

**Country Study for Japan's Official
Development Assistance
to the Hashemite Kingdom of Jordan**

March 1996

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**The Committee on the Country Study
for Japan's Development Assistance
to the Hashemite Kingdom of Jordan**

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Japan International Cooperation Agency

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This report is based on the discussions and findings of the Committee on the Country Study for Japan's Official Development Assistance to the Hashemite Kingdom of Jordan organized by the Japan International Cooperation Agency (JICA). Opinions expressed in the report are those of the members of the Committee and do not necessarily reflect those of JICA and of its affiliated organizations.

Additional copies of this report are available upon written request

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Foreword

International support for the Middle East peace process, especially assistance for the Palestinians, began to take shape and make serious progress with the September 1993 agreement between Israel and the Palestine Liberation Organization (PLO) on interim self-government for the Palestinian people. Peace making between Israel and the PLO then led to the signing of a peace treaty between Israel and Jordan. It is a natural outcome of this process that assistance to Jordan should become the next question for assistance donors to examine. This, I believe, is the reason for this Committee's establishment.

It is in this sense, I believe, that the Committee's terms of reference can be broken down into two parts. The first is to answer the basic question, "Why should Japan give assistance to Jordan?" The second is to identify what kind of assistance would be most appropriate if assistance to Jordan were determined to be necessary.

With the major Western countries showing signs of "foreign aid fatigue," the world is looking increasingly to Japan, the world's largest ODA donor, to fill the gap. Yet the very lack of enthusiasm of other countries to give assistance poses anew a question basic to the ODA philosophy, "Why give assistance?" and questions addressing the form of assistance and the fields in which it should be given, "What kind of assistance should be given?" In this sense, this Committee's mandate involves questions fundamental to all foreign aid.

This Committee studied the above-mentioned questions from multiple angles. We also conducted field studies and exchanges of views with people in the Jordanian government and business world. Through these steps, we concluded with regard to the question "Why should Japan give assistance?" that assistance to Jordan is integral to support for the Middle East peace process and coincides with Japan's national interests in terms of the pursuit of security and stability throughout the world, including in the Middle East. Japan ought also to take into account, of course, that Jordan is striving to become more democratic and economically independent; more fundamentally, assistance for Jordan has strategic importance to sustain the process of regional conflict resolution. In this sense, it is a logical continuation of the discussions of the Country Study for Japan's Official Development Assistance to Palestine, which met from November 1993 to March 1994.

This report was compiled in the context of these discussions and represents the views neither of the Ministry of Foreign Affairs nor of JICA. We shall be overjoyed, however, if the thoughts and recommendations included in this report can be of assistance in Japan's support for the Middle East peace process or for Jordan's development.

I was greatly assisted by the other members of the Committee, of course, as well as by the JICA staff at JICA's Institute for International Cooperation both in the course of the Committee's meetings and in the drafting of this report. I also received a great deal of cooperation in the form of advice, data, and travel arrangements from Japanese Foreign Ministry officials and consulates overseas, as well as JICA staff both in Japan and overseas. I wish to acknowledge my gratitude to all of them on this occasion.

March 1996

Ryoji Tateyama,

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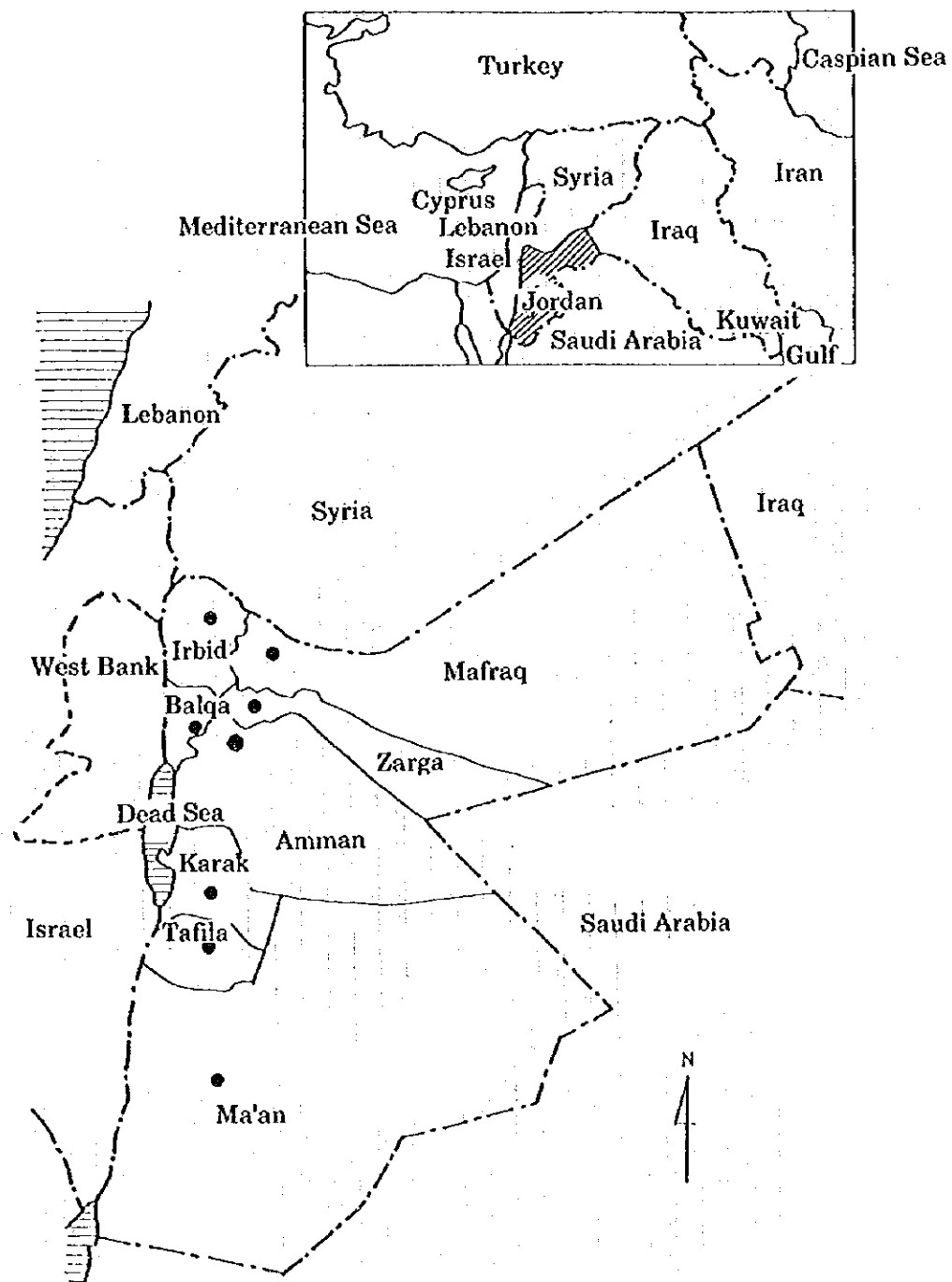
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Table of Contents

Summary

Preamble

| | |
|--|----|
| Chapter I Jordan and the Middle East Peace Process | 1 |
| 1. Political Aspects | 1 |
| 1-1 Jordan in Outline | 1 |
| 1-2 Jordan and Middle East Peace Making | 4 |
| 1-3 Jordan's Role in the Middle East Peace Process | 8 |
| 2. Economic Aspects | 12 |
| 2-1 The History of Jordan's Economic Development | 12 |
| 2-2 Characteristics of the Jordanian Economy and Some Points to be Considered when Supplying ODA | 20 |
| 2-3 Jordan's Pre-Middle East-Peace-Accord Economy: Soaring Foreign Debt and Structural Adjustments | 23 |
| 2-4 Jordan's Economy and the Middle East Peace Process | 27 |
| 2-5 Relations between Jordan and Iraq | 33 |
| 3. Future Scenarios for the Middle East Peace Process and Trends in the Jordanian Economy | 36 |
| 3-1 Palestinian Self-Government and the Jordanian Economy | 36 |
| 3-2 Peace Process with Syria and Lebanon and the Jordanian Economy | 38 |
| 3-3 Iraq and the Jordanian Economy | 39 |
| 4. ODA to Jordan—Some important consideration | 39 |
| Chapter II Development in the Hashemite Kingdom of Jordan Today | 42 |
| 1. The Jordanian Government's Development Program | 42 |
| 1-1 The Economic and Social Development Plan | 42 |
| 1-2 Programs Run by Governorates (The Aqaba Regional Development Plan and the Aqaba Regional Authority) | 47 |
| 1-3 The Free Zones Plan (Free Zones Corporation) | 48 |
| 1-4 The Development Plan Presented for the Amman Economic Summit | 49 |

| | | |
|---|---|-----|
| 2. | Sectorial Trends | 51 |
| 2-1 | The Industrial Sector | 51 |
| 2-2 | Finance and Investment | 61 |
| 2-3 | Development of Water Resources | 65 |
| 2-4 | The Social Sector | 71 |
| 2-5 | The Environment | 96 |
| 3. | Foreign Assistance Trends | 98 |
| 3-1 | Bilateral ODA | 98 |
| 3-2 | Multilateral Assistance | 101 |
| Chapter III Japanese ODA's Orientation and Approach | | 111 |
| 1. | Orientation and Agenda for ODA | 111 |
| 1-1 | Basic ODA Orientation | 111 |
| 1-2 | The Temporal Framework of ODA | 112 |
| 1-3 | Important Considerations in ODA Implementation | 115 |
| 2. | Priority Areas for ODA | 116 |
| 2-1 | Laying the Foundations for Economic Stability and Development | 116 |
| 2-2 | Supporting the Stability and Sustainable Development of Jordan's Domestic Communities | 119 |
| 2-3 | Assisting the Jordanian Economy to become a more Active Entrepôt Site in Prospect of the Regional Economy's Take-off | 122 |
| Appendices | | 133 |

SUMMARY

The Philosophy and Necessity of ODA

The Middle East peace process has been in progress since the 1991 Madrid Peace Conference. For it to continue, both continued efforts by the parties involved and international support are essential. The international community's stability and security are the foundations on which rest Japan's national interest, and as part of Japan's efforts to promote global peace, Japan has been supporting the ongoing Middle East peace process.

The Hashemite Kingdom of Jordan is in a very crucial position in the peace making process, both directly involved as a party to the Middle East peace making effort and intimately concerned by the Palestinian problem. Geographically, it is located in a key position in the regional economy, at the junction of the Gulf and the Eastern Mediterranean. Its being politically and socially stable and on the road to economic development is of crucial importance for promoting the Middle East peace process and establishing stability and security in the Middle East region. It must also be taken into consideration that Jordan has been making efforts since the late 1980s both to become more democratic and actively to promote structural adjustment policies—both efforts that comply with the orientation of Japan's Official Development Assistance Charter. Hence to give foreign assistance to Jordan is consonant with the philosophy and strategy of Japan's foreign policy and would lead to Japan's better fulfilling its responsibilities as a member of the international community.

I. Jordan and the Middle East Peace Process

Political aspects

Jordan has long been a party to the conflict over the Palestinian problem particularly since the 1948 and 1967 Middle East wars, but since 1991, that is, when the Middle East peace process began, it has been actively engaged in the peace-making process initiated under joint U.S. and former Soviet sponsorship. In October 1994, Jordan signed a peace treaty with Israel; it is now making progress toward improving bilateral relations with both Israel and Palestine and multilateral relations with other countries in the Middle East. Jordan is

also actively engaged in regional economic cooperation, which has visibly moved forward as the Middle East peace making efforts have advanced. In October 1995, Jordan organized a Middle East and North Africa Economic Summit in Amman, where Jordan, Israel, and Palestine strongly backed the idea of establishing a Middle East-North African Development Bank. On the domestic political front, Jordan has actively promoted democratization, holding general elections in 1989 and reconvening its parliament, which had suspended de facto for 22 years.

Jordan has long sheltered many Palestinian refugees within its borders; for this reason, a solution to the Palestinian problem and further progress in the Middle East peace process are vital for Jordan's domestic political and social stability. Should the Middle East peace process fail to bring a visible peace dividend, however, or should the interim self-government process suffer a major reversal, domestic critics and opponents of the peace process in Jordan would very likely step up their resistance. Progress in the Middle East peace process is therefore crucial to Jordan's stability.

Economic aspects

Jordan has had perennial budget and current account deficits ever since the foundation of the kingdom and is dependent on foreign assistance and remittances from Jordanians working abroad. To improve its financial situation, it has committed itself to carrying out structural adjustments and a privatization program and has demonstrated a positive attitude toward reconstruction of the regional economy.

After losing the West Bank in the Middle East 1967 War, Jordan's economy lost momentum and slowed down. The oil boom triggered by the 1973 War prompted an upturn, whereupon phosphate and potash production picked up and Jordan's industry grew, mainly centering around entrepôt trade. Yet due to the long persistence of economic dependence on emigration, the middle class, the technically skilled young and the entrepreneurs of Jordan continued to emigrate to find jobs, and Jordan's chronic brain drain has slowed the growth of its local industry and hindered economic development. The end of the oil boom in the 1980s marked the end of the good times for business; the economy was dealt a further hard blow by the Gulf War.

In 1989, an agreement was reached with the IMF on a five-year structural adjustment package. In 1991, another agreement was reached on a second package covering the seven-year period from 1992 to 1998. These agreements do not involve big government-led projects of the conventional type but stress private-sector initiative. In 1995, a new investment law was passed by the upper house of Jordan's parliament, symbolizing Jordan's progress in implementing privatization policies.

At the October 1995 Amman Summit, it was agreed in principle to establish the Bank for Economic Cooperation and Development in the Middle East and North Africa, and a number of joint projects in tourism and other areas were proposed. Historically, Jordan's economy has had close ties with Israel, Palestine, and Iraq. Relations with these countries are being normalized as progress is made toward peace, and continued progress toward development of the region as an economic zone will benefit the Jordanian economy.

II. Development in Jordan Today

Jordan is poor in natural resources and lacking in water, and this has affected its industrial development. In agriculture, water resource constraints are among the reasons for agriculture's low shares of the GDP and the work force. Mining and manufacturing are likewise immature, apart from phosphate and potash production and related industries, labor-intensive processing industries, and the textile industry, but Jordan is actively engaged in fostering industry by introducing new legislation on investments, building industrial parks, and planning a free trade zone. Tourism is an important source of foreign currency, and Jordan counts on it to grow. Though Jordan is relatively well equipped with electricity, transportation, and other infrastructure needed for industrial development, further improvement is still necessary. The absolute insufficiency of water resources is a hindrance to development, of course, but so is the current inefficiency of water management and use as well as the inadequacy of water supply and sewage facility maintenance. With the country's only seaport, the Aqaba region is important as an entrepôt trade base, industry promotion zone, and tourist site, and is being given priority in development.

Job opportunities are limited in Jordan, due to the immaturity of domestic industry, leaving the people's livelihoods insecure. While Jordan's educational indices are high, the middle class, which is indispensable to industrial develop-

ment, is too small to play a sufficient role, and education guarantees neither stability of employment or improvement in one's standard of living. Jordan's population growth rate is, moreover, very high and the percentage of the population less than 15 years of age very large. These factors, too, put yet more pressure on employment, the living environment, and social services; the problem is especially acute in cities and their environs where, in addition to natural population growth, there is an influx from rural areas. Health care standards are relatively high, but rural areas are still under-served and the gap with respect to the cities presents problems. Structural adjustments' impacts on Jordan's socially disadvantaged must be carefully weighed.

III. Japanese ODA's Orientation and Approach

Future ODA Orientation and Agenda

ODA for Jordan should be considered an integral part of Japan's international support for the Middle East peace process. Assistance must therefore promote Jordan's political and economic stability and the regional economy's development, bearing in mind the Palestinian question. Taking these points into consideration, three basic ODA orientations should be considered with reference to Jordan's present situation: i) laying the foundations for economic stability and development, ii) supporting the stability and sustainable development of Jordan's domestic communities, and iii) Assisting the Jordanian economy to become a more active entrepôt site in prospect of the regional economy's take-off.

Priority Areas for ODA

Based on the above type of orientation, Japanese ODA should focus on the following priority areas:

1. Laying the foundations for economic stability and development

Japanese ODA should help to build the foundations for Jordan's political and economic stability and future development within a framework of progress toward Middle East peace.

- Support for macroeconomic stability and structural adjustments
- Reform and increased efficiency in both the government and the public

sector

2. Supporting the stability and sustainable development of Jordan's domestic communities

Japanese ODA should make it possible for Jordanians to actualize tangible peace dividends by alleviating the burden of structural adjustments on the sectors of Jordanian society whose lives are most easily affected and by directing efforts at the whole spectrum of social development, including basic human needs (BHN), thus promoting domestic political, social, and economic stability.

- Improvement of environmental sanitation in urban areas
 - Improvement of basic medical services, especially in rural areas
 - Improvement of basic information infrastructure for social policy implementation
3. Assisting the Jordanian economy to become a more active entrepôt site in prospect of the regional economy's take-off

Japanese ODA should support laying the foundations for a strong domestic economy by fostering industry, revitalize the Jordanian economy so that it can grow in the regional economy of which it is a part, and develop human resources appropriately in both the government and private sectors to set institutional reforms in motion with a view to achieving the two objectives of laying the foundations of and revitalizing the economy.

- Action directed at electric power, transportation, and other economic infrastructure
- Effective use of water resources
(Cooperation in order to improve management, transfer of appropriate technology, rehabilitation of water supply and sewage systems, etc.)
- Promotion of industry
 - Fostering of small-scale businesses
 - Tourism
 - Development of the South, with Aqaba and its environs in a regional hub
- Appropriate human resource development
 - Training of government and public sector staff, training of staff to foster and promote private sector industry

Important considerations in ODA implementation

In implementing ODA in the priority areas described above, compliance with the stipulations of the ODA Charter, stress on self-help efforts, consideration of compatibility with multilateral support frameworks for the Middle East peace process, concern for the disadvantaged, and promotion of participation by the people of both Japan and Jordan are important considerations. The Middle East peace process, Palestinian interim self-government, relations with Iraq, structural adjustments, and other aspects of the time framework must also be taken into consideration.

ODA orientation and priority areas

(Philosophy underlying ODA)

< Jordan's role in the Middle East >

Direct party involved in Middle East peace process
Crossroads between the Gulf and Eastern Mediterranean

< Importance of Jordan's social and economic development >

Promotion of Middle East peace process
Economic underpinning for regional economic development and peace process
(In the strict sense: Israel, Palestine, Jordan)
(In the broad sense: Israel, Palestine, Jordan, plus Iraq, Syria, and the Gulf states)

(Basic orientation of development and ODA priority areas)

< Major goals >

< Orientation of development >

< Intermediate goals >

Laying of foundations for economic stability and development

Macroeconomic stability and structural adjustment

Government and public sector reform

- Ensuring growth
- Curbing inflation
- Balancing the budget and reforming the tax system
- Improving the balance of payments

- Reorganizing the government sector for greater efficiency
- Reforming and privatizing state enterprises
- Promoting private sector investment
- Improving statistical and other data infrastructure

Support of stability and sustainable development of domestic communities

- Improvement of the environment, primarily urban
- Improvement of basic medical services, especially in rural areas
- Establishment of basic data on Jordan's regions

Assisting the Jordanian economy to become a more active entrepôt site in prospect of the regional economy's take-off

Economic infrastructure improvement programs

Effective use of water resources

Industrial promotion programs

- Electricity
- Transport

- Promotion of better water management
- Transfer of appropriate technology
- Rehabilitation work

- Programs to foster small-scale businesses
- Promotion of tourism
- Development of the south, with Aqaba and its environs in a regional hub
- Appropriate human resource development

< Important points and considerations >

< General Considerations >

- Coordination among donors
- Stress on responses to moral hazards and self-help efforts
- Future projects involving regional cooperation with Israel and their effects
- Respect for the ODA Charter
- Concern for the most disadvantaged
- Promotion of people's participation in programs both by Japanese and Jordanians

< Support for structural adjustments >

- Attention to the debt situation and mounting debt service burden
- Support for the framework for peace
- Promotion of reform in balance of international payments and national budget
- Concern for social safety nets (ties to grants and technical cooperation)

< Social development >

- Attention to disparities between rural and urban areas, especially between northern and southern areas
- Efforts to ensure the efficient use of water resources
- Promotion of tie ups with local NGOs and grassroots participation

< Industrial development >

- Efforts to ensure the efficient use of water resources (tied to promotion of agriculture and industry)

Preamble: The Philosophy and Necessity of ODA

1. The present state of the Middle East peace process

The Middle East peace process began at the Madrid Conference in October 1991. Since that time, a number of breakthroughs have taken place, with the signing in September 1993 of the Declaration of Principles on Interim Self-Government Arrangements by Israel and the Palestine Liberation Organization (PLO), the beginning of the first stage of self-government in the Gaza Strip and the Jericho area in May 1994, and Palestinian elections in January 1996. Decisive changes also occurred during this period between Israel and Jordan. The Common Agenda was signed between Israel and Jordan in September 1993, the Washington Declaration, in which the parties agreed to end hostilities, was signed in July 1994, and a peace treaty was signed between them in October 1994. Jordan is the second Arab country to sign a peace treaty with Israel. (Egypt was the first.)

The peace making efforts of the PLO and Jordan, which until now were continually in direct conflict with Israel, are bringing about major changes in other Arab countries. Already, Tunisia, Morocco, Oman, and Qatar now have some form of official relations with Israel. Some Islamic nations in Asia (Indonesia and Malaysia, for example) have begun moves toward establishing ties with Israel. In other words, the progress of the Middle East peace process is having a strong impact on countries outside the region as well.

Yet the peace process is by no means solidly established yet. The more than century-long conflict between the Israeli and Palestinian peoples has left deep scars on both sides. Forces adamantly opposed to peace are present in both the Israeli and the Arab camps. Hence in order to perpetuate and strengthen the peace process, both efforts by the parties directly concerned as well as international support from outside parties are essential. To show evidence of a peace dividend and heighten the degree of mutually beneficial interdependence, the peace process must have economic underpinnings.

2. The Middle East Peace Process and Japan

Since the end of World War II, Japan has consistently appealed for world peace and mobilized its diplomacy to achieve it. These efforts are Japan's duty

as a member of the international community, whose stability and security are in Japan's national interest. Japan's basic diplomatic strategy is to enhance the global community's stability and security.

Japan has also stressed the need for a fair and peaceful solution to the Palestinian problem and to the Arab-Israeli conflict and is giving assistance to the Palestinians via the U.N. and to the Arab countries involved in the Middle Eastern conflict, including Jordan. This assistance is motivated by the great importance of the Middle East for the world's stability and security politically, economically, and religiously and by Japan's reliance on the Middle East as its main primary energy source. Since 1991, Japan has been actively involved in the current Middle East peace process and has further extended its assistance to the Palestinians in many areas. Japan is also carrying out multifaceted cooperation in the peace process by sending a mission to observe the Palestinian elections and taking part in peace keeping operations (PKO) on the Golan Heights.

It is evident from this outline of the peace process that the road to Middle East peace is a long one and requires international support of various kinds. For this reason, to continue to carry out this assistance and cooperation is consistent with Japan's basic philosophy and Japan's unshirkable duty as a key member of the international community.

3. The necessity of ODA for Jordan

Jordan has been a direct participant in the conflict with Israel and is placed in a unique position with respect to the Middle East peace issue: more than half of Jordan's inhabitants are Palestinians, and more than a quarter of the population is even now registered as Palestinian refugees with the United Nations. Because the West Bank of the Jordan River was controlled by Jordan until 1967, West Bank Palestinian residents hold Jordanian passports even today, and both Jordanian and Israeli currencies are in use on the West Bank. In this way, Jordan and Palestinian society are linked at many levels and in many ways, and for this very reason Jordan's politics, society, and economy are closely involved in efforts to settle the Palestinian question.

Another factor is Jordan's location at the junction of the Gulf and the Eastern Mediterranean regions. Jordan is heavily influenced by events in Iraq

and the member states of the Gulf Cooperation Council (GCC) as well as being crucially located for building cooperative ties over a broad geographical region spanning Middle Eastern states. For this very reason, Jordan's progress along the path to political and social stability and economic growth is essential to ensuring the stability and security of the entire Middle East region by promoting the peace process centering around three parties: Jordan, Israel, and Palestine.

Jordan has moreover striven since the mid-1980s to democratize and to achieve economic independence through its active commitment to a structural adjustment program. Jordan's attitude is consonant with the goals of Japan's ODA Charter.

Hence because, as outlined above, Jordan has such an important role to play in the Middle East peace process and is committed to greater democracy and economic independence, assistance for Jordan is consistent with Japan's foreign policy philosophy and strategy and will help Japan to perform its duty as a key member of the international community.

Chapter I Jordan and the Middle East Peace Process

1. Political Aspects

1-1 Jordan in Outline

The Eastern Mediterranean region including Jordan has been an intersection of the East and the West since ancient times. In modern and contemporary times, the major powers have regarded it as a region of strategic importance, especially during the Cold War, when it was very much under the sway of the superpowers' strategic designs. Now that a Palestine interim self-governing authority has been established and Jordan and Israel have concluded a peace treaty, Jordan is increasingly important as a trade junction linking the Eastern Mediterranean with the Gulf states of the Arabian Peninsula.

With a land area of 89,000 square kilometers, approximately one-fourth the size of Japan, Jordan has been an independent and sovereign nation since 1946; its population was about 4.1 million people in 1994. The foundations of the Jordanian state were laid in the 1920s with the establishment of the Emirate of Transjordan. With the backing of Great Britain, whose influence in this region was preponderant at the time due to its League of Nations mandate, the emirate was founded in 1923 on the East Bank of the Jordan, reigned by the royal family of the Hashemites, who, at the head of an Arab army during World War I, had helped harass the Ottoman Empire's rear guard. The Emirate's main foreign policy decisions were at first in Great Britain's hands, until the country became independent as the Kingdom of Transjordan in 1946. In the 1948 War, Jordan occupied the West Bank of the Jordan River, including East Jerusalem, and in 1950, it formally annexed the West Bank and changed Transjordan's name to the Hashemite Kingdom of Jordan.

The legitimacy of the Hashemites' rule is based on its direct descent from the Prophet Muhammad (Jordan's state religion is Islam). Against this background, it merits special mention that the Hashemites have forged a single nation by granting special favors and consideration to several indigenous social groups, and that the Hashemite legitimacy is recognized as the main stay of the nation by domestic Islamic forces that otherwise might tend to oppose the government. The monarchy still receives strong support even now, thanks to

close ties with diverse ethnic groups cultivated by the Hashemite over decades; the solidity of these ties is one of the elements indispensable to Jordan's political and social stability today.

Nor can Jordan's relationship to the Jordan River's West Bank be ignored from a historical perspective. Even since the West Bank came under Israeli control during the War of 1967, it has maintained strong political, social, and economic ties with Jordan. Jordan has adopted an "open door policy" under which residents of both the East Bank and the West Bank are allowed to come and go across the two sides of the Jordan River, although the West Bank is occupied by the Israelis. This exchange—not only the coming and going of people, but also a commerce in goods—has been regarded as important and has not changed even now that Palestinian autonomy is growing on the West Bank. This is illustrated by the fact that, even today, Jordanian currency is the main currency used on the West Bank.

Another fact that must not be forgotten—in addition to the fact that Jordan was a direct belligerent in the Middle East conflict—is how many Palestinians live in Jordan or how closely Jordan's well-being hinges on a solution to the "Palestinian problem." After each episode of the Middle East conflict, more Palestinians have poured into Jordan from the West Bank as refugees or displaced persons. The first such major influx took place during the 1948 War, the second during the 1967 War; they greatly changed the composition of the population of Jordan, to the extent that, by one estimate, about 60 percent of Jordan's total population today is of Palestinian origins. The rise of the Palestinian liberation movement after the 1967 War consequently allowed the remarkable growth of the PLO's influence inside Jordan to the point where, at one time, it menaced Jordan's national stability. Though Jordan surmounted this crisis, the continued presence of Palestinians within its borders remains a frequent element of instability.

From the 1950s to the 1970s, the rise of a left wing linked to Arab nationalism, the PLO's challenge to the Jordanian monarchy known as the Black September incidents, and repeated wars with Israel made it necessary for Jordan to impose strict political control internally, in order to retain its integrity as a nation. The situation has changed gradually since then, however, and especially since the mid 1980s, Jordan's domestic politics have been marked by democracy-oriented policies.

Jordan has been viewed recently as a model Middle Eastern democracy; since the late 1980s, it has made efforts to promote democracy, principally in its government and parliament. These moves toward democracy were triggered in April 1989 by riots in the southern Jordanian city of Ma'an in protest over gasoline price hikes, leading King Hussein to promise to reconvene Parliament (which in effect had been suspended), to allow general elections to be held for the first time in 22 years (since April 1967), and to promise officially that the people's perceived grievances regarding inequalities would be redressed, the government would be more open, and the will of the public would be reflected in policy making. After elections were held as promised, King Hussein appointed prominent and powerful Jordanian political, academic, and business figures, irrespective of their political ideology, to sit on a special commission with a mandate to draft "guidelines" regarding Jordan's future based on a national consensus.

Despite domestic unrest caused by the Gulf War, the commission completed these guidelines in June 1991; they were approved and adopted in parliament as the national consensus by the assembled representatives of the nation. Now called the National Charter, the guidelines set forth the Jordanian nation's objectives in many fields, including Jordan's domestic and foreign policy, security, economy, society, and education. It also called for the establishment of political pluralism—in other words, the realization of a multiparty political system—to embody the people's participation in political life.

With the National Charter complete, Jordan next moved to enact legislative reforms related to abolishing martial law, which had been in force since the 1967 War; martial law was completely lifted in March 1992. Meanwhile, Jordan's Parliament began deliberations on legislation regulating political parties based on the principles of the National Charter. Under the "Political Parties Law," passed in August of the same year, which stipulates that "political parties must respect each other's activities based on political pluralism and peaceful dialogue," each political group must apply for official authorization as an approved political party; thus far, more than twenty parties have come into existence. It must be considered when gauging the seriousness of Jordan's democratization that not a single application for authorization has been refused thus far on grounds of the group's political beliefs; today's authorized parties cover a vast spectrum, from religious inclination to Communism and the Pan-Arab nationalism that in the past shook the Jordanian political sys-

tem to its roots. Today's political parties, moreover, may appeal in the courts if they are dissatisfied with the restrictions to which they are subject under the Political Parties Law: the recognition of this right to contest the power of government authorities in the courts can also be said to demonstrate that the Political Parties Law provides fundamental guarantees of political pluralism.

In the general elections held in November 1993, upon expiry of the term of office of the parliament elected in 1989 after a hiatus of 22 years, many candidates from these newly established parties stood for election in the first multiparty balloting in Jordan in 37 years, turning a new page in Jordanian politics.

Amidst the present current of democratic change, Jordan is showing a willingness also to address human rights issues. In response to the declaration of the 1990 United Nations Children's Summit, a follow-up conference on children's human rights was held in Amman under the patronage of King Hussein in 1992, when the Political Parties Law was passed. In the same year, the Jordanian authorities began to approve the establishment of branches of overseas human rights protection groups to demonstrate to Jordanians and to the world that Jordan was taking the human rights issue seriously.

Though moves toward greater democracy in Jordan have only just begun, progress is being made with attention to domestic human rights, as described above. This is further evidence that Jordan aims at being a society that is yet more open to the outside world and is striving to build the basis for development of a healthy political and social environment in the future.

1-2 Jordan and Middle East Peace Making

Yet these efforts by Jordan to promote internal democracy will bear no fruit unless external stability and stable ties are established with neighboring countries and regions. In other words, for Jordan to ensure its national stability, the decades-long Middle East conflict and the many problems that it engendered must be solved: with many Palestinians living within Jordan's borders, Jordan's political and social stability depends on a solution to the Palestine problem—or, on the continuation, progress, and successful outcome of the current Middle East peace process.

At the Middle East peace talks, which began under the co-sponsorship of the United States and the former Soviet Union in 1991, Jordan assumed an active role in the peace process from the start, forming a joint delegation with Palestinians. At the 1992 multilateral conference on peace in the Middle East held in Moscow as a stage in this process, Jordan was the only participating Arab country that was among direct parties to the conflict and made a significant contribution. Later, as it waited for the Palestine-Israeli negotiations to make progress, Jordan entered into direct negotiations, delineating borders and settling other questions in which it had a direct interest with Israel: Jordan thus finally concluded a peace treaty with Israel in 1994. Yet the road to an agreement was by no means an easy one, due especially to the existence of issues to settle with Israel that were other than strictly bilateral.

Thus far, international attempts to realize a comprehensive Middle East peace agreement include, if we count only the major efforts, the peace initiative by U.S. Secretary of State William Rogers in 1970, the Camp David Accords of 1978, the Fahd plan of 1981, and the Fez plan of 1982. Yet all ultimately failed due to the parties' intransigence. Just to cite those in which Jordan was involved, U.S. President Ronald Reagan's peace initiative in 1982 suggested that the U.S. might give Jordan the backing it needed if it strove for peace. This initiative, called the Reagan Peace Plan, proposed an effective withdrawal of Israeli troops from occupied territories, a freeze on Jewish settlements there, and the creation of a Palestinian entity with complete autonomy on the West Bank and the Gaza Strip, in association with Jordan. Jordan welcomed this plan, and announced its intention to take part in peace talks based on the Reagan Peace Plan. This led to discussions with the PLO, with which Jordan's relations had cooled, and to an agreement in 1985 on a framework regarding joint action between Jordan and the PLO toward a just solution of the Palestinian problem, but after that, coordination made no further progress and the peace process again ground to a stop in 1987 when the Palestine National Council passed a resolution abandoning the framework agreement.

Chilly ties between Jordan and the PLO did not thaw until Jordan altered its stance on the West Bank. The uprising, "intifada", against the Israeli occupation by Palestinians living in the West Bank and the Gaza Strip, which began at the end of 1987, drew international attention to the Palestinian problem, but these international concerns focused criticism on the Jordanian stance toward the Palestinians, and the following year, King Hussein, while denying

his country's pretensions to the West Bank, decided to cut legal and administrative ties with the West Bank. Upon this Jordanian renunciation, the Palestinian National Council issued "the Palestinian Declaration of Independence." This declaration was immediately supported by Jordan, which announced it would recognize Palestine's independence; the PLO's office in Jordan, which had been closed for a time, was reopened as the Palestinian Embassy, whereupon Jordanian-PLO relations became significantly more cordial.

Yet Jordan continues to have close relations with the West Bank to this day. Though Jordan severed its legal and administrative ties with the West Bank, it continued to control Islamic assets in the West Bank until 1994, when the Palestine interim authority placed these religious assets in the West Bank and Gaza under its control. Jordan accepted the Palestinian resolution and renounced its right to control the religious assets on the West Bank, but expressly excluded from this declaration Jerusalem, over which it continues to assert its authority.

Jordan, and in particular the Hashemites, have thus far asserted their historical responsibility for Jerusalem, a city holy to Islam, i.e., their responsibility as protectors of the Islamic religion. The Jordanian-Israeli peace treaty signed in 1994 accords "special consideration" for Jordan's historical role in Jerusalem, and it is expected that Jordan will continue to play some sort of role in future negotiations between Israel and Palestine over Jerusalem's status.

At the same time, however, another question that involves Jordan in the Middle East peace process is the problem of Palestinian refugees. As mentioned above, Jordan has undergone two major influxes of Palestinian refugees and displaced persons in the past due its proximity to the West Bank. These waves of Palestinian emigration rapidly swelled Jordan's population, with major effects on its entire social and economic structure. Unlike its neighbors, Jordan has treated those of Palestinian origins juridically as Jordanian citizens, giving them Jordanian passports and the right to vote and be elected in Jordanian elections. In this sense, Jordan has been very liberal and generous.

Today, Jordan has more Palestinian residents—about 1.3 million—than any country in the region. The Palestinian residents of Jordan commonly known as "refugees" play an important role in the Jordanian economy. Many

with highly skilled jobs belong to the affluent class of Jordanians. Until the Gulf War, Jordan's Palestinian residents went mainly to the Gulf states to find work and sent money home; these remittances from overseas have played an extremely important economic role by helping to sustain the Jordanian economy. Although in the past, Jordan's Palestinian residents have been a threat to its internal stability, today, they are well assimilated into Jordanian society and coexist peacefully with other social groups. Yet the very Palestinian residents who have been seemingly so integrated into Jordanian society may see their presence brought under new scrutiny, depending on the future progress of negotiations in the framework of the current peace process, with the potential for causing major social change within Jordan. Hence Jordan must watch developments and engage in negotiations, aware that the Palestinian problem is an important question affecting its national stability.

From before the beginnings of the current peace process, Jordan has also shown a willingness to attack problems shared by the entire Middle East region, such as the water shortage: e.g., the plan to build the Al-Wahada Dam under an agreement with Syria. It must deal in the future with problems of great importance for both Jordan and the entire Middle East region. Naturally, the refugee problem belongs to this category. Jordan will continue to make efforts toward its solution based on the framework of the Multilateral Middle East Peace Talks, but Jordan must also make efforts to come to terms with the insoluble remnants of the Middle East conflict, one by one, through bilateral negotiations as well.

Jordan's stance toward peace reflects the uncomfortable position in which it finds itself placed as a place of refuge for many Palestinians after successive wars and closely tied historically to the West Bank. Jordan will continue to be a third party closely involved in future negotiations between Israel and Palestine and in multilateral negotiations and discussions over the permanent status of refugees and the occupied territories; at the same time, it will not be possible to achieve peace in the Middle East, especially a solution to the Palestinian problem, without the active cooperation or involvement of Jordan, due to the complex and close ties between Jordan and the Palestinians and the West Bank.

1-3 Jordan's Role in the Middle East Peace Process

Thinking about Jordan's status and role in the current Middle East peace process must proceed on three levels. The first is Jordan's bilateral ties with Israel and Palestine (the Palestinian interim self-government authority). The second is the trilateral relationship among Jordan, Israel, and Palestine; this trilateral relationship, as we saw in the previous section, is historically very complex, and the future of Jordan much depends on talks and their outcome regarding the next stages of the process of interim self-government and the permanent status of the Palestinian entity. The third level is multilateral relationships in the Middle East, including those with other Arab states, which may emerge in the peace process.

(1) Relations with Israel

After the Israeli-Jordanian peace treaty was signed in October 1994, Israel and Jordan opened embassies, agreed on their common borders, and opened new border passage points, then signed further agreements in many areas such as tourism, transportation, air service, environmental protection, and trade. In accordance with a provision in the peace treaty (Article 7) abolishing economic boycotts affecting the other party, Jordan repealed in July 1995 the so-called Arab Boycott Laws, which had banned business dealings with Israel (even third-country companies that traded with Israel). The sharing of water resources was a thorny issue between Israel and Jordan, but in the peace treaty and its Annex II, it was agreed that Israel would cede to Jordan 215 million cubic meters of water per year. Under this agreement, a pipeline was completed in June 1995 that brought water from the Sea of Galilee (Sea of Tiberias) to the Jordan. Thus relations with Israel have been almost completely normalized at the bilateral government level. A considerable number of Israeli tourists visited Jordan in 1995, indicating that the flow of people, at least from Israel to Jordan, is growing.

(2) Relations with Palestine

In January 1995, a general agreement for cooperation and coordination between Jordan and Palestine was signed by Jordan and the Palestine interim self-government authority. This agreement's expressed purpose is to promote a general cooperative relationship between the two parties, and as annexes to

this agreement, separate agreements were concluded on cooperation in seven areas, including education, currency and banking, trade, communications and postal services, and culture and information. Specifically, it provided the following: i) the Jordanian Dinar (JD) would continue for the time being to be regarded as legal tender on the West Bank and Gaza; ii) a list of mutually duty-free items would be drawn up and added to thereafter as a measure to stimulate free trade; and iii) Palestinians who pass Tawjehieh (the General Secondary School Certificate Examination) conducted by the Palestine Authority would continue to be admitted into Jordanian universities and other post-secondary institutions. Yet the construction of Jordanian-Palestinian ties in this new framework did not go as far as those between Jordan and Israel. The Palestinians have been too busy negotiating with Israel and establishing and building up the new social and economic foundations of their autonomy to reach more than ad hoc, provisional agreements about Palestine itself or to hammer out a clear orientation for long-term ties between Jordan and Palestine.

(3) Trilateral relations

Jordan, Israel, and Palestine must reach definite agreements in a very wide variety of fields, including the movement of people and goods, finance, water resources, and infrastructure. Inevitably, relations between any two of the three countries closely involve the third. Presently, almost no tripartite coordination or consultation is taking place with regard to economic ties or infrastructure improvement. One reason, mentioned in section (2) above, is that the Palestinians still have not hammered out clearly oriented policies. With regard to the water question, however, trilateral talks have taken place on several occasions, and it was announced in February 1996 that an agreement had been reached on a basic framework for water use, but the specifics have not been made public.

The trilateral issue that will have the greatest impact on Jordan in the future is a final decision on the permanent status of the West Bank and Gaza. According to the series of agreements made between Israel and the PLO beginning with the 1993 interim Palestinian self-government agreement, the present interim self-government period will end in May 1999, after which the West Bank and Gaza will attain permanent status, and with that date in mind talks on its permanent status will begin in May 1996. These talks will take place

principally between Israel and the PLO and will address and determine the status of Jerusalem, the delineation of borders, security measures, refugees, and relations with bordering states. Each of these questions is of great importance to Jordan. The refugee question in particular, which will be addressed below, is at the same time a domestic problem for Jordan.

Whatever decision is reached regarding the permanent status of the West Bank and Gaza, it will determine the future relationship between Jordan and Palestine. Until now, Jordan and the PLO have expressed agreement on establishing a confederation of their two countries as soon as the West Bank and Gaza Strip become established as an independent state. For example, immediately after the January 1996 Palestinian elections, Chairman Arafat declared his intention to establish a confederation with Jordan immediately after achieving independence. It is not at all clear, however, specifically what sort of idea he has in mind of the resulting ties between Jordan and Palestine. Meanwhile, the Palestinians are studying the introduction of their own currency, which is but one example of how not everything they are undertaking is consistent with the establishment of a confederation. Whatever happens, if a real confederation were to be established that affected many areas, the new confederation would have 1.5 times Jordan's present population and GDP. Furthermore, from 70% to 80% of the population would be of Palestinian descent, a change that would greatly influence the character of the Jordanian nation.

(4) The refugee problem

With only a few exceptions, Jordan has given Jordanian citizenship to the refugees living within its borders (including displaced persons from the 1967 war). The refugee problem is therefore an internal problem for Jordan. How displaced persons will be repatriated, and what is required to "solve" the refugee problem are therefore questions with major impacts on Jordanian politics and society. The United Nations Relief and Works Agency for Palestinian Refugees in the Near East (UNRWA) still supplies refugees with basic education, health care, and other social services, spending \$70 million in Jordan through its ordinary budget and hiring about 6,200 school teachers (the vast majority of whom are themselves Palestinian refugees). For this reason, if the refugee problem is "solved" and UNRWA is disbanded, the Jordanian government will have to take its place, providing services and staff in its stead, probably with an increased burden on the Jordanian government's budget.

(5) Multilateral peace making efforts

Jordan is taking part in all five working groups (economic development, refugees, water resources, environment, and arms control and regional security) in the multilateral Middle East peace talks. Thus far, it has hosted seminars for the working groups on the environment and on arms control and regional security. Separately from the multilateral Middle East peace talks, Jordan hosted the second Middle East and North Africa Economic Summit in October 1995, where it was agreed that the secretariat of the multilateral talks' economic working group would be located in Amman and where the idea of establishing a Middle East and Northern African Development Bank was discussed and strongly backed by Jordan, together with Israel and Palestine.

(6) The Middle East peace process and Jordan's domestic situation

As demonstrated by Jordan's actions since signing of the peace treaty with Israel, Jordan is officially eager to further the normalization of relations with Israel and the entire Middle East peace process, but public opinion in Jordan is not always united in support of the government's peace policy. A considerable number of groups criticize or oppose peace with Israel, either on religious (Islamic) or Palestinian nationalistic grounds. Jordanian professional groups, for example, in which Palestinian residents wield great power, have expelled members who have had contacts with Israelis (and because union shop employment rules prevail in Jordan, exclusion from, say, the engineer's guild disqualifies one from further work in that field). Unless the Middle East peace process brings a tangible peace dividend, Jordan's domestic critics and opponents could again stiffen their opposition to peace if, say, the interim self-government process suffered a major reversal, or if settlement of the refugee problem gave the impression that the weak had been victimized and abandoned.

2. Economic Aspects

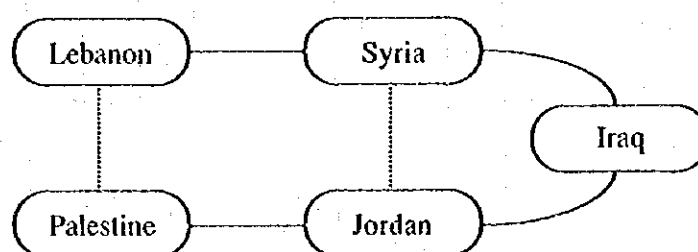
2-1 The History of Jordan's Economic Development

(1) Characteristics of the Near East Economy in and outside Jordan

The history of Jordan's economic development can be divided into three distinct phases: a period before the creation of the State of Israel in 1948, a period between the creation of Israel and the Gulf War, and finally the aftermath of the Gulf War leading up to the present time. The first period corresponds to the time when Transjordan came under the British Mandate (1921-1948). The second period, characterized as the "period of isolation", began with the establishment of the State of Israel in 1948 and lasted until the 1980s. And the third period begins with the end of the Gulf War, within which Jordan had been forced to reorganize its economic environment due to the loss of Iraq as its single most important market. Needless to say, these periodizations correspond to the history of changes in territorial segregation of the Near East.

In macroscopic observation, the Near East consists of two parallel economic blocs: the Syro-Lebanese economic sphere, and the bloc formed geographically by Palestine and Jordan. They are similar in shape but fundamentally different in character. The creation of a British Mandate over Palestine and Transjordan, and a French Mandate over Syria and Lebanon after World War I was not an accident. It was a result of pre-existing close political and economic relations between Palestine and Transjordan, as well as between Syria and Lebanon (Figure 1).

Figure 1 Jordan's economic relationships before the creation of Israel

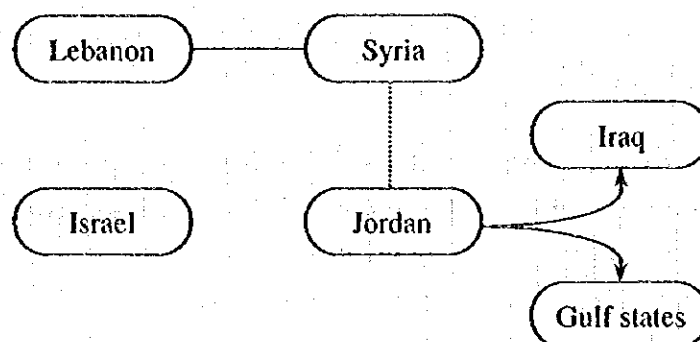


The Syro-Lebanese economic sphere, based in the port city of Beirut, extends trade routes via Damascus to Iraq, and with oil pipelines built under the French Mandate, it created a unique economic realm extending from the Mediterranean to the Gulf. Similarly, the Palestine-Jordanian bloc, based in the port city of Haifa, had trade routes and an oil pipeline connected to Iraq.

It should be noted that hardly any appreciable trade took place between these two economic spheres. Under the Ottoman rule, there were two roads connecting these regions: one went southward on the Mediterranean coast, connecting Alexandretta in the north and Cairo in the south through Beirut (Lebanon) and Haifa (Palestine). Another connected Aleppo and Saudi Arabia through Damascus (Syria) and Amman (Jordan)—the so called "Pilgrimage Road." Yet, other than to make a pilgrimage to Mecca, Medina and Jerusalem, travel to the other administrative districts was officially restricted under the Ottoman empire, and these north-south roads were virtually unused for major trade purposes. Furthermore, since both British and French Mandatory authorities took independent development plans to enforce their sphere of influence, emphasis was naturally put on the economic unity of each Mandated territories. As a result, both the British and French Mandate created an environment where each economic sphere had an international outlet, but neither side put emphasis on inter-regional economic links.

In other words, between the World War I and II, two mutually independent economic zones emerged and implanted themselves in the Near East. It is important, hence, to take the following five points into consideration when we consider the background of Jordan's economy: i) the Jordanian economy is closely linked geographically to Palestine's; ii) the creation of the State of Israel cut off Jordan's natural economic ties with Palestine; iii) this forced Jordan in the short run into "unnatural" dependency on the Syro-Lebanese economic zone; iv) the link to the West being cut off, the only remaining economic partners were Iraq and the Gulf States (Figure 2); and v) peace with Israel is gradually restoring Jordan's economic framework to its original form. In the next section, we will look at the changes in economic environment of the Jordanian economy through each phase.

Figure 2 Jordan's economic relationships after the creation of Israel



(2) The Jordanian economy under the British Mandate (1921-1948)

Transjordan was founded in 1921 under the British Mandate and was granted partial autonomy in 1923; from that time onwards, we could observe the Jordanian economy independently as such. At the time of the establishment of Transjordan, 60 percent of a population of 300,000 were nomads: there was scarcely any industry to speak of, and sedentary farmers tilled the dry land using traditional methods with almost no irrigation facilities.

The government attempted to modernize and to promote agriculture by establishing the Agricultural Bank in 1922, but with exception of a few years during World War II when exports boomed in response to large war-time demand, Jordan's agricultural products were basically consumed at home and the surplus was usually bartered in exchange for daily commodities.

It was during World War II that Jordanian trade prospered. Taking advantage of Jordan's strategic position as a vital hub of East-West transport, the government signed generous trade treaties with surrounding countries in which import/export quotas were abolished and foreign exchange was liberalized. As a result, goods transiting Transjordan increased six-fold between 1939 and 1945 and the total value of exports of Jordanian products also increased four-fold. The war-time economic boom ended abruptly, however, when war-time demand's momentum ceased in 1947. This episode is indicative because it provides an interesting model for the revitalization of Jordan's economy at present.

Another interesting model is provided during the same period in the field of finance and budget. A large part of Jordan's state budget under British Mandate was covered, in addition to the country's own revenues, by the British foreign assistance. During the World War II, the British contribution amounted to more than 60 percent of Jordan's revenues. (Table 1) While the question of budget and finance will be discussed later in this chapter, it is important to note here that, since the creation of the state, the Jordanian economy has been characterized by its persistent budget deficit and a strong dependence on foreign financial assistance.

Table 1 Jordan's national budget and British assistance

| Fiscal year | Outlays | Revenues | British foreign assistance | (B/A) % |
|-------------|-----------|-----------|----------------------------|---------|
| 1922 | - | - | 180,000 | - |
| 1923 | - | - | 90,000 | - |
| 1924 | - | - | 150,000 | - |
| 1925 | 267,997 | 273,650 | 75,632 | 27.6 |
| 1926 | 267,708 | 275,396 | 101,358 | 36.8 |
| 1927 | 274,910 | 302,516 | 66,000 | 21.8 |
| 1928 | 318,160 | 282,073 | 45,000 | 16.0 |
| 1929 | 301,220 | 280,916 | 98,653 | 35.1 |
| 1930 | 337,810 | 316,197 | 102,484 | 32.4 |
| 1931 | 371,510 | 367,516 | 148,461 | 40.3 |
| 1932 | 357,028 | 338,046 | 146,153 | 43.2 |
| 1933 | 349,200 | 354,888 | 132,148 | 37.2 |
| 1934 | 364,783 | 381,412 | 140,914 | 36.9 |
| 1935 | 386,540 | 377,517 | 132,268 | 35.3 |
| 1936 | - | 395,630 | 112,792 | 28.4 |
| 1937 | 400,538 | 418,650 | 161,519 | 36.1 |
| 1938 | 469,909 | 459,150 | 141,999 | 30.9 |
| 1939 | 512,017 | 736,569 | 397,237 | 53.9 |
| 1940 | 729,853 | 844,041 | 265,901 | 31.3 |
| 1941 | 1,135,310 | 1,193,857 | 681,976 | 57.1 |
| 1942 | 1,183,157 | 1,302,753 | 688,599 | 52.9 |
| 1943 | 1,423,351 | 1,522,296 | 924,895 | 60.8 |
| 1944 | 2,062,292 | 2,275,882 | 1,478,046 | 64.9 |
| 1945 | 2,854,528 | 2,911,707 | 1,644,421 | 56.5 |
| 1946 | 4,277,316 | 3,426,345 | 1,784,525 | 52.1 |
| 1947 | 3,181,605 | 3,650,128 | 1,464,869 | 40.1 |
| 1948 | 3,670,259 | 4,883,177 | 2,108,887 | 43.2 |

Source: Department of Statistics, Statistical Year Book, 1952 (Amman: Department of Statistics Press), cited in Kamel, S. A. Jaber and M. Shimizu, *Economic Potentialities of Jordan*, (Tokyo: Institute of Developing Economies, 1984, p 10-11)

(3) The Jordanian economy from the creation of Israel to the Six Day War (1948-1967)

Soon after the creation of the Emirate of Transjordan in 1946, it received a huge number of Palestinian refugees who fled from Palestine to the West Bank during the War of 1948. In 1950, Transjordan annexed the West Bank, which was freed from Israeli occupation, and established the Hashimite Kingdom of Jordan. Ironically, it was during this period of turmoil that the foundation of the present Jordanian economy were laid. An estimated 350,000 Palestinian refugees brought with them an estimated 20 million Palestinian pounds (1 JD=1 £ at that time), together with far greater expertise and skills than the average Jordanian worker had at the time. Moreover, almost all of these Palestinian refugees, having no sense of belonging or personal attachment to Jordan, where the economic infrastructure was yet to be developed, went on to seek a broader base of economic activities abroad. This was what gave rise to Jordan's "remittance economy" in the years to come. In other words, through the creation of Israel, Jordan has become a "Queen Bee" who depends on the honey brought from Palestinian "bees" working abroad.

During this time, Jordan's population suddenly tripled as a result of the influx of Palestinian refugees, which triggered a construction boom for their accommodation. Investment in construction increased 30 fold from 1949 to 1952, and Jordan's economy enjoyed an unprecedented, though short lived, boom.

Yet, soon after this construction boom, the Jordanian economy had to endure triple hardship for a long time. First, the economic system, historically dependent on Palestine geographically, collapsed. After the creation of Israel, the transportation in and out of Jordan had to be diverted from the traditional Palestine route to the Syria-Lebanon route, which took far more time and was more costly. As mentioned above, the route connecting Jordan with Syria and Lebanon was underdeveloped and its infrastructure was not designed for large scale trade. Hence, it created a situation, for instance, where a ton of phosphate ore, which cost \$2.80 to produce in 1953 when its commercial production began in Jordan, its transportation cost from Amman to Beirut was \$9.46, more than three times the cost of production. High cost and inefficient transport affected every part of the Jordanian economy which depended heavily on foreign import for its commodities. As a result, commodity supply could not

keep pace with the demand which rose from the large influx of Palestinian refugees. A long bout of inflation set in. Furthermore, in order to cope with the tripled population as a result of the influx of refugees, the government was forced to expand the capacity of educational, medical, and social infrastructures, which, together with increase in defense expenditure facing Israel (more than 10% of the revenues) put severe pressure on Jordan's finances. By the middle of the 1950's, the budget deficit reached 10 million Jordanian Dinars, of which 70 percent was made up for, again, by foreign aid, both grants and loans.

(4) The Jordanian economy from the War of 1967 to the Gulf War (1967-1990)

The Jordanian economy lost its momentum during the War of 1967 when it lost the West Bank, which was then responsible for over 30 percent of its total economic activities. A vast number of Palestinians fled to the East Bank, but, unlike in the case of 1948, these refugees had little economic capability to reinvest into their new destination. In the mean time, guerrilla activities by Palestinians against Israel intensified, which, alongside with a stagnant economic situation, caused nation-wide social unrest. This festering discontent set the stage for the civil war of 1970.

Yet the Jordanian economy's doldrums, which persisted well into the early 1970s, were to end after the War of 1973 with a sudden pickup triggered by the oil boom. The 1970s were also a blossoming time for Jordan's mining industry; starting in the mid-1950s, various state-owned mining industries developed later to be a pillar of the domestic industry. The Jordanian economy at this time could be characterized as going through a period of industrial diversification and consolidation of the remittance system.

Industrial diversification began with the growth of local industries, primarily in mining. High-quality phosphate ore was discovered at Rusayfa (10 miles north of Amman) in 1932, then at Kalat al-Hassa (about 15 miles south of Amman) in 1955. The Phosphate Mine Company was founded and began full-scale operation in 1953; by the mid-1970s, phosphates accounted for half of Jordan's total exports, becoming one of the pillars of Jordanian industry.

The potash plant in the northern Dead Sea town of Kallia, destroyed during the 1948 war, was not rebuilt for a long time; it resumed its production as late as in 1982, but production has increased since then to the point where

potash today, together with phosphates, is one of the mainstays of the Jordanian economy. Cement production, which began in 1964, also increased remarkably from the mid 1960s throughout 1970s. Thanks to the Dulail plant built in the late 1980s, the production of cement reached a basic annual capacity of 100,000 tons. During the same period, oil refining, fertilizers, electricity and other large-scale industries, as well as such medium-scale industries as textiles, weaving, and dyeing took off.

On the other hand, we should not overlook the growth in smaller industries. According to industry surveys, the value of industrial production was 42,300,000 Jordan Dinars (JD) in 1966. In the 1970s, a decade later, it had tripled, and by the early 1980s, it had increased 15-fold. Yet the value of production per unit (i.e. per plant), which was at its lowest in the mid-1960s, had still not increased substantially by the mid-1970s (Table 2). It shows that Jordanian industrial structure before the oil boom was centered around small-scale cottage-like enterprises, and that private-sector investment in highly productive medium-scale industry was underdeveloped, in contrast to large state-owned industries.

Table 2 Growth in Jordanian Industry

| Fiscal year of survey | Number of plants (A) | Jobs | Production (B) in million JD | Per-plant production (B/A) (Million JD) |
|-----------------------|----------------------|--------|------------------------------|---|
| 1955 | 421 | 8,198 | 7.2 | 17.1 |
| 1966 | 7,242 | 37,257 | 42.3 | 5.8 |
| 1976 | 4,925 | 29,325 | 127.6 | 25.9 |
| 1981 | 6,339 | 46,367 | 669.4 | 105.6 |

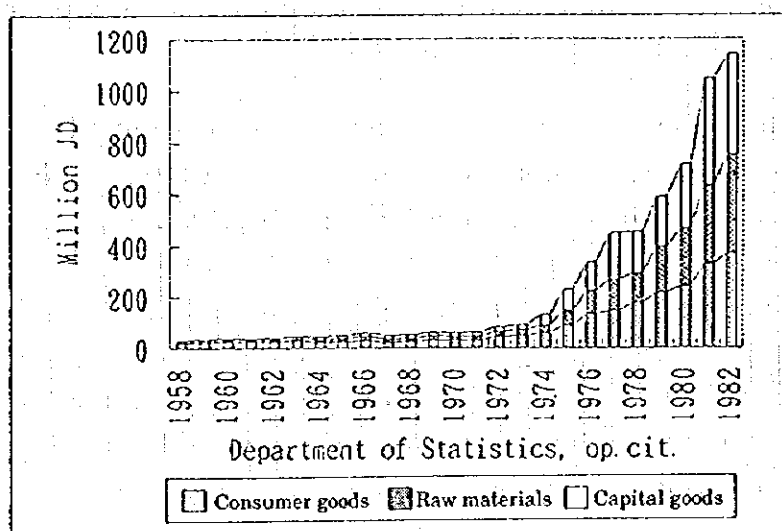
Source: K. Grunwald and J. O. Ronall, *Industrialization in the Middle East*, (New York: Council for Middle Eastern Affairs Press, 1960); Department of Statistics, *Statistical Year Book*, 1977, 1982.

During this period, the Jordanian government attempted to foster private enterprise through a number of agencies such as the Jordan Reconstruction Development Board and the Industrial Development Bank. Nevertheless, outgoing population in search of work mainly in the oil-producing Gulf states became a firmly implanted fixture of the post-oil-boom employment structure. As a result, young engineers and entrepreneurs and what ought to have been the core of Jordanian skilled labor left the country, and Jordan suffered this

“brain-drain” phenomena which prevented the healthy development of domestic industries.

Still, we could see some growth in the small-scale private industries oriented towards Arab markets during this time. The value of Jordanian imports for ten years from 1973 to 1982 grew from 14 million JD to 185 million JD—more than 10 fold. Aside from the imports of consumer goods, growth in raw-material and capital goods imports was remarkable from the 1970s onwards. The growth in raw material import is considered to be linked to the expansion of the local textile and other indigenous industries. It is also interesting to see that imports of producer goods grew to become one-third of total imports during this time. In other words, from the late 1970s to the 1980s, Jordanian had been newly investing in export-oriented industries to meet the rapidly growing demand in the Gulf region in the 1970s.

Figure 3 Components of import growth



Source: Department of Statistics, op. cit.

In response to the rapidly growing purchasing power of the oil-producing Gulf states in the 1980s, a framework of “processing trade” implanted itself in Jordan, in which raw materials were imported, processed in low-tech industry and exported to the Arab markets. Yet the delay in upgrading local industry could not be overcome, and Jordan’s current account balance ran a chronic deficit. Meanwhile, remittances from Jordanian workers in the Gulf states continued to increase at a greater pace than the current account deficit.

From the early 1950s throughout the 1980s, except for a few years after the 1967 War, the invisible balance consistently ran a surplus—one of the major characteristics of the Jordanian economy. In other words, Jordanian diligent “worker bees” continued to leave honey in the queen bee’s nest until stocks began to accumulate from the late 1970s throughout the 1980s.

One of the economic frameworks Jordan built up from the late 1970s throughout the 1980s—the “queen bee” model, in which the queen lives off the honey brought by worker bees—continued to function effectively as long as the economies of the Gulf states were healthy. But from the mid-1980s, when oil prices fell as a result of the world-wide oil glut as well as the weakening economic situation in oil-producing countries, winter set in, flowers wilted, and worker bees returned to their nest and had to live off the honey they had stored. It was the Gulf War that decisively curtailed the worker bees’ freedom of movement. The details are related in subsequent sections.

2-2 Characteristics of the Jordanian Economy and Some Points to be Considered when Supplying ODA

In the preceding observations, we sketched a picture of the Jordanian economy in historical context; there, we found several patterns. Now we will recapitulate these points with reference to Japan’s ODA strategy.

(1) Trade and transport channels and its reorganization

First, Jordan achieved remarkable growth during the World War II as a hub for entrepôt trade, but with the creation of the state of Israel, it was forced to divert from its traditional Palestine-Jordan connection to the Syro-Lebanese route for transportation. As pointed out earlier, this considerably raised the trade cost and subsequently slowed the development of Jordanian local industry. The revitalization of the Israeli-Jordanian trade and transport route, hence, stands out as one of the important tasks for the post-peace-treaty Jordanian economy.

Jordan’s geographical position as a base for entrepôt trade is of growing importance as economic ties between the Near East, Asia and the Pacific are quickly activating. It should be noted that there are high expectations among Israeli entrepreneurs for the role of Aqaba, effective use of which could reduce

time and transport costs in comparison to shipping via the Suez Canal.

(2) External factors in Jordan's economic revitalization

External factors have determined the course of the Jordanian economy on several occasions in the past. The first was the foundation of Israel in 1948, the second, the War of 1967, the third, the oil boom following the 1973 War, and finally the Gulf War: the foundation of the Israel-forced Palestinian refugees to move into the West Bank, tripling Jordan's population, and triggering the first step in Jordan's economic development. The capital and skills the refugees brought with them consolidated the foundations of Jordan's economy in subsequent years.

After the 1967 War, when Jordan lost the West Bank, however, its economy faltered. Many Palestinian workers spread out like worker bees, into oil-producing Gulf states; they sent remittance back to their families in Jordan, stabilizing the Jordanian economy. After the 1973 oil-shock, "honey" from these worker bees began to accumulate in earnest. After the Gulf War, the Gulf states sent their Palestinian workers back home; the "worker bees" ceased to bring honey home. Finally, the economic blockade of Iraq closed the Iraqi-Jordan route, which at the time was the single most important economic link for Jordan.

Summing up, the following conclusions can be made. First, the Jordanian economy is in a position where it will be directly and seriously influenced by the political situation of Israel in the west and Iraq and the Gulf states in the east. Second, the economic state of the surrounding nations directly affect the Jordanian economy. Third and last, the Jordanian economy does not react much to the political and economic situation of the north (Syria and Lebanon) or of the south (Egypt).

(3) Foreign dependency of the Jordanian budget

The permanent fixture amidst the Jordanian economy's pronounced vicissitudes is the dependence of its budget on foreign assistance. Table 1 above shows Jordan's budgetary dependence on the United Kingdom during the British Mandate period. From then onwards, there has not been a single year when Jordan has not been financially dependent on outside donors. Table 3 shows the amount of assistance Jordan received from 1967 and 1982; tendency for assistance dependency is growing yearly.

Table 3 Assistance to Jordan (million JD)

| | 1967 | 1970 | 1973 | 1976 | 1979 | 1982 | 1992* |
|----------------------|------|------|------|-------|-------|-------|--------|
| Financial aid | 44.7 | 37.5 | 57 | 86.1 | 247.9 | 282.9 | 4178.1 |
| Technical assistance | 2.4 | 2.4 | 0.2 | 0.012 | 0 | 0.6 | - |
| Development loans | 4.3 | 2.1 | 11.4 | 19.9 | 37.6 | 64.2 | - |

Source: Central Bank of Jordan, Monthly Statistical Bulletin, September, 1995.

Note: Figures for 1992 are the total of long-term loans, excluding an unpaid 625.4 million JD.

Although the Jordanian economy has been achieving reasonably good growth thanks to a first debt relief package in 1989, a second in 1992, and subsequent structural adjustment programs, that does not mean Jordan's financial dependency has ceased. On the contrary, the situation where Jordan relies on foreign assistance will continue for some time. This seems obvious when we look at the Jordanian government's expectation for new grants and loans to make up its deficit, expressed in the recent structural adjustment program (Table 4).

Table 4 Fiscal deficit reduction forecast (percent of GDP)

| | 1995 | 1996 | 1997 | 1998 |
|---------------------|------|------|------|------|
| Deficit forecast | 4.8% | 3.8% | 3.1% | 2.5% |
| Assistance forecast | 3.8% | 3.1% | 2.9% | - |

Source: Interview with a Central Bank of Jordan spokesman.

Note: Iraq's grants are expressed as the difference between official and discounted oil prices.

On the other hand, as stated above, Jordan continues to have a perennial invisible trade surplus. This is due largely to the remittances sent from Jorda-

nian workers abroad, especially in the Gulf states, but with the current difficulty of finding jobs in the Gulf ever since the Gulf War, there are now few Jordanians who still hold jobs and send remittance from abroad. The reason why "remittances" remain a large figure in the statistics is that Jordanians with savings accounts in foreign banks are withdrawing their savings, and these transfers are entered as "remittances" in Jordan's national accounts. In other words, workers who have returned from the Gulf are living off their savings, and their savings will eventually be depleted with time. An economic "winter" has begun in the oil-producing Gulf states, and few have wherewithal to call back the Palestinian workers they expelled after the Gulf War. Furthermore, it is a decidedly political matter to say whether Palestinians will be able to return to their previous jobs after economic sanctions on Iraq are lifted. Future economic planning therefore must assume from the outset that invisible trade revenue from workers abroad will be zero.

In a sense, the present economic situation of Jordan is similar to what it was right after the creation of Israel in 1948. Indeed, the transience and fragility of the Jordanian economy today become clear when we compare the Palestinians who fled to the West Bank, bringing their assets and skills to the Palestinian workers who returned home from the Gulf states, also bringing their assets and skills back home. In the case of the former, refugees' investments brought a short-lived boom to the Jordanian economy, but while money was spent on housing and consumer goods, little was spent on productive investments. The investment pattern of returning workers today is very similar to what happened half a century ago. Adequate market research, future-oriented human resource development, and integrated industrial planning have not yet been undertaken.

2-3 Jordan's Pre-Middle East-Peace-Accord Economy: Soaring Foreign Debt and Structural Adjustments

(1) Falling oil prices, worsening economic conditions

After the late-1970s economic boom in the oil-producing Gulf states, recession set in around 1983. As world oil prices fell, foreign aid to Jordan from the oil-producing Arab countries began to dwindle from the mid-1980s. Structural weaknesses of the Jordanian economy began to re-surface: budget and trade deficits again had to be compensated by donations and flows of funds from

abroad. The priority tasks in Jordan's five-year plan for the years 1986-1990 were to create 100,000 jobs and to reduce the current account deficit; its annual economic growth rate target was set at 5 percent. Growth in the services and agricultural sectors was stressed; these sectors were to be allotted 39% and 10% of all investments. Finally, a five-year development plan (about \$1.3 billion in investments) was also inaugurated for the Israeli-occupied West Bank and Gaza, with the object of avoiding an influx of Palestinian workers into the East Bank by providing them with economic autonomy and creating jobs on the West Bank. This reflected the aggravation of the employment problem by the recession.

The Jordanian economy's ever stronger dependence on assistance from the Arab states of the Gulf beginning in the 1970s exposed it directly and mercilessly to the effects of the oil-producing countries' economic difficulties when oil prices sank. In Jordan, the government budget accounts for a large percentage of GDP; curbing budget outlays meant cutting investments, borrowing more from abroad, and siphoning money from foreign exchange reserves. The debt service ratio rose from 13.8% in 1984 to 29.8% in 1988; by early 1989, Jordan's accumulated foreign debt was estimated at \$6.5 billion and its debt service at \$900 million: Jordan was no longer able to pay back its foreign loans. Signs of crisis also began to appear in domestic financial markets: in 1989, Jordan's second largest commercial bank, the Petra Bank, and the Syria-Jordan Bank both failed, throwing Jordanian finance into turmoil. Though their debts were eventually taken over by the Central Bank of Jordan, this series of economic crises was a severe shock for Jordanian society as a whole.

Between 1985 and 1990, Jordan's per capita national income fell from \$1,570 to \$980, less than two-thirds of the previous level. Aggravated by the Gulf crisis, unemployment rose to 30% in 1991. The inflation rate was 26% in 1989 and 16% in 1990. How severe this blow must have been for households below the poverty line is easy to imagine. The Jordanian Dinar, which had been able to boast of long-term stability until then, fell 30% from early October to mid-November 1988; the government called for austerity measures, banning imports of luxury goods and levying new taxes; in February 1989, it annulled the licenses of all private-sector money exchangers. Jordan had to call on the IMF for help. After less than three years in application, the current five-year plan was abandoned in 1988.

(2) Renunciation of sovereignty over the West Bank

The end of the 1980s was a difficult time politically for Jordan, domestically and internationally. The popular uprising by Palestinians in the Israeli-occupied territories of the West Bank and the Gaza Strip called the "intifada", which began at the end of 1987, lasted much longer than expected. In the face of this independent Palestinian movement, Jordan abandoned its \$1.3 billion West Bank development project and severed all juridical and administrative ties to the West Bank in July 1988. Until this point, Jordan's position had been that the West Bank was Jordanian territory occupied by the Israelis. This new response signified Jordan's acknowledgment that the PLO represented the Palestinians, including the West Bank Palestinians under the given circumstances. The Jordanian government had attempted until this point to maintain close ties with the West Bank by, for example, paying the salaries of its 20,000 teachers and civil servants.

(3) Structural adjustments and political upheaval

Jordan first reached an agreement with the IMF for a standby credit of 60 million SDR over an 18-month period beginning July 1989, part of a medium-term (five-year) structural adjustment package. Its purpose was to cope with the difficult task of achieving economic growth while seeking to right the international balance of payments and budget imbalances. In accordance with the agreement with the IMF, the Jordanian government raised prices on services and on gasoline as well as on a few other daily necessities by 15% to 50%, whereupon, in April 1989, taxi drivers in Ma'an and a few towns in southern Jordan began rioting, and disturbances spread to the area around Amman.

This time, however, the rioters were not Palestinians but Bedouins and native Jordanians, an alarming new turn of events for the government. These groups were normally among the monarchy's staunchest supporters, and for this reason the Bedouins' uprising that began in Ma'an triggered a national political upheaval: the prime minister was sacked and a hard-line policy was temporarily adopted toward the government's opponents, but a series of measures was later taken to make Jordan more democratic. General elections were held in November 1989, and although activities by political parties were not officially sanctioned, representatives affiliated with the Muslim Brotherhood and their sympathizers nearly won a majority of seats. Under pressure

for political liberalization, a National Charter was adopted in June 1991 that in effect legalized political parties, and further progress was made in democratization the following July with the abolition of martial law legislation, which had been in force since 1967.

Meanwhile, political upheaval in Eastern Europe and rapid developments in the political situation in the Soviet Union beginning in the late 1980s led to a massive influx into Israel of Eastern European and Soviet Jews, whose arrival put intense practical and psychological pressure on Palestinians in the occupied territories. Jordan showed great concern at the possibility of a new influx of Palestinian refugees.

(4) The Gulf crisis and Jordan's economy

The Gulf crisis, which began in August 1990, when Iraq's army invaded Kuwait, had grave consequences for the Jordanian economy. On the eve of the Gulf crisis, Jordan already had foreign debts of \$8 billion, equivalent to one quarter of its GDP; the Gulf crisis triggered a series of calamities for the Jordanian economy: it drastically diminished remittances from Jordanian workers in the Gulf; it precipitated the return of many workers to Jordan and a new flood of refugees; when U.N. sanctions were imposed, it shut off the Iraqi market; it caused the cost of imported oil to soar; it cut off entrepôt trade destined for Iraq and Kuwait; it closed the port of Aqaba; and it drastically increased the cost of insurance for shipments to surrounding regions. Since the country's foundation, Jordan had admitted hundreds of thousands of Palestinian refugees, mainly in 1948 and 1967; the Gulf crisis precipitated a third major wave of immigration. For Jordan's domestic manufacturing industry, the loss of the Iraqi market was a very severe blow. Shipping and insurance and the farm produce market were also hard hit. And although officially Jordan was neutral in the Gulf crisis, it had taken a sympathetic stance toward Iraq, which prompted Kuwait as well as Saudi Arabia to cut off their assistance to Jordan, and even to cut off oil supplies. In short, it caused major severe dislocations in the Jordanian economy.

After the Gulf War, the U.S. Congress also voted to cut off assistance worth \$57 million to Jordan in March 1991 to express U.S. displeasure over Jordan's pro-Iraqi stance. Japan, however, made a commitment to lend \$450 million to Jordan as part of Japan's assistance to countries surrounding Iraq during the

Gulf crisis. When Iraq withdrew from Kuwait as a result of the Gulf War, Jordan immediately began moves toward regional reconciliation. It responded warmly to an invitation to participate in a Middle East peace conference led by the United States. When the conference convened in Madrid in October, 1991, Jordan and Palestine formed a joint delegation, since Israel had not yet recognized the PLO, and Jordan represented the interests of Palestinians living in the occupied territories.

(5) Inauguration of the economic and social development plan

In October 1991, the interim structural adjustment package agreed upon with the IMF was canceled in the wake of the Gulf War, and a new agreement was reached with the IMF on a second structural adjustment package for a seven-year period, from 1992 to 1998. The new plan called for reducing the ratio of the fiscal deficit to GDP (not including grants) from 18% to 5%, trimming outlays from 44.4% to 35%, raising the domestic fund contribution from 26.5% to 30%, lowering the inflation rate from 10% to 4.5%, curbing consumption, and lowering borrowing, internal and external, from 10.6% to 3.5%. Jordan had launched a new economic and social development plan (1993-1997) following the structural adjustment period from 1989 to 1993. The new plan for 1993-1997 was no longer a collection of government-led projects as in the past, but a rolling plan that emphasized private-sector initiative.

2-4 Jordan's Economy and the Middle East Peace Process

(1) Positive macroeconomic indicators

The Gulf crisis created a very difficult situation for Jordan, and the return of Jordanian workers from Kuwait and other Gulf countries put increasing pressure on the domestic economy. But the beginning of the Middle East peace process in October 1991 brought about a turn for the better for the Jordanian economy, which picked up swiftly from 1992 with economic growth of 11.3%, followed in 1993 by 5.8% growth and in 1994 an estimated 6%. Growth in 1995 is also expected to have been strong, around 5%, and the predictions for fiscal 1996 remain optimistic. Inflation has been brought under control, at less than 5% during this period. An expanded fund facility (EFF) loan of \$188 million from the IMF beginning in May 1994 is intended to keep inflation in 1995 under 4%. The international payments deficit is forecast to shrink from \$615

million in 1994 to \$454 million, according to a report on December 6, 1995, from the lower house of Jordan's parliament. Net foreign reserves increased from \$2,451 million at the end of 1994 to \$2,666 million at the end of September 1995. The current account deficit peaked in 1992 (October 20) at \$765 million, and had shrunk to \$340 million by 1994.

The peace dividend for Jordan is apparent above all in tourism: in 1995, tourists visiting Jordan topped one million for the first time. The value of Jordan's exports, including exports of cement to the West Bank, grew by 27% in 1995 over the level of the preceding year.

(2) Mild easing of the foreign debt situation

Jordan's cumulative foreign debt has declined from \$7,184 million in mid-1991 to \$5,550 million in mid-1994. What's more, after Jordan's normalization of ties with Israel, the United States promised to write off Jordan's official debts to the United States, following which debts of about \$700 million were written off in September 1995. With this, Jordan's debt service ratio declined from 18.5% in 1992 to 14.6% in 1994. Jordan's domestic debt also sank from \$1,536 million at the end of 1992 to \$1,181 million at the end of 1994. The Jordanian Dinar has remained stable since 1993 at around 0.69 JD to \$1.00.

Jordan and France are studying together methods for converting Jordan's foreign debt into equity. It is highly possible that Jordanian debt will be traded in the London Club at 45% and in the Paris Club at 50% of nominal value. Jordanian government authorities are satisfied by the fact that Standard & Poor's has given Jordan a sovereign credit rating of B denominated in foreign currency and BBB in Jordanian Dinars. The present situation has positive aspects, but given the relatively shallow base of the Jordanian economy the possibility cannot be ignored of a rapid worsening of the debt situation if changes occur in the external situation.

(3) Structural reforms

In October 1995, Jordan signed an agreement with the World Bank for an ERDL of \$80 million premised on economic reforms. To help Jordan balance its international payments, Japan also promised to provide the equivalent of \$80 million from the OECF and the equivalent of \$135 million from the Export-

Import Bank of Japan—a total of \$215 million. Italy, too, signed a \$20 million loan agreement. Tariff reductions are now being carried out to prepare Jordan for admission to the World Trade Organization (WTO). From January 1, 1996, a tariff ceiling of 50% (30% import duty, 20% handling charge and tax) was applied to all goods except automobiles, alcohol, and cigarettes. Where the rate was 45% before, it is being lowered to 40%. Further steps are planned, including greater emphasis on direct taxes and other tax system reforms and subsidy reductions, taking income disparities into account. The task of privatization is also looming. Jordan has never been an advocate of Arab socialism, and its private sector has always been basically free to operate in Jordan, but in key industries, the state-owned sector has long played an important role. The current target for privatization is the Telecommunication Corporation; in the first phase, it will be converted to a limited company in which the government owns all the shares; later, shares will be sold to the private sector. Telecommunication Corporation is one of Jordan's most profitable companies and the very pick of the state enterprise crop.

The areas where Jordan is expected to perform best in the future are hotels and tourism, pharmaceuticals in cases where Jordanian firms (e.g., Dar Al-Daawa, Jordan Pharmaceuticals, Hikuma) have technical tie-ups with overseas companies, cement (Jordan Cement), phosphates, and potash. From 50 percent to 70 percent of Jordan's pharmaceutical production is exported to Arab countries and Africa. Jordan Cement is a monopoly; in 1995, it increased its production 10% for export to Syria and the West Bank; it is reported to be studying capital investment with an aim to further capacity increases ranging from 20 percent to 30 percent in two years.

Judged in terms of the above current macroeconomic indicators, the Jordanian economy has relatively bright prospects, but serious unsolved structural problems remain, such as the high growth rate of the population—over 4% annually—and high unemployment, especially among Jordanians with higher education. Jordan must link the current improvement in its macroeconomic indicators to long-term structural reform. The outcome of the Middle East peace process and the situation in Iraq and the Gulf are among another political factors that will strongly affect Jordan's economic prospects.

(4) The peace process and changes in the regional political environment

The Oslo Accord, in which Israel and the PLO officially recognized each other, was signed in September, 1993. Then in May, 1994, limited Palestinian autonomy began in Gaza and Jericho, calling for new responses from Jordan. The inauguration of the first Palestinian self-governing authority meant major change in the regional political environment for Jordan, with its complex ties to both parties. In July 1994, a summit conference between Jordan and Israel was held in Washington as part of the process of normalization of diplomatic relations with Israel; the following October, Israel and Jordan normalized their diplomatic ties. After Egypt, Jordan was the second of all the Arab countries to normalize relations with Israel. This was an opportunity for the realignment of Jordan's foreign ties and the beginning of evolution in the complex relationship between Israel, the self-governing Palestinian territories, and Jordan. Elections took place for the Palestinian Council and Ra'ees (president) of the Executive Authority in the West Bank and Gaza in January 1996. The Palestinians naturally aspire to the status of independent state, and as much as possible are preparing their institutions for statehood, and Jordan must take these moves into account. And as Palestinian self-government begins to take shape and implant itself, Jordan's Palestinian refugees, especially the generation who left Palestine before 1967 and have no prospect of returning to their homeland, are very likely to be left out of the peace process; how to integrate them into Jordanian society has become a problem of even greater immediacy than before. Meanwhile, Jordan is gradually improving its relations with Saudi Arabia and Kuwait, with which ties worsened critically during the Gulf crisis. Relations with Iraq have also undergone changes since the granting of asylum to Hussein Kamel, Saddam Hussein's son-in-law, when he defected from Iraq in August 1995.

(5) Regional economic ties

In October 1995, Israel and Jordan signed trade and agriculture agreements in which Israel lowered its tariffs by 20 percent to 50 percent on imports of Jordanian manufactured goods and Jordan reciprocated by adopting preferential measures affecting imports of manufactured goods from Israel. This effectively opened the Israeli market to Jordanian goods. The possibility of indirect Jordanian access to the West Bank Palestinian market, via Israel, is also open, and it is likely that direct trade ties between Jordan and Palestine

will enter a phase of growing complexity. Indeed, the form taken in the future by economic ties among Israel, Palestine, and Jordan will be among the key economic factors sustaining the peace process.

It should also be noted that while U.N. economic sanctions against Iraq are still in place and that Jordan is observing them, trade ties with Iraq are, as they always have been, extremely important to Jordan. In 1994, Jordan's total exports were 794 million JD, of which \$337 million worth was to Arab countries, and Jordanian exports to Iraq were worth \$105 million, more than to any other Arab country and one-third of total exports to all Arab countries. Jordan's total imports amounted to \$2,363 million, \$523 million from Arab countries. Oil from Iraq accounted for half of this, namely \$291 million. The lifting of economic sanctions against Iraq would certainly have a positive effect on Jordan's economy, and the earlier, the better for business.

(6) The possibility of an independent Palestinian currency

It is well known that the Palestinians are studying the idea of issuing their own independent currency in the future. For the Palestinians to have their own money would symbolize independent statehood, but Israel has expressed reservations about this idea for exactly the same reasons. It is also argued that if the Palestinians had their own currency, it would be an unstable and weak currency and would perturb regional economic ties. Currently, in the West Bank and Gaza, the Israeli shekel, the Jordanian Dinar, and US Dollars are used; it is estimated that the volume of Jordanian Dinars in circulation in the West Bank and Gaza is half as great as the volume in circulation in Jordan itself (the East Bank). Jordan has been stressing the necessity of increasing its foreign currency reserves in preparation for the issuance of a Palestinian currency. At the beginning of 1994, the Palestinian authorities set up a Bureau of the Currency, but its powers are limited to authorizing the establishment of bank branches within the autonomous zone; obviously, it does not have the powers of a central bank. Even some Palestinians believe, from a purely economic standpoint, that they should make the Jordanian Dinar legal tender. The main problem in that event would be to decide how to divide seigniorage (government revenue from the manufacture of coins or issue of notes) fairly among the two parties. It has been proposed that the Palestinians should study the system in use in the South African Common Market, in which seigniorage is included in a certain percentage of the division of customs du-

ties.

(7) Jordanian commercial banks in the West Bank and Gaza

Among the factors that complicate economic relations between Jordan and Palestine today is the massive presence of Jordanian commercial banks in the West Bank and Gaza. The result is that Palestinians' savings are mainly in the hands of Jordanian banks and end up reinvested in Jordan rather than in Palestine. The Palestinians are seriously dissatisfied with this, but one of the extenuating circumstances exonerating the Jordanians is the lack of effective opportunities to invest on a commercial basis in the Palestinian self-ruling district. There is mounting criticism that Jordanian banks are reluctant to lend in the West Bank and Gaza. Jordanian banks reply that the collateral in these districts is insufficient and the financial infrastructure is underdeveloped. Jordan's central bank's view is that it is not a problem that should be solved through administrative controls. But whereas the Cairo and Amman Bank used to attract deposits of \$150 million at 2% interest, its new deposits now have reached \$800 million and interest on deposits is 8%. It is indisputable that deposits from the West Bank and Gaza are flowing into Jordan.

(8) New investment legislation

In September 1995, a new Investment Law was passed by the National Assembly's upper house. It included tax reductions and exemptions applicable to undeveloped land as well as a general reduction in tax rates as a whole. Taxes were lowered from 40% to 15% in priority areas (tourism and heavy industry) and to 25% in other areas. Taxes in the banking and insurance industries were lowered from 50% to 30%. The waiting period for authorizations was shortened: applications to the High Commission on Investment for permission to invest are now answered within 30 days of submission. It is also perceived as necessary to give equal treatment to both foreign and domestic investment. Under previous investment legislation, ownership by foreign capital was limited to 49%; under the new law, the Cabinet is authorized to be more flexible. On the other hand, however, although corporate income taxes have been cut, sales taxes may be raised from the current 7% to 10%. In terms of legislative reform, Jordan is two or three years behind Morocco, Egypt, Tunisia, and Oman in this area, and seems to be aware that this is hindering investment of foreign capital in Jordan.

Jordan's central bank has authorized ordinary banks to make loans in foreign currency and to invest their foreign currency holdings in international capital markets. This allows ordinary banks to invest up to 50% of their foreign currency holdings in government bonds (U.S., British, German, Japanese, and Swiss, denominated in the currency of the issuer, with maturities up to 10 years), in securities issued by regional or international organizations or by blue chip companies and denominated in a strong currency and offering the same conditions as government bonds, or in Jordanian government bonds denominated in a foreign currency (without restrictions on maturities). Incidentally, total deposits in Jordan's 14 ordinary banks were 10,855 million JD (\$15,485 million) at the end of 1994. Deposits in foreign banks were restricted until now, and very few Jordanian companies had credit denominated in foreign currencies.

(9) The Amman Summit initiative(s)

In October 1995, exactly one year after the Casablanca Summit of October 1994, the Middle East and North Africa Economic Summit was held in Amman, where it was decided in principle to establish a Middle East Development Bank and to start a number of joint projects in tourism and other fields. Taking the initiative, Jordan played an active role in promoting economic exchange between Arab countries and Israel. Besides the planned joint development of bromine resources with Israel, which had already been agreed upon, a variety of projects were discussed, including future approaches to the water shortage and the idea of building a canal between the Red Sea and the Dead Sea. Each topic discussed had serious political implications and involved many unsettled technical and financial problems, such as how to fund such vast projects, and few have any chance of rapid implementation, but the talks are gradually taking a more practical turn. The participants shared, however, an emphasis on private-sector initiative. At the Barcelona Conference held at the end of November 1995 between the European Union and countries of Northern Africa, the concept of building a Middle East free trade zone by the year 2010 was broached.

2-5 Relations between Jordan and Iraq

As we have seen above, Iraq plays an extremely important role in the Jordanian economy, and this reality deserves to be brought once more to mind.

It goes without saying that oil from Iraq is a matter of life-or-death importance for Jordan, especially in the present situation. More generally speaking, it is basically their economic ties that bind the two countries most strongly, though at one time in recent history they were extremely close both politically and militarily as well, and this is strongly reflected in today's post-Gulf War relationship. When Jordan regarded Israel, its western neighbor, as an enemy in the past, it counted on Iraq as its principle strategic depth. But after the Camp David Accords of 1978, which Jordan opposed, because Jordan is so heavily dependent on foreign aid, Iraq had become Jordan's de facto patron, providing it with badly needed support. Iraq gave assistance to Jordan in forms that made Jordan's dependence on Iraq as a trade partner unavoidable structurally, and lastingly so. Iraq's assistance brought the two countries closer and closer.

From the beginning of this century, while still under the British mandate, Jordan and Iraq were monarchies under the rule of the same Hashemites. Sensing danger from mounting Arab nationalism in neighboring countries, Jordan established "The Arab Federation" together with Iraq, which was still a monarchy, aiming to unify the two nations politically, economically, socially, and militarily. Iraq's monarchy was overthrown the same year in a coup d'état, and the dreamed-of unification never occurred. The dashing of Jordan's hopes chilled relations between the two countries until the mid 1970s.

Yet although the Jordanian-Iraqi relationship was chilly at the political level from the collapse of "The Arab Federation" until the early 1970s, the two nations did cooperate for economic and security reasons in the fight against Israel, and these cooperative ties were increasingly reinforced during the period of Jordan's economic isolation (cf section 2-1, (1)) in response to political changes in the Middle East.

During the mid-1970s, Iraq sought to diversify its trade routes due to its worsening relations with Syria and uprisings by the Kurds inhabiting its northern territories, and turning attention to Jordan's port of Aqaba, began to give assistance to help Jordan expand the port's facilities and generally improve Jordan's domestic transportation infrastructure for better access. Political ties between Jordan and Iraq began to improve in 1978, by which time Iraq's assistance had laid the foundations for strong mutual trade ties. Though irregular from 1975 to 1978, for example, Iraq's assistance to Jordan included

loans to build electric power stations and roads and other infrastructure projects as well as grants and loans to develop Jordan's potash and fertilizer industries. The turning point for Jordan during this period came at the Arab summit of November 1978, when Iraq actively launched its support for Jordan.

Meeting in Baghdad in November 1978 in reaction to the Camp David Accords between Israel and Egypt in September 1978, the Arab Summit called for the creation of a \$9 billion fund to assist the front-line countries against Israel. Iraq on this occasion promised to offer the fund \$520 million dollars each year for 10 years, but most noteworthy is the offer that Iraq is reported to have made at this time to honor the commitments made but left unpaid by other parties, namely the Gulf states that had promised assistance to front-line countries at the Rabat Conference in 1974. Jordan was then in dire financial straits: in 1976, for instance, it had gone through a crisis where it could barely pay its public officials' salaries and Iraq's helpful attitude in 1978 was truly like manna from heaven. In recognition of Jordan's opposition to the Camp David Accords, Iraq gave Jordan a \$30 million grant.

This presented an occasion for more active exchange at the political level, with a visit by Iraqi President Saddam Hussein in 1979, the first official visit to Jordan of an Iraqi head of state since the Iraqi revolution of 1958; by 1980, Jordan and Iraq had signed a military cooperation agreement and were enjoying their honeymoon. From about this time, their bilateral trade volume boomed and joint development projects were advancing by leaps and bounds; Iraq began to give Jordan assistance, as both loans and grants, on a regular basis. Iraq's assistance to Jordan at this time was characterized by its concentration on development of the port of Aqaba and on improvement of Jordan's domestic road network. Thanks to this assistance, Jordan was able to create domestic jobs and to build up its transport sector by improving facilities for warehousing, forwarding, and shipping goods from Aqaba to Iraq and by letting Iraq use Aqaba's port facilities. War then broke out between Iraq and Iran, and because Iraq's own ports on the Gulf were unsuitable for loading and unloading all goods due to their close proximity to Iran, Iraq preferred to ship via Aqaba. This lent added importance to the port's facilities and the shipping routes linking Aqaba to Iraq.

As we have seen, from the late 1970s on, not only did Iraq's assistance to Jordan directly help Jordan make ends meet under straitened financial cir-

cumstances, it also helped to modernize Jordan's domestic infrastructure so that Jordan could better serve as a crucial link in Iraq's transport and entrepôt trade. And at the same time, Iraq provided Jordan with a huge market for its goods. According to Jordanian statistics, Jordan's exports to Iraq were no more than 1.6 million JD in 1974, but had grown to 12 million JD by 1979, 63 million JD by 1982, and 123 million JD by 1989, while Jordan's imports from Iraq rose from 800,000 JD in 1973 to 212 million JD by 1989. Jordan's recent trade volume with Iraq exceeds its volume of trade with other surrounding countries, precisely because the infrastructure for overland trade between Jordan and Iraq is now in place and because Jordan's port facilities have been improved and transportation routes are adequate for shipping between Aqaba and Iraq. Due to the U.N. sanctions against Iraq, since the Gulf War these routes have served mainly to ship limited amounts of oil from Iraq to Jordan and foodstuffs and medical supplies allowed under the embargo from Jordan to Iraq. Once Iraq becomes rehabilitated in international society, the trade routes linking the two countries will provide a strong foundation for a recovery of massive trade volumes and a general pickup in activity.

3. Future Scenarios for the Middle East Peace Process and Trends in the Jordanian Economy

In this section, we address scenarios for regional economic growth and trends in the Jordanian economy basing the time-frame of the Middle East Peace Process. Special reference has been made to Palestinian autonomy and possible political developments in Iraq, which would have enormous effects on the Jordanian economy.

3-1 Palestinian Self-Government and the Jordanian Economy

By the first general elections, held in January 1996, the Palestinian self-government authority gained legitimacy and weakened the influence of the Palestinian anti-peace movements, notably Hamas. This, together with the expected victory of the pro-peace political movement in the Israeli elections, is an important contributing factor to a lasting peace, now that even future scattered acts of terrorism can basically be dealt with within the framework of domestic law. Future questions to be considered include access to Israel from the Gaza strip and West Bank, and the relationship between these two territories and Jordan. There are three possible scenarios: i) both the Gaza Strip and West Bank remain isolated, cut off from the outside world; ii) the West Bank

alone develops a relationship with Jordan; iii) both territories are allowed free access to the Israeli-Jordanian regional economy.

To begin with, neither political nor economic stability is possible if Gaza and the West Bank are isolated. It is not difficult to imagine how Palestinians in Jordan react to the situation where Jordan strengthens its economic ties with Israel, leaving the Gaza Strip and West Bank in isolation. This is a worst-case scenario. Under present circumstances, though, there is no sign of such undertakings, and it is probably safe to assume that, at the very least, Jordan's access to the West Bank will be preserved.

The second scenario assumes that Jordan has access only to the West Bank and access to the Gaza Strip is delayed. Under current circumstances, the chances that this scenario materialize are high. Should it happen, Jordan would be able to invest on a small scale in agriculture and tourism in the West Bank, but the economic effects would remain short if the West Bank's access to Israel was not guaranteed. The access to Israel is a wider question which, by its nature, has to be addressed comprehensively in the context of the West Bank and Gaza Strip as a whole, and it would be hard for Jordan to pursue negotiations with Israel regarding the opening of West Bank access alone; a resolution would take time.

This scenario does, however, have one positive aspect: it would enable Jordan simultaneously and progressively to strengthen its economic ties with Israel. Inasmuch as Jordan must give the highest priority to the revitalization of the Israeli-Jordanian-Palestinian regional economy, the best approach Jordan could adopt would be to simultaneously deepen ties with the West Bank while strengthening those with Israel.

It is unreasonable to expect the third scenario, in which both Gaza and the West Bank engage in economic activities freely within Israel in the near future. European Union-style complete free movement of people and goods within the region will require greater efforts to build up trust between Palestinians and Israeli, and whether the generation of those with war-time memories will make such efforts is doubtful. NAFTA-style deregulation of goods and capital transfer, however, is something that should be studied in the near future. It seems to hold a key to tomorrow's Jordanian economy, inasmuch as stimulation of East-West trade between Iraq, Jordan and Israel is an important item

on the agenda and goes with Jordan's national interest.

Critical points to be considered when we observe the relationship between future developments affecting Palestinian self-government and the Jordanian economy are the following: i) given Jordan's domestic population structure, it would be risky for the Jordanian government to adopt policies promoting business with Israel regardless of the question of the West Bank and Gaza, and ii) it would be economically ineffective to draft independent economic policies directed towards the West Bank and Gaza without referring to Israel. In other words, from Jordan's point of view, relations with Israel must be mainly economic, and the relationship with Palestine must be primarily political; the regional economy can be promoted and stabilized only if progress is made simultaneously on both fronts.

Table 1 Jordanian economic policy toward Israel and toward Palestine, and its effects

| | | | | | | | | | |
|-------------------------|--------------|--|---|---|---|---|---|---|---|
| Toward Israel | | × | × | × | × | ○ | ○ | ○ | ○ |
| Toward Palestine | (West Bank) | × | × | ○ | ○ | × | ○ | × | ○ |
| | (Gaza Strip) | × | ○ | × | ○ | × | × | ○ | ○ |
| ↓ | | ○—Active, ×—Passive | | | | | | | |
| Feasibility | | × | × | ○ | ○ | △ | ⊙ | × | ⊙ |
| Likely economic effect | | × | × | × | × | △ | ○ | △ | ○ |
| Likely political effect | | × | × | △ | △ | × | ○ | △ | ○ |
| | | ○—Beneficial effects, ×—Harmful effects, △—Partially beneficial effects | | | | | | | |

3-2 Peace Process with Syria and Lebanon and the Jordanian Economy

As mentioned in the previous sections, the Syro-Lebanese regional economy does not exert much influence on the Jordanian economy. Historically, the desire to break away from dependence on the Syro-Lebanese economic zone, i.e. looking for alternative markets and transport routes away from the costly Syrian channel, has been the basis of Jordan's economic policy. Pro-Iraqi policies have been the logical outcome of such imperatives. Hence the peace process expected to continue between Israel and Syria-Lebanon under the Israeli Labor party is to have little effect on the Jordanian economy. There could be a

restoration of the north-south route connecting Syria and Israel, but neither is expected to have enough impact to draw into both the Syrian and Israeli economy. The vitality of the Syro-Lebanese economic zone has already been well established, and peace between Syria and Israel can not change much of the economic structure. The only feasible outcome is a small scale commercial exchange via Golan Heights, but this will take time.

3-3 Iraq and the Jordanian Economy

As mentioned above in section 2-5, the opening of the Iraqi market, which has cardinal importance for Jordan, is one of the Jordanian economy's most anticipated issue. Yet, given the situation in terms of relations between the current Iraqi government and Jordan and other foreign countries, a multitude of problems remain to be solved.

Assuming the continuation of the existing Iraqi regime, conceivable options amount to reconciliation with the Iraqi government and attempts to strengthen economic ties on one hand, or maintaining a strong stance against the current Iraqi regime and continue to cut off economic ties on the other. In case the Jordanian government reconciles with Iraq, it would have positive effects in the short run, relieving Jordan's pressing economic plight. However, Jordan will lose the confidence of anti-Iraqi masses—Israel, Saudi Arabia, Syria and other Middle East countries as well as the United States—and by doing so, in the long run, would have prejudicial effects on the economy and at the same time discredit Jordan as a mediator in the Middle East peace process.

If, however, Iraq were again to be recognized by international societies and strengthened its ties to Jordan, the economic reward could be immense. In addition to boosting trade with Israel, Jordan could revitalize the trade with Iraq, the lifeline of the Jordanian economy, and set out a foundation of economic intercourse between the Mediterranean and the Gulf with Jordan being a transit hub. This could also help to create a political atmosphere for establishing trust between Israel and Iraq.

4. ODA to Jordan—Some important consideration

In the preceding sections, we outlined the Jordanian economy's vicissitudes and characteristics. On this basis, we shall now outline some important considerations affecting Japanese ODA to Jordan.

First, in the area of finance, while appreciating Jordan's efforts to comply with a structural adjustment program, which is indeed beginning to bear some fruits, further self-help efforts should be encouraged to reduce the government's budget deficit in order to achieve, in the final stage, independent finance. The basis of this assessment is the perception that recipient nations are far more vulnerable to the cessation of assistance than they would be if they did not receive any foreign assistance to begin with. Of course, this does not apply to Jordan alone. Creating expectations that the recipient country will continue to receive financial assistance indefinitely is undesirable and prejudicial to self-help efforts by any nation to normalize its financial footing. It follows that when giving assistance to Jordan, it is desirable to set a time limit, for instance, until completion of the structural adjustment program, until normalization of economic relations between Israel and Palestine, or until the lifting of U.N. sanctions against Iraq.

The main field of assistance to Jordan would be to support the structural adjustment program now in course; fostering the creation of smaller, more effective government and tax reforms, measures included in the Economic and Social Development Plan (1993-1997) designed by the current government, would require special attention and subsidy. At the same time, as mentioned later in this report, the possibility of "safety net" assistance in the form of small grants should also be studied.

As for promoting the industrial sector of Jordan, stress should be on achieving mutually beneficial growth in the Israeli-Jordanian economic zones, including the West Bank and Gaza Strip. As specified in the opening chapter, Japan's ODA for Jordan is a product of the Middle East peace process framework; normalization of economic relations with Israel amounts to a reversion to the traditional "natural" state of the regional economy Jordan enjoyed before 1948, and economic and political normalization between Israel and Jordan shall cast extremely important consequences for both nations. As pointed out in section 1-2, we should refrain from any overly optimistic assumptions regarding major positive effects to the Jordanian economy resulting from Israeli-Syrian or Israeli-Lebanese peace; stress should be laid entirely on rebuilding the economic zone of "geographical Palestine".

What is meant by "natural" economic framework between Israel and Jordan is, from a Jordanian view point, the stimulation of the service sector,

which includes entrepôt trade, distribution, and especially the promising field of tourism. In the field of industry, this requires steady development of export-oriented low-tech manufacturing industries designed for the Arab market and their technological upgrade. Inasmuch as most of Jordan's domestic industrial production, except for mining, depends on processing trade, the stimulation of tomorrow's Jordanian economy hinges on improving and homogenizing the quality of Jordan's industrial output.

Challenges involved in the industrial policy are, in the short run, how the local industry could be fostered so the returning migrant workers can be absorbed, and in the long run, how to create the middle-management class needed for the stable development of local industries. Given the current economic situation of Jordan, where any economic policy will have to be based on the reality that any further remittances can not be expected, fostering value-added industries is imperative; it follows that human-resource development will be essential in the long run.

Japan, for its part, should make efforts to encourage the development of middle to smaller size enterprises by building vocational training centers and by advising Jordan how to improve the investment climate, in addition to improving the transportation network linking Jordan and Israel and stimulating Aqaba region's role as a trade center. In general, the key to fostering the Jordanian industry would be to put emphasis on tertiary industry, including distribution, trade, tourism and related services.

It is also important to mobilize vitality of the private sector for greater economic efficiency through, for instance, the effective use of "free zones". The investment of public finance to the private sector has, for various reasons, scarcely been concluded. Inasmuch as stimulation of the private sector, vitality is one of the industrial aims of the recipient, and we urge that this approach be considered. In the case of Jordan, the government's expectation on private sector investment is high especially after it introduced the new investment legislation enacted in September 1995.

Finally, we should point out that an economic bloc connecting Israel, Jordan and Iraq will be the most natural form of economic consolidation of any of these countries in the future, and especially whether or not the Iraqi market is open to Jordan will have a crucial impact on the economic situation of Jordan.

Chapter II Development in the Hashemite Kingdom of Jordan Today

1. The Jordanian Government's Development Program

The present Jordanian government is now implementing an Economic and Social Development Plan (1993-1997). Its goals are to achieve economic development, alleviate poverty, and promote democracy; it will complement and promote structural adjustments. Other plans are being carried out to stimulate the national economy and promote regional development: the core components of these efforts are the Aqaba Regional Development Plan being implemented at the regional administrative level and the Free Zone Project being administered by the Free Zone Corporation under the aegis of the Ministry of Finance. At the Amman economic summit in October 1995, a framework was proposed for the planning of joint Jordanian-Israeli projects and efforts to promote regional growth as an economic zone.

The following pages summarize the Jordanian government's Plan and regional development program, the Free Zone project, and development projects proposed at the Amman Summit.

1-1 The Economic and Social Development Plan

(1) Basic principles

- 1) Liberalization of the economy and improvement of the investment environment**
 - * Reinforcement of the regulatory and supervisory role of the government**
 - * Reduction of government's role, avoidance of competition between government and the private sector**
 - * Restructuring of the public sector, enhancement of efficiency, promotion of decentralization, elimination of duplication of jurisdictions among government agencies**
 - * Expansion of private-sector role in infrastructure and basic services**
 - * Expansion of export capacity, stimulation of financial markets, encouragement of savings, promotion of manufacturing and service sectors, improve-**

ment of incentive to invest inside and outside of Jordan

- * Abolition of subsidies
- * Expansion of opportunities for fair competition, improvement of legislative institutions, curbs on monopolies, protection of patent rights
- * Protection of consumers via standardization
- * Protection of resources and the environment.

2) Development of natural resources, especially water and energy

- * Water resource surveys, optimal use of water
- * Optimization of energy use, establishment of energy development institutions
- * Improvement of phosphate and potash production efficiency, development surveys on other resources (especially Dead Sea salt)
- * Reform of related public sector, improvement of existing institutions, improvement of profitability, reorganization of a tariff system.

3) Development of the export sector, expansion of traditional markets, training of human resources

- * Review and amendment of legislation, review of trade agreements
- * Amending the customs tariff structure to remove any bias against export industries
- * Stimulation of private-sector export businesses, offering of export promotion credit, improvement of export incentives
- * Development of services to expand export opportunities
- * Improvement of manufactured product quality, compliance with international standards.

4) Maintenance of a balance between human and economic resources

- * Educational and vocational training programs targeting current labor market demand and absorption of the latest technology
- * Expansion of higher education, priority on applied sciences and continuing education.

- 5) Creation of job opportunities, reduction of the unemployment rate
- * Encouragement of small, labor-intensive industries
 - * Investment in income- and labor-generating projects, especially for low-income groups
 - * Expansion of training opportunities for the unemployed and low-income groups
 - * Regulation of labor market and searches for job opportunities overseas
 - * Stronger action in science, technology, and informatics fields (establishment of production methods development center, use of world-wide research institutions and universities, development and research into socio-economic data collection systems and their use for forecasting and decision-making).

(2) Objectives

- 1) Sustainable growth at better than the population growth rate

A 6% GDP growth rate, a 3% real per capita GDP growth rate (at 1991 prices).

- 2) Correcting structural imbalances, and achieving fiscal and monetary stability

Balanced revenues and spending, higher savings and investment rates. Structural reforms to achieve these objectives.

| | 1991 | 1997 (target) |
|--|-------------------|---------------------------------------|
| Budget deficit (as a percentage of GDP) | 12.7% | No greater than 3% (excluding grants) |
| Current account deficit reduction | \$423.1 million | Eliminate deficit |
| External debt (as a percentage of GDP) | 179.8% | No more than 100% |
| Debt service ratio (with respect to exports) | 50% (1988 - 1992) | No more than 25% |
| Consumption as a percentage of GDP | 102.6% | 89% |
| Inflation | 4% | Maintain at 4% to 5% |

3) Balanced social development

Raise standards of social services, with emphasis on relief of poverty and unemployment; narrow gaps between regions.

- * Put priority on public sector investment centered on social services. Delivery of services taking into account the poor's needs and gaps between regions.
- * Raise the level of education, health, housing, and other social services through appropriate fiscal and monetary policies taking into account private sector incentives.
- * Alleviate poverty through small-scale income generating projects directed at low-income groups, especially in less-developed regions.

| | 1991 | 1997 (target) |
|---------------------------------|-----------|---------------|
| Average life expectancy | 67 years | 69 years |
| Infant mortality | 33.8/1000 | 25/1000 |
| Under-five mortality | 38.8/1000 | 30/1000 |
| Access to electricity and water | 98% | 100% |

- * Reduce unemployment to 9.6%
- * Raise per capita consumption in 1997 to JD 787
- * Train 72,800 people, reduce dependence on foreign workers, increase the vocational education enrollment rate to 40% in 1997.

(3) Policies

1) Fiscal policies

- * Reduce the ordinary budget deficit by cutting expenditures and increasing revenues.
 - (a) Reorganize the tax system on a fair and flexible basis. Review direct taxes: increase the proportion of direct taxes to total revenues. Replace the consumption tax by a general sales tax, eventually by a value-added tax. Reorganize tax-related procedures.
 - (b) Reform tax system, including value-added tax and customs duties. Pro-

mote investment and promote exports. Protect Jordan's manufacturing industry, bearing in mind the need to ensure its efficiency and competitiveness and to avoid impacts on daily necessities needed by low-income groups.

(c) Phase out government subsidies of everyday commodities, limit remaining subsidies to those who really need them.

(d) Overhaul government service fee structure to ensure that costs are covered.

- * Revise charges for electricity, water, health services, postal services, transportation, and middle and higher education
- * Rationalize water and energy use
- * Protect the poor.

2) Monetary policy

- * Seek monetary and price stability and optimize financing of economic activity.

(a) Build up foreign currency reserves sufficient to cover at least 3 months' imports.

(b) Control money supply growth, in proportion to the rate of real GDP growth (through central bank supervision).

(c) Deregulate interest rates to improve resource allocation.

(d) Establish deposit insurance institutions and related legislation.

(e) Amend the Banking Law to expand the central bank's supervisory capabilities.

(f) Relax restrictions on foreign currency exchange with a view to liberalization.

3) Social policy

- * Achieve balanced social development by alleviating poverty, augmenting

household incomes, improving the productivity of individuals, especially the poor, and consolidating key requirements.

- (a) Better meet people's basic needs, assist low-income groups.
- (b) Allocate development benefits fairly, reduce disparities between regions and classes.
- (c) Reduce the dependency ratio by birth spacing.
- (d) Emphasize the family as the core of society.

1-2 Programs Run by Governorates (The Aqaba Regional Development Plan and the Aqaba Regional Authority)

The Aqaba Regional Authority is in charge of a development plan for Aqaba, a region with a population of 65,000 (expected to grow to 250,000 by the year 2020).

(1) Revitalization of Aqaba Port

- * Expansion of landing capacity from the present 30 million tons annually to twice that figure through construction work now under way.
- * Build up Aqaba's standing as a logistics center, taking advantage of its strategic location between Israel and Iraq. Priority areas are listed below.
 - 1. Road network improvement
 - 2. Rail network construction
 - 3. Construction of Aqaba International Airport (jointly with Israel).

(2) Special economic zones

- * Consideration of three existing special economic zones, not including the zone around the Israel-Jordan International Airport.
 - 1. Aqaba town area (scheduled for completion in 2000)
 - 2. Tourist area
 - 3. Industrial area (Build in it a free zone with port facilities, electricity, and industrial water supplies and invite industries to locate manufacturing plants there.)

(3) Tourism

- * Launch tourist businesses to take advantage of Jordan's long sandy beaches.
- * Exploit the historical touristic resources of Wadi Rum, Petra, and the Dead Sea.
- * Build infrastructure, emphasizing high-class accommodations.

1-3 The Free Zones Plan (Free Zones Corporation)

The Free Zones Corporation is a government agency under the jurisdiction of Jordan's Ministry of Finance. Its present activities now amount virtually entirely to tax-exempt warehousing; it does almost nothing as a special zone encouraging heavy industry siting. Nor has anything been done yet to actually build free trade zones or the transportation routes that will link it to other countries: comprehensive planning is needed to provide these services in the future.

Government sector

| | | |
|---|-----------------------------|---|
| Aqaba Free Zones | 1973- | Mainly warehousing and storage |
| Zarqa Free Zone | 1983- | Heavy industry investment sector Commercial investment sector Deregulated, tax-free automobile market sector |
| Queen Alia International Airport Free Zone | 1996 (scheduled) | Entrepôt trade Encouragement of small-scale high-tech industry siting |
| Sahab Free Zone | 1996 (scheduled) | Encouragement of industrial siting |

Private sector

| | |
|----------|---|
| Aqaba | Japanese-Jordanian joint venture in fertilizers |
| | Chemicals re-export base organized by the Dutch company Silvochem |
| Qweira | Livestock base for sheep, etc. |
| Sheidieh | Indian-Jordanian joint venture in phosphates |

Note: Re-exported items are exempt from tax. Warehousing fees are set lower than in other countries' free zones.

1.4 The Development Plan Presented for the Amman Economic Summit

Almost all development projects involving Israel and Jordan proposed at the Amman Economic Summit were proposed by the Israelis; except in the case of a few plans (involving the Aqaba region), the Jordanians did not take the initiative.

(1) Joint development of water resources

- * Joint water resource monitoring
- * Joint groundwater vein management
- * Floodwater management and reuse
- * Desalination of water for industrial use in the Aqaba-Eilat region
- * Modernization of water quality and watercourse management
- * Joint research into the use of urban waste water for agriculture.

(2) Joint agricultural and fisheries development

- * Joint arid-land farming modernization research
- * Establishment of a fisheries development institute for joint aquacultural research
- * International staff contacts at the public and private levels
- * Establishment of a tax-free trade zone to stimulate landing, packing, and

trade

- * Joint Red Sea environment protection research.

(3) Tourism

- * Simplification of border checkpoint inspections and development of transportation network
- * Joint comprehensive touristic development by Israel and Jordan
- * Study of possible joint ventures in the tourist industry
- * Joint development around the Dead Sea: international theme park, etc.
- * Opening of a marine coral reef park (Aqaba-Eilat region).

(4) Protection of the environment and cultural assets

- * Ocean pollution control in the Aqaba-Eilat region
- * Designation of environment protection zones.

(5) Transportation and trade network

- * Creation of new East-West trade routes
- * Development of the North-South trade route along the Jordan Valley
- * Joint management and future merger of Aqaba Airport and Eilat Airport
- * Construction of railroad links between Dead Sea and Aqaba and between Aqaba and Haifa in Israel.
- * Expansion of Port of Aqaba.
- * Expansion of transportation network outward from Aqaba-Eilat district.
- * Beginning of construction of special economic zone in Aqaba-Eilat district.
- * Beginning of construction of traffic route between Aqaba and Ein Netafim.
- * Construction of ring road linking Aqaba, Eilat, and Taba.

(6) Energy

- * Joint use of electricity
- * High voltage power line links between Egypt, Iraq, Jordan, Syria, and Turkey.