

CHAPTER - II

JORDANIAN ECONOMY : AN INTRODUCTION

2.1 Introduction

The purpose of this chapter is to highlight the main features of the Jordanian economy and to analyse the changes that have taken place for the period of study. This chapter also investigates the performance and structure of the economy during 1964-95 in detail. The chapter is divided into six sections.

Section two presents a brief description of the emergence of Jordan as an independent country and presents the physical characteristics of Jordan. Section three discusses the population and labour force characteristics of Jordan. Section four provides a detailed explanation of the performance of the economy and the growth of income in Jordan during 1964-1995. To have a detailed insight into this matter the overall period is further divided into sub periods. These three decades (1964-95) are distinct from one another in many ways.

Section five deals with the analysis of structural changes which were witnessed in the economy of Jordan as a result of economic development during this period. Section six presents a brief picture of the International Trade.

2.2 Major Characteristics of Jordanian Economy

The present day Jordan first emerged as a political entity in 1921, and the Arab Emirate of Transjordan was established on the East Bank of Jordan River in May 1923.

Great Britain formalised this arrangement and recognised Transjordan as an entity with an autonomous power. In 1950, the popular name Transjordan was changed to the Hashemite Kingdom of Jordan. Jordan, a centrally located state, is bordered by Syria on the north, Iraq on the north-east, Israel on the west and Saudi Arabia on the south. Jordan is largely a desert but the western portion is fertile and produces citrus fruits, wheat, barley, lentils and water melons. Phosphate and potash make up the country's most important export items. Tourism remains its main foreign exchange earner.

Right from its independence until 1966 Jordanian economy achieved substantial growth in spite of limited national resources and increasing defence burden. This was a period of relative peace and stability in Jordan. During 1952-1966 Jordanian economy witnessed substantially high growth rate in terms of GDP and GNP and these were 6.9% and 7.5% per annum respectively¹. Period between 1967 to 1974, Jordan witnessed two wars between the Arabs and Israel i.e. 1967 and 1973. In 1970, internal disturbance was witnessed in Jordan. The 1967 war in the Middle East struck Jordan with a number of problems. The occupation of the West-Bank by Israel in 1967 deprived Jordan of an important part of its geographical area. This occupation resulted in loss of its natural and economic resources, over and above the area specially important for agriculture and tourism. Another consequence of this was the migration of about 30 thousands persons from the West Bank and Gaza into the East Bank, thus increasing the East Bank population by about 25% in one year.

Forced emigration from the occupied territories (in 1948) to the east bank led to demographic imbalances and a sudden rise in population, with resultant increase in unemployment and additional pressures on public spending to accommodate those displaced. Jordan's external trade relations, specially the sale of phosphates to Turkey and Europe, were adversely affected by the 1967 closure of the Suez canal. The civil war in September 1970 and Arab-Israeli war in 1973 caused further damage to the economy. Military considerations in the wake of the 1967 war created difficulties with regard to the utilisation of lands east of the Jordan. At the same time, threat of security led to diverting resources to military expenditure and armament and hence a decline in investment expenditure by the public and private sectors. Today Jordan is one of the middle income economies of the world with a per capita income of JD 890 in 1995 with a population of 40 lakhs.

2.3 Population and Labour Force Characteristics

Jordan in fact is an economic mess created by Geo-Political factors. Its geographical location and political ideology had its effect on every activity of the nation and its people. In the year 1995, the population of this economy stood at 40 lakhs. The average growth of population is around 3.8 per cent which is considered very high by international standards. At the end of II World War the population of TransJordan was 3.7 lakhs. With the creation of Jordan in 1948, the population stood at 4.6 lakhs. With influx of Palestinian refugees of the order of 3.5 lakhs, the population rose to 8.1 lakhs. Therefore in a span of one year the population of Jordan has doubled. In addition the

country faced spates of immigration from Arab Countries in 1960s. The effect of these influxes and the political consequences had a disastrous effect on the Jordanian economy and its performance.

The growth of population is around 3.8 per cent, with birth rates as high as 4.9 per cent. As a consequence of these statistics remaining steady for a long period of time the population in the working age groups is very less. In the year 1995 the potential labour force was 55% of the population and the percentage of dependent individuals (age groups <15 and 64+) were around 45% of the population. Though the number of dependants (in percentage terms) fell over time, the figures are still very high.

The information presented in Table 2.1 shows that the economic participation is very low and is on a decline. In the year 1968 it was 26.6% and stands at 18.5% of population in 1995. These statistics indicate that there are more than 4 dependants for every working individual in the economy. Over and above this the unemployment rates are high. It can be seen that right from 1970 the figures are in double digits and stood at 15.3% in 1995.

Table 2.1 : Labour Force and Unemployment in Jordan

Year	Population (‘000)	Unemployment Rate (%)	Economic Participation Rate (%)
1968	1409	9.9	26.6
1970	1508	13.7	19.9
1980	2215	13.5	18.9
1990	3431	16.8	18.2
1995	4053	15.3	18.6

Various studies on Jordan have indicated that the voluntary unemployment is high in the economy. These are supported by various facts. Firstly there is a shift of labour away from agriculture (Table 2.2) to other sectors of the economy. Secondly there is high concentration of labour force in services sector, thirdly the Jordanian agriculture depends on immigrant labour from neighbouring Arab countries viz Egypt, Sudan and Lebanon for its functioning, fourthly the emigration of Jordanian labour to Arab countries mainly the oil exporting countries is high. These are some of the peculiarities of Jordanian labour force and these have a great impact on the economy. The emigrant labour send remittances to Jordan and this had althrough lead to surplus on invisible trade account of Jordan. The recent Iraq crises has lead to a large scale reverse migration which has effect on the remittances and unemployment in the Jordanian economy. The distribution of labour force by sector is discussed below.

Table 2.2 indicates that in 1962, agriculture sector played a dominant role in the economy of Jordan, and absorbed 33.59% of the manpower while the share of the industry and service respectively stood at 20.8% and 45.70%.

With the passage of time the relative share of manpower employed in different sectors of the economy has shown substantial changes. The share of agriculture in total employment dropped to 11.50% by 1979 and further to 6.4% by 1993, while that of industry remained steady at around 10%. But in the services the relative share improved from 56% in 1962 to 83% by 1993. The fall in the share of agriculture sector in the total labour force is not surprising as it is consistent with the norms of the economic development which would lead to shifting of resources away from agriculture sectors

towards the secondary and tertiary sector activity. In addition with the west bank being occupied by Israel, the shift to non-agricultural activities have increased in Jordan.

**Table 2.2 : Relative Distribution of Labour Force by Major Economic Activities
(1962-93)** (% terms)

Economic activity	1962	1979	1985	1990	1992	1993
Agriculture & Allied Activities	33.59	11.50	7.80	7.30	7.40	6.40
Mining and Manufacturing	10.20	8.60	10.56	10.20	10.30	10.60
Tertiary Sector	56.21	79.90	81.64	82.50	82.30	83.00
Electricity and Water Construction	0.40	0.60	1.10	1.30	1.10	0.70
Transport and Communication	3.50	7.20	9.40	8.50	8.20	6.70
Finance and Insurance	-	2.10	3.41	3.20	3.30	2.90
Social & Public Administration Service	34.20	46.70	46.73	49.50	48.70	50.60
Trade	8.00	10.30	10.00	10.10	10.50	15.10
Total	100	100	100	100	100	100

2.4 Growth Performance of Jordanian Economy

The Jordanian economy faced various difficulties both in terms of internal disturbances as well as external threats. During its short history as an independent state, it

was severally effected by various crises of the middle east. The prosperity of the middle east especially oil exporting countries had some soothing effect on Jordan in many ways

The per capita Income at current prices of Jordan increased from JD 118 in 1968 to JD 534 by 1980 and it touched JD 890 by 1995. The following paragraphs presents detailed picture.

In the light of various odds that Jordanian economy experienced during 1967-74 resulted into a temporary setback to the economy. The growth in GNP and GDP (Table 2.3) has not only slowed down during this period but the annual growth in terms of macro parameters was very erratic and registered a negative growth rate for the years 1967, 1968 and 1970. The rate of growth in GNP dropped from 10.13% in 1966 to -10.53 in 1968, though with positive growth in 1969 once again in 1970 it registered -8.27% growth.

In terms of GDP growth rate similar was the outcome. GDP growth fell from 9.12% in 1966 to -12.49% in 1968 and once again -7.85% in the year 1970.

In fact between 1966 and 1970 Jordanian economy experienced a fall in the level of GNP and GDP even in absolute terms. GNP at market price registered a fall from JD 239.2 million in the 1966 to JD 235.1 million in the year 1970, where as in terms of GDP at factor cost the level of activities fell from JD 214.2 million in 1966 to JD 211.3 million in 1970 (Table 2.3). After a few years of economic recovery, the 1973 war once again lead to slow down of the economy, though this time the growth rate remained positive.

The annual growth rate in GNP dipped down from 15.43% in 1972 to 10.85% in 1973 and similarly in terms of GDP fell from 16.10% in 1972 to 9.12% in 1973. The average rate of growth of Jordanian economy during 1964 to 1974 was relatively low.

mainly because of the abnormal circumstances, like war and other disturbances, that it had to face. Between 1964 to 1974 Jordanian economy registered an average annual growth rate of 7.53% in terms of GNP at market prices and 7.05% in term of GDP at factor cost

In 1975, the Suez canal was reopened facilitating trade with Europe and North America through the port of Aqaba. The civil war in Lebanon in 1976 made Jordan a refuge for both persons and capital, sparking of an unprecedented construction boom. In 1979 The Arab League Summit was held at Baghdad which assured annual budget support of \$1.25 billion for Jordan for the following ten years

In 1980 and 1981 the Iran-Iraq war provided a further stimulus to the Jordanian economy. Iraqs major imports passed through Jordan and to some extent originated from Jordan

Economic growth was remarkable during 1976-82 and may be described as the “boom years” “The first five year plan (1976-1980) was formulated in the light of a set of new factors, including a large increase in Arab assistance and loan to Jordan in the wake of oil boom in the Gulf. There was a growing demand for Jordanian manpower in the Gulf countries and there was a significant rise in the value of remittances by Jordanian workers abroad. In the domestic economy there was a parallel shortage of skilled manpower within Jordan, leading to the import of labour from abroad, mainly Arabs. Other factors of significance during this period were higher oil prices, steep inflation, general wage and salary increases and a rise in government subsidies on staple food and fuel”²

The annual average growth rate of GNP at market prices and GDP at factor cost amounted to about 18% during the year 1974-84 and it was on highly consistent. This was primarily brought about by a number of factors. This can be stated in the order of importance as an enormous rise in remittances by Jordanians working abroad, increase in Arab official aid to Jordan and an increase in domestic exports and especially to other Arab countries. The result was a rise in foreign currency reserves and an increased import capability, to meet investment and consumption needs. The second five year plan (1981-85) was formulated with very high hopes, keeping in mind the success of the economy during the first plan. However actual economic performance fell below the plan's projections as a result of negative trends in the economies of the Gulf States leading to a decline in domestic and external demand.

Moreover, the wars in Lebanon and the decline in Gulf gave rise to a new set of conditions which adversely affected the growth of industrial sector in Jordan from 1982 to 1985. "As against 17.8% targeted growth rate of industrial sector during the plan, Jordan could achieve only 4.9% annual growth rate"³. The shortfall is attributed to under utilization of the productive capacity of a number of large industries, including potash, cement and fertilisers, as well as to competition by imports and lack of expertise in external marketing of domestically manufactured goods. Overall during the period 1974-1984 GNP at market price and GDP at factor cost have shown relative high growth rate, which were 18.44% and 18.25% respectively.

During the second half of 1980s, Jordan faced an acute economic crises. This has been reflected in a drastic fall in GNP and GDP growth rates, even at current market

prises GNP annual growth rate fell below 1% during 1987, 1988 and 1989 (Table 2.3)* resulting into a drop in the standard of living and a rise in an employment rates. During this period Jordan faced a large deficit in the general budget and increase in the external debt burden. These developments were accompanied by political and economic changes, in regional and international arena leading to a decrease in available sources of financing. Official Arab assistance and remittances from Jordanians working in the Gulf dropped as a result of the general economic recession in Gulf region due to a fall in oil prices.

Economic performance during second half of the 1980s was mixed. GNP at market prices and GDP at factor cost achieved relatively low growth rate 3.6% on an average between 1986-1990, and around 5%, during the same period respectively. Though variation in annual growth rate in case of GNP was more pronounced than that of GDP. This was mainly due to a reduction in Arab assistance, a drop in remittances from Jordanians working abroad and a decrease of domestic exports and re-exports.

Since mid 1989, the Jordanian economy showed signs of recovery as a result of changes introduced in fiscal, monetary and trade policies adopted by the government within the "Economic Adjustment Programme". However, Gulf crisis in later part of 1990 resulted into slowing down of the economic growth once again. After the war the Jordanian economy was able to overcome the negative effects of the crisis.

In 1992, Jordan's economy grew at an exceptional rate for the first time in many years. The growing confidence in the economy among consumers and private sector investors fostered the growth of 1992. With a high growth of 25.54%, in Jordan's

* Tables are presented at the end of each chapter

economy has once again proved its capability and flexibility to adjust to difficult conditions. Even in case of GDP at factor cost the annual growth rate was appreciable, at 18.17%. In recent years (1990-95) though there is a slight fall in growth rate of the economy, still national economy's performance is positive. This growth came as a result of expansion in both the goods and services sectors of the economy. The growth in these years was more favourable in the mining and quarrying and trade, restaurants and hotels which helped sizeable increase in country's exports and the flourishing activity in tourism sector. During 1991-1995 favourable external conditions helped Jordan to register a higher growth rate in GNP as compared to GDP. The average annual growth rate of GNP at market price between 1991-1995 was 13.31%, whereas during the same period the average annual growth rate of GDP at factor cost was 10.65%.

The growth performance of Jordan's economy during 1984-1995 have shown wide fluctuations on year to year basis, due to many sudden changes in internal and external conditions. As compared to (1974-1984) period, the economy has registered poor performance during 1984-95. As against 18% average annual growth in GNP and GDP during 1974-1984, Jordanian economy could muster only 7.77% average annual growth in terms of GNP and 7.62% in terms of GDP during 1985-1995.

For the period of analysis as a whole the Jordanian economy has an impressive growth rate. During the period 1964-1995 the economy achieved 11.14% trend growth rate in GNP at market prices. For the same period GDP at factor cost had a trend growth of 11.13%. These figures are highly impressive when looked as aggregates, however the year to year fluctuations were too severe. The growth in GDP in real terms is only around

3% during the period 1964-95 as the economy is found to face high inflation rates of around 8%. The last two columns of the (Table 2.3) reveals wide fluctuations in the performance of the economy. These figures reflect the vulnerability of Jordanian economy and bring about its dependence on neighbouring countries both in terms of economic and political stability. In the following section the sectoral distribution of Income the causes for the changes there in are analysed in detail

2.5 Sectoral Distribution of National Income (GDP)

In this section the author intends to analyse the composition of the national income and changes there in over a period of time. It is expected that with economic development the sectoral contribution towards the income generation and employment generation undergoes a change. The historical developments indicate towards a declining share of agriculture sector and rising share of other two sectors, ultimately leading to dominance of the services sector (Tertiary). A number of studies across the countries also have pointed out the fact that the services sector is gaining a greater share which is attributed to high government activity and increasing defence expenditures. Jordanian economy has undergone major changes during the period of this study. As per world development report 1994, the relative share of agriculture, industry and services in total GDP of France was 3%, 29% and 68% respectively in the year 1992. Similarly in case of U.S A the relative share of agriculture was 2%, industry 29% and services constitute 69% in total GDP. In Canadian economy the share of service sector is more than 70 percent

Although Jordan is still a developing country its sectoral distribution of GDP among agriculture, industry and services very much resembles with that of advanced countries of the world. In the year 1995 the relative share of agriculture production in total GDP was 5.7% where as that of industry 17.14% and services 77.14% (Tables 2.3 to 2.6). The corresponding figures in 1964 were 17.1%, 11.6% and 71% respectively. The fact still remains that, to meet its basic consumption requirements Jordan has to depend on outside world. The present level of agriculture and industrial production is not sufficient enough to meet the domestic requirements. Hence, the present state of affairs of Jordanian economy is not very healthy. In the light of this aspect let us look into the details of Jordanian economy's sectoral performance during 1964-1995.

2.5.1 Agriculture : Growth and Structure

During the period of our study agriculture production has grown around 8% on trend basis, which is high enough by any standard keeping in mind the nature of the sector but at the same time this sector was subject to wide fluctuation on year to year basis. This is mainly due to dependence of Jordanian agriculture on rain fall. In addition a number of political and regional factors had their impact on Jordanian agriculture. These were briefly discussed in the earlier section. Though agriculture production has shown increase in absolute terms, its relative contribution has declined.

During 1960s and 1970s Jordanian agriculture sector's performance was not very satisfactory. For a number of years during these two decades the absolute production had registered a decline, for example in the year 1966, 1968, 1970, 1973 and 1975 the level of

production fell below the 1964 level. This was mainly due to the Arab-Israeli war in 1967. "The agriculture sector suffered a severe set-back following the loss of West Bank the country had lost about 26 per-cent of the cultivated land in 1967"⁴

Jordan has tried to compensate for the loss of the west bank by developing the East Banks which are considered relatively inferior resources and the Jordan valley has become the main area of agricultural development in recent years. In the year 1973 the Jordan valley commission was created as an autonomous agency with overall responsibility for the development of the Jordan valley.

During 1964-1974 period, though GDP at factor cost grew at a rate of 3.97%, the relative growth rate of agriculture sector was only 2.92 per cent resulting into a fall in relative share of agriculture sector in total GDP from 17.1 per cent in 1964 to an average of 13.47 percent during the decade 1964-1974 (Table 2.4)

To overcome this situation, in 1975 the Jordan Valley Commission issued a new development plan (1975-82), which was intended to triple the irrigated area in the region. During this plan many incomplete past projects were to be completed and new major projects were taken up. The biggest project in the history of Jordan valley development the "Magarin Dam" in the Yarmonk River was commissioned. This project irrigates almost 15,000 hectares or about 42% of the total irrigated area in the East Jordan valley today. Although economically important, the Jordan valley represents less than one percent of the country's land surface. Around 90% of total cultivated land, even today, relies totally on rainfall for water needs. Uncertainty in the rainfall along with higher demand of land for housing and industrial construction purposes have resulted in a fall in

area under cultivation for field crops. Over a period of time the cultivated land under orchards and plantations have increased as these do not require much water like the field crops. The combined effect of all these factors is that the change pattern of production with agriculture sector. Even during 1974-84 agriculture growth rate was slower than that of the GDP, resulting into further fall in its relative share in total GDP. As against 17.65% growth in GDP during this period, agriculture sector's growth was only 10.08%, hence the relative share which was 13.47% during 1964-1974 went down to 8.45% of GDP on an average during 1974-1984.

Following the decline in relative significance of agriculture sector in Jordan's economy, many measures were adopted by government and private sector in terms of application of modern technology and the expansion of area under irrigation. For this purpose, a national agriculture research centre was established during second half of 1980s with aims of research development transfer of technology, planning and co-ordination at national level. Many new irrigation projects were taken up to increase irrigable land to the maximum extent possible, which the available water resources permit. During 1984-1995, agriculture sector has shown relatively higher consistency in terms of total production and its growth rate. Except for the year 1993, throughout the period total agriculture production has increased year after year. In the year 1993 lack of rainfall in time caused the fall in agriculture production. During this period (1984-95), agriculture sector has exhibited marginally higher growth rate as compare to total GDP growth rate. It was 8.3% in case of agriculture where as 7.63% in case of GDP. However, the relative share of agriculture in total GDP further lowered down to 6.72% on an average during this

period as compared to 8.45% during 1974-1985 period. This was mainly due to the relatively high rates of growth achieved by the industry and tertiary sectors during this period

2.5.2 Industry : Growth and Structure

Industrial development in Jordan has been progressing at a satisfactory level. Fertiliser, cement and petroleum production are the key industries of Jordan. Phosphates and potash are the main mineral resources of Jordan. The growth of output in mining and manufacturing achieved during 1959-1996 was an average annual rate of over 15%. This growth rate is considered to be good by any standards, however the Industrial base of Jordan is less diversified. The production is more for internal consumption. Over and above, it can be stated that the economy depends up on imports to a great extent. “Most of Jordan’s manufacturing output i.e. 64% is for final consumption. Besides manufacturing, the industrial sector includes mining, which contributed 15% of industrial value added”⁵

Industrial production of Jordan during 1964-1995 is presented in (Table 2.5). It is seen from the table that, the Arab-Israel war of 1967 and the civil war of 1970-1971 have affected adversely, the industrial production. Manufacturing began to recover in 1971, but most industrial firms were operating well below their capacity level. Taken as a whole, the period from 1967 to 1972 must be considered as a lost time for industrial development in Jordan⁶. The growth rate of industrial production was 4.59% during 1964-1974 period in Jordan, which was slightly lower than 4.97% increase in GDP during

the same period, leaving the relative share of industry in GDP more or less unaltered around 13% during this period.

As internal and external political conditions returned to near normal in 1974, the growth of the industrial production increased at an accelerated pace. In fact, it was after 1978 that the industrial growth rate started accelerating. The industrial production increased from JD 89 million in 1975 to JD 310 million in 1984, hence a highly favourable industrial climate in Jordan during 1974-84. The realised industrial growth rate during this period was 21.57%, this was the highest attained among all the sectors of the economy. This finally resulted into an increase in the relative share of industrial production from 13% in 1964-1974 period to 15.1% during 1974-1984 period.

The industrial production started showing downward trend after 1984, mainly due to the after-effect of Iran-Iraqi war and the sharp decline in oil prices. In absolute terms the industrial production fell from JD 310 million in 1984 to JD 297.4 million by 1988. After 1989 industrial production has shown a recovery. As a result, despite the negative growth between 1984 to 1988, the overall growth during 1984-1995 was satisfactory and it was slightly higher than the GDP growth during this period. Industrial production grew at the rate of 8.8% whereas GDP grew at the rate of 7.63% during 1984-95. The resulting outcome was that the relative share of industrial sector in GDP rose from 15.1% during 1974-1984 period to 17.07% during 1984-1995 period on an average. So, we conclude that, the relative experience of the industrial sector in total economic activity level is not very different, still over years its relative share has improved from 13% to around 17% which is a favourable sign.

2.5.3 Services : Growth and Structure

The Jordanian economy has traditionally been described as a service economy due to the fact that more than 2/3 of its GDP contributions are from non-commodity producing sectors. The services-oriented nature of Jordan's economic activities are led by the government sector (army and civil servants) followed by the financing, transport and trade sectors. Even when one analyses from the labour force point of view the same results appear. Service sector in the economy employ around 80 per cent of the labour force since early eighties and the share is on the rise. The overall service sector registered 11.25% growth on trend basis during 1964-1995 period (Table 2.6). Even this sector was subject to wide fluctuations on year to year basis. During 1964-1974, due to the already known factors, service sector registered only 5.4% growth on trend basis. It improved significantly during 1974-84 to 17.82%, but once again during 1984-1995 the annual growth rate in this sector recorded only 7.2% growth on trend basis. Excluding water, electricity and construction from service sector, one may define it as "exclusive service sector" (Table 2.7). The 'exclusive service' is a pure service generating sector in the economy. One finds that the relative share of exclusive service sector in Jordanian economy has remained more or less constant. From Table 2.7, it is worth noticing that the relative share of "exclusive service sector" have remained unchanged during the period of our study. In fact it has recorded a marginal fall from 66.98% of GDP during 1964-74 to 66.65% during 1984-95. This makes it clear that, whatever change in service sector were recorded either in terms of its growth or in term of its relative share in GDP it was exclusively due to construction, water and electricity production only.

Further, over years, with in the service sector the subsectors namely, producers of government services, finance, real estate and business service, transport, storage and communication, wholesale and retail trade, restaurants and hotels have shows considerable growth in terms of absolute level but their relative growth rates of various subsector have varied from time to time due to various reasons, which affected the macro activity level

During 1964-1974 period in terms of relative contributions of various subsectors in GDP, finance and real estate with 26.29% was on top followed by government services with 16.49% share, trade having 12.93% share and transport and communication had only 8.86% share. During the years of our study, the relative importance of these subsectors in GDP have under gone some change. Over the years transport and communication has shown steady increase in its share, from 8.86% in 1974-84 to 12.43% during 1974-84 and during 1984-1995 it further went up to 15.23% of GDP. It is a very healthy sign from the economy's point of view, as it provides basic infrastructure for a developing economy and is considered a prerequisite for the economic development. The financial sector have registered a relative decline as this sub-sector as it is highly influenced by external sector (more specially in case of Jordan). The relative share of financial sector have recorded a sizeable fall from 26.29% during (1964-74) to 17.82% during (1974-84), later during (1984-95) the sub-sector registered a marginal improvement in its relative share, it was 18.26%. The credit goes to the development of banking sector and inflow of foreign currency during this period. The relative share of government services inclusive of defence have shown great improvement, where as trade activity have recorded a fall in its relative share after 1984.

To conclude, the structure of Jordanian economy is dominated by the unusually large role of the service sector. Several factors have contributed to this dominance, viz., Jordan's geographical location and its large involvement in transit trade, the large role of external official transfers in financing government expenditures especially defence, and the high dependence on external trade to meet consumption and investment needs.

These factors have also influenced the composition of services sector itself. Transportation and communication and financial services account for a larger share than those of government services, defence and trade. The structural transformation of the economy of Jordan can't be restricted or confined only to the changes in the respective shares of the primary and secondary activities. Actually, the services sector played a significant role in bringing about this transformation.

2.6 The International Trade

The international trade plays a vital role in Jordanian economy. Jordan is a net importer with deficit in the Balance of Payments. It has deficit on commodity trade account (visible trade) all through the period of study and this deficit is to some extent offset by surplus on service trade (invisible trade) account. Even today, Jordan depends on imports to meet its consumption and investment demand to a large extent. As far as Jordan's balance of payments position is concerned, it is mainly characterised by a chronic trade deficit. Table 2.8 clearly shows that during the period 1964-95 the balance of trade is throughout unfavourable and kept on rising year after year.

The trade deficit was 43.34 million JD in 1964, it reached to 193.94 million JD by 1975 and further went up to 819.10 million JD by 1985, and by 1995 it reached to 1585.72 million JD. This was mainly due to excessive growth in imports as compared to exports. The imports to GNP ratio increased from 0.25 in 1964 to 0.58 by 1995, whereas the export GNP ratio could improve from 0.03 in 1964 to 0.22 by 1995. This situation clarifies the fact that Jordan is suffering from a chronic deficit in its trade balance. However, the current account components show that net tourism revenues, transportation, and remittances from Jordanian working abroad result in a reasonable surplus in the balance of invisible items (Services). Similarly the transfer payment to the government and the private sector always had a net surplus. These surpluses in the services and transfer accounts enable Jordan to substantially lower the deficit in the trade account.

Though foreign aid and remittances from abroad is the chief source of external support which helps Jordan to take care of its huge trade deficit but it is a non-dependable source of resources for Jordan⁷. For political reasons, donors may decrease the amount of aid or may even completely cut off aid. Even the remittances have been affected in 1990's as a result of the Iraq conflict. This in fact, has been the experience of Jordan. Table 2.9 shows that the volume of aid in 1964 was 15.4 million JD which went up to 100.60 million JD in 1975. In the year 1979 it was as high as 210.30 million JD but thereafter started declining and by the year 1984 it came down to 106.10 million JD. It reached an all time high of 261 million JD in the year 1989, but then after 1991 it started declining and by the year 1995 it was only 173.3 million JD. As against this the volume of external loans and remittances have shown more consistency. Before 1977 the magnitude

was low but has shown continuous rise. Further this item kept on rising between 1980-86 at a rapid rate. In the year 1980 it was 71.60 million JD and by 1986 it reached to 159.70 million JD. Though in 1987-88 Jordan experienced a fall in loan and remittances, after 1989 once again the same started increasing at a significant level and by 1995 it reached to 483.0 million JD level.

In relative terms, the foreign inflow as compared to GNP have experienced wide fluctuations stating that it is an unstable source to meet nations resource requirements. In the year 1964 the ratio was 0.11 which went up to 0.26 in the year 1977 except for the year 1981 the ratio have remain between 0.10 to 0.15. It is worth noting that in 1973, the oil boom and Jordanians working abroad had a strong impact on remittances and foreign aid of Jordan. During this period 72.4% of the total aid to Jordan come from Arab countries. Due to substantial decline in oil revenue in the Arab countries and because of the return of Jordanian workers from abroad due to the Gulf war in 1990⁸ Jordan needed the development and efficient mobilisation of domestic resources.

The experiences presented in the preceding pages leads one to conclude that Jordanian Economy is still at a developing state. The Economy faced wide fluctuations in the economic activity which is a consequence of the political uncertainties faced by the economy because of its geo-political situations. The wars in the region has nearly destroyed this economy and the prosperity in its proximity (OPEC) has helped it out in difficult situations. In the coming chapters the working the monetary system is analysed. However, the geo-political situation of the country is expected have its impact on the economy and its functioning.

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Table 2.3 : National Income and the growth of
National Income (1964-1995).
(JD Million)

Year	GNP at Market Price	GDP at Factor Cost	Annual Growth GNP	Annual Growth GDP
1964	203.00	186.60	-	-
1965	217.20	196.30	7.00	5.20
1966	239.20	214.20	10.13	9.12
1967	229.90	209.70	-3.89	-2.10
1968	205.70	183.50	-10.53	-12.49
1969	256.30	229.30	24.60	24.96
1970	235.10	211.30	-8.27	-7.85
1971	247.50	224.80	5.27	6.39
1972	285.70	261.00	15.43	16.10
1973	316.70	284.80	10.85	9.12
1974	394.80	347.50	24.66	22.02
1975	449.50	382.20	13.86	9.99
1976	569.40	479.70	26.67	25.51
1977	698.30	580.00	22.64	20.91
1978	802.40	680.20	14.91	17.28
1979	1008.20	880.50	25.65	29.45
1980	1213.70	1051.40	20.38	19.41
1981	1526.80	1309.10	25.80	24.51
1982	1765.50	1527.90	15.63	16.71
1983	1877.90	1608.40	6.37	5.27
1984	1995.00	1764.20	6.24	9.69
1985	2015.50	1782.50	1.03	1.04
1986	2146.30	1820.80	6.49	2.15
1987	2158.40	1878.00	0.56	3.14
1988	2175.90	1946.60	0.81	3.65
1989	2180.70	2109.60	0.22	8.37
1990	2428.80	2324.50	11.38	10.19
1991	2634.00	2505.60	8.45	7.79
1992	3306.80	2960.90	25.54	18.17
1993	3662.30	3214.60	10.75	8.57
1994	4039.20	3529.30	10.29	9.79
1995	4503.60	3844.30	11.50	8.93
Growth Rate(%)	Trend Growth (%)		Average Annual Growth (%)	
1964-1995	11.14	11.13	10.98	10.68
1964-1974	5.13	4.97	7.53	7.05
1974-1984	17.45	17.65	18.44	18.25
1984-1995	7.61	7.63	7.77	7.62

Source : Yearly Statistical Series ,1996.

Table -2.4 : Agriculture sector and its
contribution to Gross
Domestic Product (1964-95)
[JD Million]

Year	GDP at Factor Cost	Agricul- ture	% Share of Agri. to GDP
1964	186.60	31.90	17.10
1965	196.30	30.30	15.44
1966	214.20	23.60	11.02
1967	209.70	35.50	16.93
1968	183.50	19.40	10.57
1969	229.30	31.20	13.61
1970	211.30	24.60	11.64
1971	224.80	30.00	13.35
1972	261.00	34.70	13.30
1973	284.80	25.00	8.78
1974	347.50	37.20	10.71
1975	382.20	30.20	7.90
1976	479.70	42.30	8.82
1977	580.00	52.50	9.05
1978	680.20	76.90	11.31
1979	880.50	61.40	6.97
1980	1051.40	83.00	7.89
1981	1309.10	79.60	6.08
1982	1527.90	92.70	6.07
1983	1608.40	109.80	6.83
1984	1764.20	97.40	5.52
1985	1782.50	98.40	5.52
1986	1820.80	114.30	6.28
1987	1878.00	137.80	7.34
1988	1946.60	134.50	6.91
1989	2109.60	139.80	6.63
1990	2324.50	187.80	8.08
1991	2505.60	213.50	8.52
1992	2960.90	246.90	8.34
1993	3214.60	193.30	6.01
1994	3529.30	203.00	5.75
1995	3844.30	219.60	5.71
Annual Average			
1964-95	1272.79	91.82	9.19
1964-74	231.73	29.40	12.95
1975-84	964.65	69.36	7.92
1985-95	2473.41	165.53	6.72

Source : Yearly Statistical Series ,
1976. Central Bank of Jordan

Table-2.5
Industrial Sector and its contribution
to Gross Domestic Product [JD Million]

Year	GDP at Factor Cost	Industry	% Share of Industry to GDP
1964	186.60	21.60	11.58
1965	196.30	25.90	13.19
1966	214.20	30.70	14.33
1967	209.70	23.30	11.11
1968	183.50	28.00	15.26
1969	229.30	32.60	14.22
1970	211.30	27.70	13.11
1971	224.80	27.70	12.32
1972	261.00	32.20	12.34
1973	284.80	40.10	14.08
1974	347.50	38.00	10.94
1975	382.20	50.90	13.32
1976	479.70	64.90	13.53
1977	580.00	82.50	14.22
1978	680.20	89.40	13.14
1979	880.50	146.40	16.63
1980	1051.40	173.50	16.50
1981	1309.10	233.40	17.83
1982	1527.90	259.00	16.95
1983	1608.40	247.80	15.41
1984	1764.20	310.60	17.61
1985	1782.50	271.00	15.20
1986	1820.80	262.20	14.40
1987	1878.00	280.50	14.94
1988	1946.60	279.40	14.35
1989	2109.60	409.20	19.40
1990	2324.50	494.10	21.26
1991	2505.60	468.60	18.70
1992	2960.90	536.80	18.13
1993	3214.60	534.20	16.62
1994	3529.30	601.70	17.05
1995	3844.30	659.10	17.14
Annual Average			
1964-95	1272.79	211.97	15.15
1964-74	231.73	29.80	12.95
1975-84	964.65	154.22	15.10
1985-95	2473.41	425.62	17.07

Source : Yearly Statistical Series ,
1996 (1964-1994), Central
Bank of Jordan

Table -2.6 : Service sector and its contribution to
Gross Domestic Product (1964-95)
[JD Million]

Year	Service	Service Excluding Electric- ity water & Const- ruction	% Share to GDP	% Share Service Excluding Electric- ity water & Const- ruction to GDP
1964	133.10	124.30	71.33	66.61
1965	140.10	128.10	71.37	65.26
1966	159.90	147.30	74.65	68.77
1967	150.90	139.80	71.96	66.67
1968	136.10	120.90	74.17	65.89
1969	165.50	151.20	72.18	65.94
1970	159.00	146.60	75.25	69.38
1971	167.10	155.20	74.33	69.04
1972	194.10	174.30	74.37	66.78
1973	219.70	190.80	77.14	66.99
1974	252.30	227.60	72.60	65.50
1975	301.10	261.50	78.78	68.42
1976	372.50	324.60	77.65	67.67
1977	445.00	385.60	76.72	66.48
1978	513.90	440.20	75.55	64.72
1979	672.70	575.50	76.40	65.36
1980	794.90	673.70	75.60	64.08
1981	996.10	839.20	76.09	64.11
1982	1176.20	972.70	76.98	63.66
1983	1250.80	1041.90	77.77	64.78
1984	1356.20	1138.90	76.87	64.56
1985	1413.10	1224.30	79.28	68.68
1986	1444.30	1262.60	79.32	69.34
1987	1459.70	1291.20	77.73	68.75
1988	1532.70	1369.20	78.74	70.34
1989	1560.60	1406.40	73.98	66.67
1990	1642.60	1483.10	70.66	63.80
1991	1823.50	1635.80	72.78	65.29
1992	2177.20	1895.30	73.53	64.01
1993	2487.10	2124.70	77.37	66.10
1994	2724.60	2334.70	77.20	66.15
1995	2965.60	2540.70	77.14	66.09
Annual Average				
1964-1995	968.38	841.50	75.48	66.43
1964-1974	170.71	155.10	73.52	66.98
1974-1984	739.25	625.58	76.46	65.39
1984-1995	1882.27	1642.24	76.22	66.65

Source : Yearly Statistical Series ,1996
Central Bank of Jordan

Table -2.7: Role of Service sector in the Jordanian Economy and its changing composition (1964-95)
[JD Million]

Year	Producers of Govt. Services	Finance, Real Estate & Business Services	Transport & Communi- cation	Wholesale & Retail Trade, Restaura- nts & Hotels	Other Services	% Share of				
						Col.2 to GDP	Col.3 to GDP	Col.4 to GDP	Col.5 to GDP	Col.6 to GDP
1	2	3	4	5	6	7	8	9	10	11
1964	22.10	54.90	15.90	25.20	6.20	11.84	29.42	8.52	13.50	3.32
1965	23.60	52.80	17.90	27.10	6.70	12.02	26.90	9.12	13.81	3.41
1966	32.00	58.90	20.20	29.50	6.70	14.94	27.50	9.43	13.77	3.13
1967	29.00	63.40	17.00	25.50	4.90	13.83	30.23	8.11	12.16	2.34
1968	37.40	38.40	17.20	24.30	3.60	20.38	20.93	9.37	13.24	1.96
1969	42.80	56.00	19.70	29.60	3.10	18.67	24.42	8.59	12.91	1.35
1970	40.20	59.30	17.20	25.70	4.20	19.03	28.06	8.14	12.16	1.99
1971	40.20	62.10	19.40	28.30	5.20	17.88	27.62	8.63	12.59	2.31
1972	43.70	68.10	23.20	33.50	5.80	16.74	26.09	8.89	12.84	2.22
1973	49.30	72.40	25.60	36.90	6.60	17.31	25.42	8.99	12.96	2.32
1974	65.30	78.50	33.50	42.70	7.60	18.79	22.59	9.64	12.29	2.19
1975	77.40	84.70	42.80	47.90	8.70	20.25	22.16	11.20	12.53	2.28
1976	112.70	82.60	58.30	64.60	6.40	23.49	17.22	12.15	13.47	1.33
1977	116.30	97.40	75.10	84.80	12.00	20.05	16.79	12.95	14.62	2.07
1978	132.70	115.60	88.40	90.30	13.20	19.51	17.00	13.00	13.23	1.94
1979	171.70	165.00	105.90	115.00	17.90	19.50	18.74	12.03	13.06	2.03
1980	186.50	187.00	127.30	149.10	23.80	17.74	17.79	12.11	14.18	2.26
1981	225.20	201.90	170.80	214.40	26.90	17.20	15.42	13.05	16.38	2.05
1982	255.10	233.60	204.80	253.20	26.00	16.70	15.29	13.40	16.57	1.70
1983	275.10	259.10	228.20	257.40	22.10	17.10	16.11	14.19	16.30	1.37
1984	299.50	297.70	230.40	288.10	23.20	16.98	16.87	13.06	16.33	1.32
1985	328.30	314.40	265.40	289.40	26.80	18.42	17.64	14.89	16.24	1.50
1986	369.70	318.70	274.70	273.50	26.00	20.30	17.50	15.09	15.02	1.43
1987	388.00	329.30	277.40	269.20	27.30	20.66	17.53	14.77	14.33	1.45
1988	418.90	377.20	294.50	254.90	23.70	21.52	19.38	15.13	13.09	1.22
1989	431.30	413.80	359.10	180.70	21.50	20.44	19.62	17.02	8.57	1.02
1990	449.10	407.00	362.00	216.80	48.20	19.32	17.51	15.57	9.33	2.07
1991	474.40	472.20	382.70	254.70	51.80	18.93	18.85	15.27	10.17	2.07
1992	554.70	520.40	450.00	278.70	91.50	18.73	17.58	15.20	9.41	3.09
1993	619.10	622.70	487.10	317.20	78.60	19.26	19.37	15.15	9.87	2.45
1994	668.60	663.10	560.20	358.50	84.30	18.94	18.79	15.87	10.16	2.39
1995	730.00	710.40	603.00	402.40	94.90	18.99	18.48	15.69	10.47	2.47
Annual Average										
1964-1995	240.93	235.58	183.59	155.91	25.48	18.30	20.78	12.32	12.98	2.06
1964-1974	38.69	60.44	20.62	29.85	5.51	16.49	26.29	8.86	12.93	2.41
1974-1984	174.32	163.92	124.14	146.14	17.07	18.85	17.92	12.43	14.43	1.87
1984-1995	477.63	453.91	378.88	282.01	49.82	19.38	18.26	15.23	11.91	1.87

Source : Yearly Statistical Series ,1996 (1964-1994) Central Bank of Jordan.

Table 2.8: Jordan's International Trade and Official Foreign Assets (1964-1995)

(JD Million)

Year	Foreign Assets	Export	Import	Trade Balance (derived) [X-M]	Goods and Services [G+S]
	[FA]	[X]	[M]	[TB]	[CAB]
	1	2	3	4	5
1964	50.50	50.35	7.01	-43.34	-24.50
1965	59.10	56.05	7.75	-48.30	-26.80
1966	66.10	68.21	8.76	-59.45	-35.50
1967	92.50	55.05	9.98	-45.06	-27.70
1968	107.90	57.49	12.17	-45.32	-44.40
1969	98.50	67.75	11.92	-55.84	-63.60
1970	97.40	65.88	9.32	-56.56	-46.60
1971	91.90	76.63	8.82	-67.81	-57.90
1972	99.80	95.31	12.61	-82.70	-67.00
1973	106.20	108.20	14.01	-94.19	-60.80
1974	117.40	156.51	39.44	-117.07	-83.80
1975	173.00	234.01	40.08	-193.94	-118.30
1976	201.50	339.54	49.55	-289.99	-109.20
1977	266.40	454.42	60.25	-394.16	-168.30
1978	362.40	458.83	64.13	-394.70	-192.30
1979	453.60	589.52	82.56	-506.97	-316.50
1980	623.30	715.98	120.11	-595.87	-287.10
1981	678.80	1047.50	169.03	-878.48	-444.50
1982	650.40	1142.49	185.52	-956.97	-491.60
1983	740.40	1103.31	160.03	-943.29	-436.30
1984	746.60	1071.34	261.06	-810.29	-382.90
1985	791.40	1074.45	255.35	-819.10	-414.90
1986	833.20	850.20	225.62	-624.58	-254.00
1987	871.40	915.55	248.77	-666.77	-317.60
1988	921.10	1022.47	324.79	-697.68	-337.80
1989	1188.30	1230.01	534.11	-695.90	-266.20
1990	1416.50	1725.83	612.25	-1113.58	-682.20
1991	2956.10	1710.46	598.63	-1111.84	-625.20
1992	3325.90	2214.00	633.76	-1580.25	-847.70
1993	3249.80	2453.63	691.28	-1762.34	-706.50
1994	3586.20	2362.58	793.92	-1568.66	-506.80
1995	4067.80	2590.25	1004.53	-1585.72	-347.20

Source : Yearly Statistical Series 1996

Table 2.9 :Relative Importance of Aid and Loans
in Foreign Inflow (JD Million)

Year	Aid	External loan Remittance	Foreign inflow (BOP)	Foreign inflow/ GNP
	1	2	3	4
1964	15.40	7.00	-0.52	0.11
1965	15.30	2.60	-0.37	0.08
1966	9.90	2.20	-0.20	0.05
1967	40.40	4.30	-0.99	0.19
1968	40.20	4.50	-0.99	0.22
1969	38.40	4.60	-0.77	0.17
1970	35.40	2.50	-0.67	0.16
1971	35.40	7.90	-0.64	0.17
1972	44.50	8.50	-0.64	0.19
1973	45.60	11.40	-0.61	0.18
1974	58.80	15.10	-0.63	0.19
1975	100.60	16.20	-0.60	0.26
1976	66.20	19.90	-0.30	0.15
1977	122.20	58.50	-0.46	0.26
1978	81.70	90.70	-0.44	0.21
1979	210.30	37.60	-0.49	0.25
1980	209.30	71.60	-0.47	0.23
1981	206.30	76.40	-0.32	0.54
1982	199.50	65.30	-0.28	0.15
1983	197.00	76.80	-0.29	0.15
1984	106.10	122.20	-0.28	0.11
1985	187.80	162.40	-0.43	0.17
1986	143.70	159.70	-0.49	0.14
1987	127.60	63.20	-0.29	0.09
1988	155.40	97.50	-0.36	0.12
1989	261.70	184.20	-0.64	0.20
1990	164.30	197.90	-0.33	0.15
1991	225.20	336.70	-0.51	0.21
1992	137.40	328.40	-0.29	0.14
1993	163.30	130.30	-0.17	0.08
1994	175.60	208.00	-0.24	0.09
1995	173.70	483.00	-0.41	0.15

Source : Yearly Statistical Series ,1996
(1964-1994) Central Bank of Jordan.