

126 356

**KEY LONG-TERM DEVELOPMENT ISSUES
IN JORDAN**

Tayseer Abdel Jaber

Working Paper 9522

**WORKING
PAPER
SERIES**

ARCHIV
114277
WP 9522



**ECONOMIC
RESEARCH
FORUM**

FOR THE ARAB COUNTRIES, IRAN & TURKEY

This report is presented as received by IDRC from project recipient(s). It has not been subjected to peer review or other review processes.

This work is used with the permission of Economic Research Forum.

© 1995, Economic Research Forum.

The Economic Research Forum for the Arab Countries, Iran and Turkey (ERF) was established in June 1993 as an independent, non-profit regional networking organization. Its mission is to promote policy-relevant economic research with a broad representation of views to help activate the policy-formulation debate in the region, by encouraging and funding quality research, and by disseminating results of research activities to economists and policy-makers.

The ERF *Working Papers Series* disseminates the findings of research work in progress to promote the exchange of ideas and encourage discussion and comment among researchers for timely revision by the authors.

The *Working Papers* are intended to make preliminary research results available with the least possible delay. They have therefore not been edited nor made subject to formal peer review by ERF staff and ERF accepts no responsibility for errors.

The views expressed in the *Working Papers* are those of the author(s) and not those of ERF. Unless otherwise stated, copyright is held by the author(s). Requests for permission to quote their contents should be addressed directly to the author(s).

KEY LONG-TERM DEVELOPMENT ISSUES IN JORDAN

Tayseer Abdel Jaber

Working Paper 9522

ARCHIV
300.001.5(5-011)
E42
WP 9522

Please address correspondence to: Tayseer Abdel Jaber, Director, Arab Consulting Center, P.O.Box 926550, Amman 11110, Jordan. Fax: (962-6) 696714.

KEY LONG TERM DEVELOPMENT ISSUES IN JORDAN*

Tayseer Abdel Jaber

Arab Consulting Center

*This is the revised version of a paper presented at the workshop on "Strategic Visions for the Middle East and North Africa" held in Gammarth, Tunisia on 9-11 June, 1995. Thanks go for the comments received from Dr. John Page. The workshop was co-sponsored by the Economic Research Forum for Arab countries, Iran and Turkey and MENA Region Division, The World Bank.

Abstract

This paper deals with the key long-term issues in Jordan. It reviews concisely the past economic performance and notes that the Jordanian economy achieved high growth rates particularly during periods of regional stability and growth. However, economic imbalance in the Government budget, domestic saving and investment and the balance of payments led to an economic crisis in the second half of the 1980s. An economic adjustment program was adopted and put into implementation. While noting the limitations to economic growth in Jordan that arise from the scarcity of natural resources, particularly water, the paper deals with other long-term issues which can be to a large extent influenced by economic policies. Some of these issues are already experienced in Jordan, namely, poverty, unemployment and external indebtedness. Others are not yet clear including the economic impact of peace, the privatization process and access to regional and world markets. In order to tackle these problems and deal positively with long-term issues, Jordan needs to grow at higher rates than 6% annually and maintain sustainable development. Access to other markets, debt relief and economic assistance are needed to support the Jordanian endeavor in this regard.

ملخص

تتناول هذه الورقة القضايا الأساسية طويلة الأجل في الأردن، وتستعرض بإيجاز الأداء الاقتصادي في الماضي، ثم تشير إلى أن الاقتصاد الأردني قد حقق معدلات نمو مرتفعة، خاصة في مراحل الاستقرار والنمو في المنطقة. ومع ذلك، فإن اختلال التوازن في ميزانية الحكومة والمدخرات والاستثمارات المحلية وميزان المدفوعات، قد أدى إلى أزمة اقتصادية في النصف الثاني من الثمانينيات، تبعها تبنى برنامج إصلاح اقتصادي والشروع في تطبيقه. ومع الإشارة إلى القيود على النمو الاقتصادي في الأردن الناجمة عن ندرة الموارد الطبيعية، والمياه على وجه الخصوص، فإن الورقة تتناول المزيد من القضايا طويلة الأجل والسائدة الآن في الأردن، كالفقر والبطالة والمديونية الخارجية، والتي لا زالت مبهمة، كالأثر الاقتصادي للسلام وعملية الخصخصة والنفوذ إلى الأسواق الإقليمية والعالمية وذلك من منظور تأثر هذه القضايا، إلى حد كبير، بالسياسات الاقتصادية. ومن أجل مواجهة تلك المشاكل ومعالجة الموضوعات طويلة الأجل بشكل إيجابي، فإنه يتحتم على الأردن تحقيق معدلات نمو أعلى من 6٪ سنوياً والحفاظ على تنمية متواصلة. بالإضافة إلى ذلك، فإن الوصول إلى الأسواق الأخرى، وتخفيف عبء الدين، والمساعدات الاقتصادية، أمور مطلوبة لمساندة الأردن في مساعيها في هذا المضمار.

TABLE OF CONTENTS

| <u>Subject</u> | <u>Page</u> |
|--|--------------|
| I. INTRODUCTION | 1 |
| II. PAST ECONOMIC PERFORMANCE | 1 |
| III. MEDIUM-TERM DEVELOPMENT PLANNING OBJECTIVES | 3 |
| IV. KEY LONG-TERM DEVELOPMENT ISSUES | 5 |
| 1. Sustainable Economic Growth | 6 |
| 2. Unemployment and Adjusting Human Resource Development | 7 |
| 3. Poverty and Inequality in Income Distribution | 8 |
| 4. External Debt and Relief | 9 |
| 5. The Economic Impact of Peace | 10 |
| 6. Privatization and the Size of the Government | 11 |
| 7. Integration with the Regional or the World Economy | 12 |
| 8. The Political Economy of Development and Stability | 14 |
| V. CONCLUSIONS | 15 |
| REFERENCES | 16 |
| TABLES | 17-20 |

I. INTRODUCTION

The regional and international context of development is rapidly changing, a fact that forces every country to adapt to the new conditions and to benefit from the arising opportunities. Internationally, the world economy is witnessing unprecedented openness in trade relations and private capital flows. There is a strong trend towards establishing regional economic arrangements within a globalized and a more liberalized and competitive world economy.

Regionally, economic conditions are set to witness historic changes. With the on-going peace process, the prospects for regional cooperation are improving, thus creating high expectations along with uncertainties. There are possible areas of cooperation that are already under consideration. They include regional projects in water, electricity links, tourism, energy, and environment. As the region moves ahead towards a comprehensive settlement, the investment environment and access to markets improve. These are however long term factors that will affect Jordan's and other countries economies.

Having these regional and international developments in mind, this paper will discuss the long term development issues in Jordan. Introductory remarks will be made on the performance as well as the current situation in Jordan. The medium-term objectives which are incorporated in the current Development Plan will be briefly discussed. These objectives are in line with those of the adopted economic adjustment program with the addition of social dimensions.

Looking to the future, the paper will assess the move beyond the Development Plan and the economic adjustment program. It will further discuss the long-term development issues that are and will continue to be facing the Jordanian economy. These issues include the need to achieve sustainable economic growth; to solve the problems of unemployment, poverty and the external debt; to face the uncertainties of peace; to undertake privatization and integration; and finally to maintain political harmony and stability. Finally the paper will conclude with some remarks.

II. PAST ECONOMIC PERFORMANCE

Jordan is a small but a growing economy. Its GNP amounted in 1994 to JD 4134 Billion or \$ 5.8 Billion (Table 1). With a population of 4.1 Million, its per capita income reached \$1456. Compared with other developing countries, Jordan is a middle - income economy. Its real GDP per capita (purchasing power parity) is quite higher than the nominal one. In 1991, the real GDP per capita in Jordan was \$ 2895, about four times the nominal income of \$ 750.¹

¹ UNDP, Human Development Report, 1994, page 130.

With the exception of the second half of the 1980s, Jordan was able to achieve considerably high rates of economic growth (See Table 2). In the 1970s, Jordan achieved a remarkable growth of 11.1 annually. The oil boom in the oil-exporting countries affected favorably the Jordanian economy through increased demand for Jordanian labor and consequently a sharp rise in workers remittances. With the launching of the Three Year Development Plan (1973 - 1975), Jordan resumed its development process and prepared the ground for the enhancement of private and public investments in the modernization of its infrastructure, expansion of public services in education, health and others, and the construction of major projects such as the Jordan Valley Development scheme, expansion of phosphate and cement production, the execution of the potash and fertilizers projects, Aqaba port extension and thermal power stations. In addition to domestic savings, these investments were partially financed through external borrowing and bilateral economic and technical programs.

By the early 1980s, most of the institution-building was already carried out by establishing many new entities such as the Amman Financial Market, the Social Security Corporation, the Vocational Training Corporation, a number of universities, etc. Jordan resumed its dynamic growth by expanding its economy at an average annual rate of 9.9%. With such a high growth rate and the increasing regional demand for Jordanian labor, a case of full employment was attained. Poverty was at negligible levels and external debt was within manageable limits

The 1980s was a lost decade for all developing countries including the oil-exporting ones except those of East Asia. Jordan was severely hit in the second half of the decade by the slowdown of oil revenues which adversely affected demand for Jordanian workers, their remittances to Jordan and the official budget grants which Jordan was receiving within its regional security role. Arab loans and grants went down. New demand for Jordanian labor in the region declined sharply, thus creating unemployment. Jordan's Government fiscal requirements did not adjust soon enough to the new adverse conditions and, therefore resorted to heavy external and domestic borrowing.

This situation was not sustainable. Unemployment rose from 4.8% in 1983 to 18.8% in 1991. Government domestic borrowing crowded out private sector credit. External indebtedness jumped from \$ 2.1 billion in 1993 to over \$9 billion in 1990. The fiscal, balance of payments and saving imbalances led in 1988 and 1989 to the devaluation of the Jordan Dinar by 10% and 33% respectively. Living standards worsened with the decline in GDP per capita in dollar terms. Inflation jumped from 3% in 1985 to 25 % in 1989. Jordan had then to seek the advice of the IMF in devising an economic adjustment program which upon implementation will help Jordan to reschedule its external debt and adjust with time its economic policies. The program aimed at mitigating monetary, fiscal and balance of payments imbalances. It consisted of a set of macroeconomic policies that would restore monetary stability, build up foreign reserves, reduce the Government budget deficit, give market forces larger room to influence prices and resource allocation and induce larger private sector investment and export-led growth.

With the considerable economic interaction between Jordan and the neighboring countries that existed for so many years, Jordan's economy stands to be substantially influenced by regional developments, whether favorably or otherwise. The first year of the economic adjustment program, 1989 showed positive results on the economy. However, the Iraqi invasion of Kuwait in August 1990 disrupted further implementation of the program and burdened Jordan with additional problems. Jordanian workers totaling with their dependents 300,000 were abruptly forced to leave Kuwait and other Gulf countries and return to Jordan, thus creating immense pressures on economic and social facilities and services. Arab aid to Jordan dried out and trade flows decreased. Jordan abided by the economic embargo on Iraq which adversely affected its exports, Aqaba port activity and income from transportation. Jordan had to handle the transiting of about two million foreign workers leaving Iraq and Kuwait via Jordan over a few months period.

The Gulf crisis and war put to the test, once more, the sustainability and the dynamism of the Jordanian economy. In few months after the end of the Gulf war in 1991, the initiative of Jordan's leadership and the industrious private sector helped Jordan to grow out of the crisis and resume its dynamic pattern of economic growth.

In 1992, the economic adjustment program was amended and extended from 1992 to 1998. The Jordanian returnees brought into the country their lifetime savings which helped to create an unprecedented construction boom in Jordan, particularly in residential dwellings. Investment in industry, banking and other sectors also expanded rapidly especially in 1994.

Jordan achieved a high rate of growth of GDP of 11.2% in 1992 and an average of 5.6% over the following two years. A new development plan was formulated to cover the period 1993-97 along the policy lines of the economic adjustment program.

Though Jordan's growth momentum was resumed in 1992, it is presently facing like most other economies, developing as well as developed, serious economic and social problems, namely, poverty, unemployment and the heavy external debt burden. While the regional outlook should have improved with the progress made in the peace negotiations, particularly on the Jordanian and Palestinian tracks, the economic dividends of peace have not yet materialized.

III. MEDIUM - TERM DEVELOPMENT PLANNING OBJECTIVES

Jordan adopted development planning as of the early 1960s out of pragmatism rather than ideology. Indeed, Jordan had pursued a liberal economic policy in favor of the private sector and market forces since its state was established in 1921.

Development planning was taken as of the first Five-Year Development Plan, 1963 - 1967, as an indicative one. It consisted of formulating macro-economic objectives for the medium term, identifying Government fiscal, monetary, trade and sectoral policies, and consolidating

the investment program which is basically for the public sector. It helped to prioritize development projects and allocate domestic and external financial and other resources. It also indicated to private investors the economic policies that will most probably be followed and the projects that are intended for implementation.

In this sense, development planning was a useful and a flexible mechanism for mobilizing and allocating resources and gearing initiatives towards specific objectives and projects. Therefore, Jordan maintained its practice of formulating one development plan after the other with each one addressing the prevailing issues and problems.

The present plan is the Economic and Social Development Plan for the period 1993 - 97. It coincides with the economic adjustment program, 1992 - 98 which was agreed upon with the IMF and the World Bank. It differs from previous plans in its objectives, methodology and orientation. Previous plans concentrated on investments in new projects and on economic growth. The new plan aims at alleviating poverty and reducing unemployment along with economic growth. It presents a set of macro-economic and sector policies which will expand the private sector role in investment, production and exports. The present plan offers more flexibility for the Government action in the economic conditions of the country. It is more of an indicative one not only for the private sector but also for public institutions.

While previous plans emphasized growth of different sectors of the economy at desired rates, the present plan focuses instead on fiscal, monetary and other macro-economic objectives. The following are the main objectives of the 1993-97 Development Plan.

1. Achieving a GDP growth rate of 6% annually which would raise per capita GDP by about 3%.
2. To bring about structural reform leading to domestic and external balance and raising saving and investment rates through achieving the following targets.
 - a) Gradual reduction in the budget deficit to GDP ratio, excluding grants, to no more than 3%;
 - b) Elimination of the balance of payments current account deficit;
 - c) Reduction of the external debt to GDP ratio to less than 100%;
 - d) Reduction of the external debt service as a percentage of exports of goods and services to less than 25%;
 - e) Reduction of the ratio of consumption to GDP to less than 89%; and
 - f) Maintenance of the annual rate of inflation at 4% to 5%.
3. Realizing balanced social development through achieving the following targets.
 - a) Lowering the unemployment rate to 9.6%;
 - b) Concentrating the public sector investment in social services in various regions to ensure balanced geographical development;
 - c) Raising the level of educational, health, housing, and other social services during the Plan period through appropriate fiscal and monetary policies aimed at providing incentives for private sector investment in these vital areas;

- d) Reducing poverty in the short run through the adoption of policies designed to promote the establishment of income-generating small projects for low income groups, particularly in the less developed regions, and raising per capita consumption; and
- e) Training and rehabilitating 72,800 trainees to help them acquire the skills needed for the jobs created by economic growth and to reduce dependence on non-Jordanian labor, and increasing vocational education enrollment to 40% of total secondary school enrollment.

IV. KEY LONG - TERM DEVELOPMENT ISSUES

Faced with high population and labor force growth rates, scarcity of natural resources particularly water, and the economic problems which are inherited from the 1980s; namely, poverty, unemployment and heavy external indebtedness, Jordan has more long-term development issues than it can handle alone. However, Jordan has strong factors which will help its economy to adequately deal with these issues; namely, a stable political system, a dynamic private sector, a well-educated human capital and friendly relations with many countries worldwide.

It should be noted that the number of development issues depends on the writer's plan to separate or group different factors under consideration. For example, one may treat poverty as a separate issue from inequality in income distribution. In any case, these issues are, in our daily life, interdependent. Hence, this paper will discuss the following long-term development issues facing the Jordanian economy.

1. How to achieve a high economic growth rate of over 6% annually in a sustainable manner ?
2. How to solve the domestic economic and social problems of unemployment and poverty ?
3. How to get out of the external debt overhang ?
4. How to face the uncertainties of the peace process and benefit from the hoped for peace dividend ?
5. Will the Jordan Government be able to adjust its size and role to the new requirement of a privately - dominated economy ?
6. Will Jordan pursue a policy of external trade and economic relations that would emphasize regional or international integration ?
7. How would the political economy of the Jordanian society be managed to assure continued stability and wider participation ?

In discussing long-term issues, one tends to exaggerate future achievements. However, on the basis of previous performance of the Jordanian economy, we shall present rather a realistic picture.

1. Sustainable Economic Growth

Jordan successfully managed to face the economic crisis of the second half of the 1980s and the serious repercussions of the second Gulf crisis and war. It initiated the implementation of an economic adjustment program in 1989 and afterwards introduced an amended one in 1992. The private sector investment surged in 1992 particularly in residential buildings and other construction projects. GDP achieved the highest growth rate in a decade when it reached in 1992 11.2%.

The Development Plan 1993-97 was prepared on the basis of 1992 figures and the experience of the Jordanian economy after the Gulf crisis. The first two years of the Development Plan, namely 1993 and 1994, indicate the following (See Table 3) :

- a) The macroeconomic objective of the Plan, namely to achieve a GDP growth rate of 6% annually was almost realized. The GDP growth rate in 1993 and in 1994 were 6.2% and 5.5% respectively as compared with 6.5% and 5.6% in the Plan. The Plan's target is realistic and achievable. The same conclusion applies to the growth rates of GDP at market prices.
- b) Monetary stabilization, a very important objective of the Plan and the economic adjustment program, was very adequately realized. The average exchange rate of the Jordan Dinar in U.S. dollars was 1.5 for the years 1990-1992 and dropped only marginally to 1.4 in 1993 and 1994. The gross foreign assets (reserves) of the Central Bank almost doubled between 1992 (JD1001.1 Million) and 1994 (JD 1904.3 million). Money supply was kept very well checked at less than 1% annual increase. Finally, inflation as measured by the change in the cost of living index, was at a rate lower than projected in the Plan.
- c) The balance of payments situation improved considerably in 1994. Exports grew at 15.1%, a rate that compares very well with that of the Plan. Imports went down in 1994 by 3.7% as compared with a projected rise of 5.9%. Therefore, the trade balance improved. Workers remittances increased faster than the Plan's estimates.
- d) Stabilization efforts of the Government fiscal position also made clear progress particularly in 1994. Growth in public consumption was restrained to rates quite close to those of the Plan, 2.7 % and 2.2% in 1993 and 1994 compared with 2.4% and 2.1%. Growth in capital expenditures of the Government was higher than that of its current expenditures. Budget deficit before financing was turned into a surplus in 1993 and 1994. However, growth in domestic revenues fell short of the Plan target, inspite of the Government efforts to reform the tax system. External assistance to the Government increased rather than declined as expected in the Plan.
- e) With the success of Jordan Government to negotiate the rescheduling of both the official and commercial external debt and to purchase some external debt at a good

discount, the debt burden as a ratio of GDP went down to 108.1% in 1994 as compared with 126.2% in the Plan. The debt service ratio to exports of goods and services also went down, though this might be only a short-term relief.

This positive performance of the Jordanian economy in the last few years provides a good evidence that the economic dynamism which for long characterized Jordan has been restored and put into action again. However, this is not going to be an easy or an automatic task. Looking ahead, Jordan has to achieve economic growth rates higher than those projected in the Development Plan and the economic adjustment program. This should and can be done through further liberalization of economic policies, encouragement of foreign and domestic investors, deregulation and privatization and providing incentives to non-traditional exports. It is essential to also maintain good management of the economy, particularly assuring continued monetary and fiscal stabilization.

However, due to the special challenges that Jordan is facing, international economic and technical cooperation remains essential for Jordan to tackle these challenges successfully and achieve a high economic growth rate.

2. Unemployment and Adjusting Human Resource Development

Unemployment is a worldwide problem. In industrial countries, unemployment is caused by the slowdown in economic growth where the level of economic activities does not create enough jobs to meet the job seekers. It is currently over 10% in a number of these countries. Unemployment in Jordan is more of a structural problem. Even a growth rate of GDP of about 6% annually does not sufficiently ease the unemployment problem. The population growth rate is still high (3.2%), the Jordanian labor force prefers administrative and clerical jobs, and there is a skill mismatch in the labor market.

According to the World Bank report², the main characteristics of the labor market are the following: Low participation rate due to the young age-structure of the population and the low labor participation rate of women (14%); almost half of Jordanian workers drive their earnings from the Government sector; Jordanians have a tradition of emigration and working abroad particularly to the Gulf countries; expatriate workers in Jordan are a permanent feature of the labor market; unemployment is structural; labor costs are above their domestic clearing rates; employment in the private sectors is low; and the labor force is educated and skilled.

The Jordanian society values very highly education and considers expenditures in this area as a priority investment. This led to an over-supply of educated and professional labor that was usually eased through emigration and working in the Gulf countries. Prior to 1990, there were 350,000 Jordanian workers abroad with 275,000 in the Gulf. This emigration contributed to

² World Bank, Jordan: Consolidating Economic Adjustment and Establishing the Base for Sustainable Growth, Washington, August 24, 1994, P. 104-106.

the economy of Jordan not only through solving structural unemployment but also through workers' remittances, the second highest source of foreign reserves only after exports. While Jordanian labor force concentrated on professional, technical and skilled occupations, the manual and unskilled jobs were mostly left to expatriate workers, mainly from Egypt and Syria. Thus Jordan has developed a distinctive labor market which is characterized by both exporting and importing labor.

Due to the economic crises of the late 1980s and the Gulf war, unemployment in Jordan rose sharply from about 4.8% in 1983 to 10.3% in 1989 and to reach its highest (18.4%) in 1991. The reactivation of the Jordanian economy in 1992 and afterwards improved the employment conditions where unemployment fell down to 15.8% in 1993 (Table 4). Male unemployment was 13.6%, thus lower than that of females (29.4%). It is highest among community college and secondary education graduates, 27.3% and 16.2% respectively.

The unemployment rate is currently estimated at about 15.3%. The strategy of exporting goods produced by Jordanian workers at home rather than exporting workers will require time long enough to mitigate the unemployment problem. The Development Plan projects unemployment to remain in 1997 at 9.6%. In order to lower unemployment below this level, economic growth should be fostered at a rate higher than 6% annually, employment in the Gulf countries should be encouraged, and the skill mismatch should be tackled.

Unemployment is only one aspect of the human resource development issue in Jordan. It is a pressing one, but there are other important aspects that will influence the future competitiveness of the Jordanian economy. Education, particularly at the tertiary level, has so far emphasized quantity at the expense of quality. It downgrades vocational training and manual labor. It also produces graduates whose ambition is to work in the Government, while the relative size of the Government is expected to decrease in the future. University students are rarely trained to become entrepreneurs or self-employed. In sum, while unemployment will remain a serious development issue, there is a clear need to take further measures towards human resource development.

3. Poverty and Inequality in Income Distribution

During the period 1987-91, population in Jordan, including the returnees increased by 34% while GDP went down by 11%. These developments led to the decrease in total consumption by 14% and in per capita income by 36%. Though the economy improved in 1992, poverty and unemployment remained high and represented serious economic and social problems.

The World Bank estimates poverty in Jordan at 15% of total population. About 42% of the poor are illiterate. There are almost no poor among university graduates. Unemployment stands at 6% among the poor which indicates that poverty is due to low wages rather than to unemployment. Poverty was more widespread among farm workers and large families.

Though rural areas are more hit by poverty than the cities, only one third of the poor live in rural areas.

The World Bank recommends a three parts strategy for ending poverty. "This strategy is based on the principle of eliminating market distortions and creating an environment conducive to investment, employment and growth, in order to maximize the size of domestic production to be divided within society. The elements of the strategy are: private-sector led, outwardly-oriented growth; human resources development; and a targeted social safety net, built upon existing instruments, to restore social equity."³

While the Government is reconsidering its economic policies to become in line with the above strategy, foreign assistance and debt relief are needed to solve the problems of unemployment and poverty.

Inequality in income distribution is another economic and social problem that will strongly face Jordan in the coming years. More than before, the capital gains from real estate and stocks which are tax exempt will widen income inequality among individuals of the society. This inequality has an inherent tendency to worsen where the high - level income groups are more capable to start new investments and to send their children to better universities. Since there is no inheritance tax in Jordan, the emphasis will be on using the income tax policy coupled with the social safety network in order to tackle the consequences of income inequality.

Table (5) presents some data on income distribution among families in Jordan. If there were total equality, the percentage of population in each income bracket should equal that percentage of GDP. However, the actual situation is far from total equality. As in other countries, though with a different degree, the lowest income bracket covers 18.6% of the population in Jordan who account for 5% only of GDP. About half of the population (46.8%) account for less than one-fifth of GDP. On the upper end, however, 12.4% of the population account for 40% of total GDP. While this picture existed in 1993, specific policies should be taken so that income inequality would not worsen.

4. External Debt

Jordan owed a total of JD 4.6 billion to its external debtors as of end 1994. Most of this debt is owed to bilateral creditors including Japan, France, UK., Germany and the United States. Multilateral debt accounts for 23% of total (See Table 6). The balance consists of loans of foreign banks and companies, bonds and leasing contracts. All of these loans are either borrowed or guaranteed by the Government.

With the economic crisis of the late 1980s, external debt sky-rocketed to 226.8% of GDP. In 1992, total debt to GNP ratio was the highest among the severely indebted middle-income

³ World Bank, Hashemite Kingdom of Jordan, Poverty Assessment, October 28,1994, P.XI.

countries in North Africa and the Middle East. With the economic adjustment program under implementation, Jordan was able to reschedule most of the official and the commercial debt through the Paris and London Club respectively. It also was able to purchase part of the debt at a good discount. Thus, total external debt went down from its peak of JD 6.05 billion in 1990 to JD 4.6 billion in 1994, by 24%.

As noted by the World Bank, the "successive rescheduling will, as expected, lead to up-front cash flow relief in debt service payments for Jordan, but debt service obligations will sharply increase in the medium term, and debt stock will continue to rise."⁴ The terms at which Jordan has received external financing in the last few years have not improved. With such a high external debt burden, there is a strong case for debt relief, particularly the military debt. Indeed, without substantial debt relief, it will be extremely difficult for the Jordanian economy to achieve a high and sustainable economic growth, a necessary condition to solve other problems of unemployment and poverty.

5. The Economic Impact of Peace

Jordan signed a peace treaty with Israel in Wadi Araba on 26 October 1994. It came over one year after the signing in Washington on 13 September 1993 of the Declaration of Principles between the PLO and Israel. It is part of the peace process to settle the Arab - Israeli conflict, that process which was initiated in Madrid on 30 October 1991. It is also a successful conclusion of lengthy negotiations on the Jordanian - Israeli track and a step towards a comprehensive peace settlement in the Middle East.

Peace with Israel creates economic opportunities for Jordan as well as uncertainties. There is usually a distinction between short term and long-term benefits of peace. Most of the benefits will show their full impact in the long run. However, certain favorable developments may come about in a short period. Thus, tourism from Israel and third country nationals has had its favorable impact on hotel occupancy, transportation, entrance fees and other related activities in Jordan. Even if this impact is below expectations, it has already been strong enough to spur an investment boom in hotels, tourist transportation and land speculation.

Another short-term effect could be through bilateral trade. Prior to the signing of the Peace Treaty, trade between Jordan and Israel was non-existing. Currently, both countries are negotiating over twenty agreements of cooperation in various sectors including trade. An agreement on tourism cooperation was signed on 4th April 1995. Jordan is entitled to get a preferential trade arrangement with a larger and more developed economy of Israel. The access to Israeli market and to that of the West Bank and Gaza will enhance Jordan's exports and economic activities in general.

⁴ World Bank, Jordan: Consolidating Economic Adjustment and Establishing the Base for Sustainable Growth, August 24, 1994, Page 25.

Other immediate benefits have already arisen from the saving in the cost of the Royal Jordanian flights to Europe, Canada and the United States by using Israeli airspace. Each trip saves time and fuel for 18 minutes.

The medium and long-term benefits of peace will be of greater impact on Jordan and other countries of the region. This includes the following main factors.

1. Trade creation between Jordan, Israel and Palestine which will enhance production and exports and increase the welfare of consumers.
2. Stability in the region will attract direct foreign investment and encourage domestic and regional investors to invest in their countries more than abroad. This is actually a major factor that if tapped well, it may foster economic growth in Jordan.
3. Benefits from regional economic cooperation that will create new job opportunities and expand economic activities. There are regional projects in water, pipelines, interconnection of electricity grids, roads, bridges, rail roads envisaged in the multilateral and bilateral peace talks. Given that some of these projects will be implemented, they will benefit all countries concerned including Jordan. Cooperation in other areas such as health, technology and agricultural marketing will improve productivity.
4. Jordan's economy has to achieve an economic growth rate higher than 6% annually in order to adequately solve the problems of unemployment and poverty and to get out of the external debt overhang. While the bulk of the growth momentum will depend on private investments, the need remains for the Government to get financial assistance and a considerable relief from the external debt burden.

The American Administration has pledged to relieve its official debt to Jordan which amounts to \$ 700 million. A total of \$ 245 of this amount and other smaller amounts of British and French debts have been already written off. Negotiations with other debtor countries, namely Japan and Germany are under way.

To the extent that foreign assistance and debt relief are granted to Jordan, the peace process would have resulted in favorable economic conditions. The precedent example of peace between Egypt and Israel is illustrative in this area.

5. The instability that prevailed in the region had forced Jordan to direct relatively large portions of its human and financial resources to defense requirements. Peace will help, though not in the short or medium term, to free some of these resources to be consequently utilized in economic and social development. The reallocation of resources from the military to development uses represents a potential peace dividend.

Against all these potential benefits of peace which Jordan may gain, mostly in the medium and long term, there are immediate uncertainties.

1. The lack of concrete progress in the peace negotiations on the Syrian and the Lebanese tracks will limit the potential benefits of peace to Jordan. Similarly, the difficulties in the implementation of the Declaration of Principles on the Palestinian track will confine the impact of peace within official contacts only. Given these uncertainties, the potential benefits in trade, investment, tourism and other areas will take even longer time to materialize.

2. There is uncertainty on the future development of the political and economic relations between Jordan and the Palestinian Authority. While there are economic benefits to the expansion of trade, banking and other activities with Palestine, an economic shift of investment, workers' remittances and other factors to the West Bank and Gaza may adversely affect the Jordanian economy at least in the medium term.

3. The possibility of issuing a Palestinian currency will face Jordan with uncertainties about its foreign reserves and the exchange rate of the Jordan Dinar. While this risk would be manageable, it will not be dealt with in an automatic way.

4. Another uncertainty relates to the impact of the return of displaced Palestinian to the West Bank and Gaza. This will affect the labor market in Jordan, more in creating skill shortages than in number of workers.

Given the above long-term benefits of peace and medium-term uncertainties, Jordan has to be assisted in the form of grants and debt relief in order to maintain stability and foster peace in the region. Thus, the long-term vision for the Jordanian economy is not either trade or aid, but rather both trade and aid. With the adequate solution of its economic problems, more emphasis will be put in the future on trade as a vehicle to sustainable development.

6. Privatization and the Size of the Government

Jordan had adopted, since its independence in 1946, a liberal economic policy which allowed the private sector to undertake its economic activities with certainty. The public sector was expanded, however, in the 1970s and early 1980s out of pragmatism rather than ideology. Over the years, the institution-building was also complemented by detailed governmental regulations.

Thus, the Government has become the largest employer in the country, employing about 50% of the Jordanian labor force. The Government consumption accounts for a high percentage of 23 % of GDP. It holds about 46 % of the value of shareholding companies in Jordan. Therefore, the economic adjustment program includes, among its set of policies, privatization and deregulation. It is hoped that these policies would induce the private sector to invest and to improve the performance of the public corporations. The Government would mobilize sizable funds from the sale of its shares which may be used in new investments.

However, there are worries that privatization would lead to the lay off of companies employees which will worsen the unemployment situation. This would come at a time when the Government civil service is not growing enough in its size. The relative size of Government employment will tend to decline in the future. Another concern is usually expressed towards the new ownership of public enterprises and the monopolistic impact on prices of goods or services.

These issues were also raised against privatization in other countries. They tend to emphasize the short-term impact of privatization while its rationale is based on the long-term effects on private investment and expansion in production and employment. In any case, these concerns appear to have delayed the Government action in carrying out privatization measures.

This year, the Government has initiated the privatization process through two sets of measures. First, to transform public corporations into commercial enterprises totally owned by the Government. This action applies specifically to the Royal Jordanian Airlines, the Telecommunication Corporation and the Electricity Authority. With each having its balance sheet, independent management and operating income and expenses, it would become easier to privatize in few years.

Second, the Government began to sell its shares in some shareholding companies to the private sector. It has already sold shares in two big hotels and made sizable profits. This process will continue though selectively, in the coming years.

7. Integration with the Region or the World Economy

Jordan is an open economy. Its external trade accounts for 83.5% of GDP. One third of its labor force works abroad, particularly in the Gulf Countries with about a similar number of Egyptian and other expatriate workers employed in Jordan. Foreign exchange transfers for commercial purposes are officially free and all foreign exchange transactions can actually be effected without restrictions.

Jordan has been traditionally supportive of regional economic cooperation and active in all its forms and institutions. It joined the Arab Economic Unity Council and the Arab Common Market that were established, though with limited achievements, over thirty years ago. The Arab Economic Summit was held in Amman and adopted a Joint Arab Economic Charter and a Strategy for Arab Economic Development. More recently, Jordan founded with Egypt, Iraq and Yemen in 1989 the Arab Cooperation Council, which was dissolved later.

The Jordanian economy is integrated with the neighboring Arab countries in the region. Trade with these countries accounts for 42.5% of Jordan's exports and 22.1% of its imports. The Jordan Government used to receive significant sums of official grants from the oil-exporting Arab Countries. Remittances of Jordanian workers abroad, basically in the Gulf countries is second in importance (after exports) as a source of foreign exchange.

The second Gulf crisis and war of 1990-91 had severely disrupted the strong economic and political relations that traditionally existed between Jordan and the Gulf countries. This was most apparent in the return of 300,000 Jordanians from Kuwait and other Gulf countries, the restrictions imposed on the employment of Jordanian workers in the Gulf, the discontinuation of official grants and the limitations on trade relations.

In the meantime, Jordan adopted an export-led growth which encouraged new exports to non-traditional markets. It applied in January 1994 to the membership of GATT. The peace process opened new opportunities for trade and other economic relations with Palestine and Israel in a more conducive regional and international context. Jordan is taking measures to liberalize its external trade and to improve its investment climate. It also has initiated negotiations with the European Union on the proposed partnership agreement.

The question is which of the three following scenarios would Jordan opt for; to strive with other Arab countries to build a new regional block; to enter into a new arrangement with selected countries in the region including Israel; or to join the world economy on a new basis? These scenarios are not totally exclusive. Trade liberalization in Jordan will enable its economy to benefit from any regional or other economic arrangement. The experience of Arab economic integration would lead to the consideration of a more open regional arrangement. In any case, Jordan needs and will exert every effort to benefit from any access to regional and other markets and economic cooperation.

8. The Political Economy of Development and stability

We have learned from the development experience of many countries that the essence of a successful development is sustainability rather than simply a few years of high economic growth. Sustainability brings in political, social and environmental factors along with economic ones. It involves such issues as institution-building, rule of the law, democracy and pluralism, social harmony and stability. We have examples of countries whose prosperity was shattered over a short period due to conflict and instability.

Jordan has developed economically in the last five decades while giving due attention to the above factors of sustainability. It has emphasized institution-building with wide participation of the private sector. Opportunities remain open for social progress through education and economic activity. Freedom of expression, political parties and democracy are safe guarded.

In the long-term, sustainable development will depend not only on economic management but also on whether and to what extent a true modern and democratic society is nourished. Possible dangers may arise from the present dichotomy in the society, the inequality in income distribution and fundamentalism.

V. CONCLUSIONS

The Government of Jordan is well aware of the dramatic changes in economic conditions, locally, regionally, and internationally. It has also shown its readiness to undertake the needed policies and measures to adapt to these changes and optimize Jordan's position accordingly. Thus, Jordan is currently keen on improving the investment legislation, procedures, and institutions. It is also following an export-led growth strategy.

In revising tax and other economic laws and policies, the Jordan Government intends to widen the scope for the private sector, to rely more on the market system and to open up for trade, investment and other interactions with other countries in the region and with the world economy.

The problems of unemployment, poverty, and external indebtedness will not adequately be solved without a rapid and substantial economic growth. The peace process, when it becomes comprehensive and permanent, will improve the chances for such growth. Other political and social aspects of development should be given adequate emphasis so that Jordan's development be sustainable. In addition, Jordan needs significant economic and financial support from other countries, including debt relief and adequate access to outside markets, in order to grow out of its economic problems.

REFERENCES

1. Abdel Jaber, Tayseer “ The Impact of the Israeli Economy on the Neighboring Arab Countries in Time of Peace : An Arab Viewpoint “ The Economy of Peace in the Middle East, CEDEJ, 1995, pp. 125-146.
2. Central Bank of Jordan. Annual Report, 1994
3. Central Bank of Jordan. Monthly statistical Bulletin, May 1995.
4. Department of statistics. Statistical Yearbook, 1993.
5. Institute for Social and Economic Policy in the Middle East. Towards Free Trade in the Middle East : The Triad and Beyond. Harvard University, Cambridge, June 1995.
6. Ministry of Planning. Jordan : Economic and Social Development Plan, 1993-1997.
7. UNDP. Human Development Report, 1994.
8. World Bank. Jordan : Consolidating Economic Adjustment and Establishing the Base of Sustainable Growth, Washington, August 24, 1994.
9. World Bank. Hashemite Kingdom of Jordan : Poverty Assessment, Washington, October 28, 1994.
10. World Bank. Peace and the Jordanian Economy, Washington, 1994.

Table 1. Per Capita Income

| | 1990 | 1994 |
|----------------------|------|------|
| GNP (Million JD) | 2429 | 4134 |
| GDP (Million JD) | 2668 | 4266 |
| Population (Million) | 3.45 | 4.1 |
| Per Capita GDP (JD) | 773 | 1040 |
| Per capita GDP(\$) | 1160 | 1456 |

Source: Central Bank of Jordan, Monthly Statistical Bulletin.

Table 2. GDP Growth Rate

| Period | % Annually |
|-------------|------------|
| 1973 - 79 | 11.1 |
| 1980 - 85 | 9.9 |
| 1985 - 89 | -1.2 |
| 1990 - 1994 | 6.0 |

Table 3. Comparison of Actual Changes With the Plan Objectives (%)

| | 1993 | | 1994 | |
|---|-------|--------|-------|--------|
| | Plan | Actual | Plan | Actual |
| GDP at Factor cost | 6.5 | 6.2 | 5.6 | 5.5 |
| Net Indirect Taxes | 4.1 | 3.2 | 5.4 | 6.8 |
| GDP at Market Prices | 6.2 | 5.8 | 5.6 | 5.7 |
| Private Consumption | 12.6 | 7.6 | -0.8 | 4.6 |
| Public Consumption | 2.4 | 2.7 | 2.1 | 2.2 |
| Investment | 19.8 | 12.6 | 5.9 | -5.1 |
| Exports | 11.3 | 4.2 | 15.8 | 15.1 |
| Imports | 5.9 | 10.8 | 5.9 | -3.7 |
| Workers Remittances | 7.2 | 25.7 | 7.0 | 8.8 |
| Domestic Revenues | 7.4 | 1.9 | 11.0 | 6.6 |
| External Assistance | -11.8 | 18.8 | -1.1 | 2.4 |
| Current Expenditures | 5.6 | 12.3 | 7.7 | 7.1 |
| Capital Expenditures | 39.7 | 17.7 | 6.9 | 9.0 |
| Budget Deficit before Finance | -2.9 | 1.8 | -2.2 | 1.3 |
| GDP | | | | |
| Inflation | 4.5 | 3.3 | 4.5 | 3.6 |
| External Debt / GDP | 134.6 | 123.7 | 126.2 | 108.1 |
| Debt Service / Exports of Goods and Services | 34.5 | 31.2 | 30.9 | 20.8 |

Source: Central Bank of Jordan, Annual Report, and Ministry of Planning, Economic and Social Development Plan, 1993-1997

**Table 4. Structure of Jordan's labor force
(Thousands)**

| | | | | 1993 * | |
|--|--------|--------|--------|--------|-------|
| | 1990 | 1991 | 1992 | No. | % |
| Agriculture | 38.3 | 40.8 | 44.4 | 55.0 | 6.4 |
| Mining and Manufacturing | 53.5 | 56.9 | 61.8 | 91.1 | 10.6 |
| Electricity and Water | 6.8 | 7.2 | 6.6 | 6.0 | 0.7 |
| Construction | 51.9 | 54.1 | 60.0 | 60.2 | 7.0 |
| Trade | 52.9 | 56.9 | 63.0 | 129.8 | 15.1 |
| Transport and Communication | 44.6 | 48.6 | 52.2 | 57.6 | 6.7 |
| Finance and Insurance Services | 16.8 | 17.7 | 19.8 | 24.9 | 2.9 |
| Social & Public Administrative Services | 259.5 | 269.9 | 292.2 | 434.8 | 50.6 |
| Total Active Labor Force | 524.2 | 552.0 | 600.0 | 859.4 | 100.0 |
| Total Labor Force | 630.1 | 680.0 | 706.0 | | |
| Unemployment Rate | 16.8 | 18.8 | 15.0 | | |
| Total Population | 3431.0 | 3663.0 | 3804.0 | 3950.0 | |
| Labor Participation Rate | 15.3 | 15.1 | 15.8 | 21.8 | |

Source: Department of Statistics, Statistical Yearbook,

* These figures include non-Jordanian workers.

**Table 5. Income Distribution in Jordan
(1993)**

| Family Average Annual Income (\$) | % of Populatio | % of GD |
|--|-----------------------|----------------|
| <2600 | 18.6 | 5.0 |
| 2600 - 4330 | 28.2 | 14.5 |
| 4330 - 6926 | 25.0 | 20.6 |
| 6926 - 10390 | 15.8 | 19.8 |
| > 10390 | 12.4 | 40.1 |
| | 100.0 | 100.0 |

Source: Department of Statistics, unpublished data.

**Table 6. External Public Debt
(Million JD)**

| | 1990 | 1991 | 1992 | 1993 | 1994 |
|--------------------------------|--------|--------|--------|--------|--------|
| Bilateral | 3670.7 | 3296.7 | 3117.8 | 3218.8 | 3142.9 |
| Japan | 525.9 | 831.0 | 904.8 | 1051.9 | 1253.4 |
| France | 992.1 | 354.7 | 414.0 | 399.1 | 482.3 |
| UK. | 432.5 | 369.2 | 379.5 | 385.4 | 369.0 |
| Germany | 295.4 | 263.4 | 284.8 | 286.4 | 329.3 |
| U.S.A. | 459.5 | 473.8 | 466.5 | 488.4 | 99.2 |
| Others | 965.3 | 1004.6 | 668.2 | 607.6 | 609.7 |
| Multilateral | 863.6 | 912.7 | 885.3 | 926.6 | 1065.8 |
| Commercial & Others | 1518.2 | 1307.4 | 1200.0 | 658.5 | 404.0 |
| Total | 6052.5 | 5516.8 | 5203.1 | 4803.9 | 4612.7 |
| Total in US\$ | 9078.7 | 8275.2 | 7804.6 | 6725.5 | 6457.8 |
| Debt / GDP | 226.8 | 193.2 | 149.0 | 123.7 | 108.1 |

Source: Central Bank of Jordan, Monthly Statistical Bulletin



**ECONOMIC
RESEARCH
FORUM**

FOR THE ARAB COUNTRIES, IRAN & TURKEY

7 Boulos Hanna St., Dokki, Cairo, Egypt

Tel: (202) 700810, Fax: (202) 3616042, E Mail: ERF @ vrit 01 eg.