Third World countries. According to International Dependence School, the third world countries in general have the relationship of dependence and dominance with developed countries and they are besieged with several political, institutional and economic rigidities. According to this school there have to be fundamental reforms in national and international economic, political and institutional spheres.

During the eighties, development writings rejected the arguments put forward by Dependence School and argued that the third world countries are underdeveloped not because of unfavourable policies of the developed countries but because of excessive government intervention, corruption, and inefficiency. Thus the solution lies in the laissez-faire economies. This Neoclassical counterrevolution in economic theory, however does not take into account the institutional rigidities, socio-economic inequalities and different ideological bases prevalent in developing countries. Therefore in such economies both markets and governments fail. In such a situation each country has to be studied separately as an individual unit.

In the last few years a New Growth Theory is emerging which attempts to explain differentials in the growth rates of different economies. According to this theory, inadequate

domestic saving and investment are the main factors responsible for low growth rates in developing countries. Though this theory helps in explaining the role of international flow of capital, in real life such flows are unable to make an impact on developing countries because of lack of adequate investment in human capital and infrastructure facilities. The new growth theory reaffirms the role of government policy in facilitating the market to achieve long term growth and development.

The above overview of the development theories (for details please see Todaro<sup>27</sup>) indicate that there is no single prescription for the growth of a developing economy. Each one of the above mentioned approaches to development have something to offer to understand development process. Thus no single approach can be applied to a given economy. Not only this every developing country has a unique mix of political, socio economic and ideological base, hence a given set of solutions may not be applicable to other countries.

Jordan is an economy which does not have adequate domestic savings which can help in capital formation. Though it was helped by various countries from time to time, such an approach to development cannot be self sustaining. It is an urban economy without having well developed industrial structure. It is in a perpetual state of disequilibrium which often gets aggravated due to political problems. Its skilled manpower prefers to migrate due to inadequate job opportunities in the domestic market. Thus Jordan requires to enhance its savings so that it can have a diverse industrial sector. The migration from rural to urban sector also needs to be arrested through rural

development programmes. Thus all the major components of the development theories can be applied to Jordan partially, though no theory can be applied totally. Due to socio-economic constraints and institutional rigidities, the theoretical framework within which Jordan's economic development can be analysed, loses its relevance as many exogenous factors disrupt its efforts to have a sustained growth. However this does not mean that theoretical premise is irrelevant for Jordan. Higher savings, social reforms, human capital and institutional rigidities, all these elements which are considered to be important by different development theories, need to be addressed by Jordan to develop both its agriculture and industrial sectors, the sectors which at present contribute only about forty percent to national income. Contrary to the pattern of development from agriculture to service based economy, Jordan has lop sided development where it is the service sector coupled with backward agriculture and industrial sectors which is contributing to national income. Such a pattern of development cannot sustain itself unless and until agriculture and industrial sectors grow.

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