

## Principal Characteristics of Jordan's Economy in the Mid 1980s

### I. Human Resources

#### 1. Demographic Growth and Distribution

Population in Jordan is characterized by a high annual growth rate, which reached 3.9% during the period 1980 - 1985. Of this growth, 3.4% was due to natural increase and 0.5% to net migration from and to the East Bank. The estimated population of the East Bank in 1985 was 2.67 million. Age composition showed a high percentage of young people (15 years and under), who in 1985 constituted 50% of the total population and contributed to a high dependency ratio of 1:5 and an average family size of seven persons. These two factors had an adverse effect on average household incomes and savings. They also necessitated increases in Government spending on education, health and basic infra-structure.

Another feature is uneven demographic distribution. In 1985, the Amman and Zarqa governorates, with only 20% of the total area of the kingdom, had 56% of the population, while the Ma'an governorate, with about half the area of Jordan, had a mere 3.5%.

#### 2. Manpower

Jordan is at once an importer and exporter of labor. In 1985, the total labor force was estimated at 645 thousand, of whom 143 thousand, or 22%, were guest workers. The number of Jordanians working abroad was estimated at 339 thousand.

Jordan's economy continues to reflect a low participation rate in the labor force, which in 1985 was no more than 20%. This is due to a variety of factors, including the large number of Jordanians working abroad, the age composition of the population, the high rate of schooling and a persistently low rate of female participation, which rose slowly from 3.1% in 1961 to only 4.8% in 1974 and to 12.5% in 1985.

Increased domestic demand for labor during the latter half of the Seventies - resulting from rapid economic growth, the outflow of Jordanian labor to neighboring countries and the relative scarcity of unskilled labor - led to a general rise in wages as well as to the import of mostly unskilled and semi-skilled Arab and foreign labor. During the first half of the Eighties, however, this pattern was reversed. There was a rise in labor supply and a fall in demand in domestic and foreign markets as a result of slackening economic activities in the region. The resulting imbalance was reflected in emerging unemployment and falling rates of wage increases. Wage differentials continued in favor of those employed in the private sector.

Another feature of this period was structural imbalance brought about by excess supply of labor in certain crafts and trades and a parallel shortage in others, particularly in technical, professional and highly specialized fields. Also, the labor market still suffers to a noticeable extent from over-dependence on semi-skilled foreign labor, especially in agriculture, construction and a range of services.

### 3. Education and Vocational Training

The educational system has experienced rapid growth in enrollment at the elementary level, which has increased from 8.7% of the total population in 1980 to 12.5% in 1985. At the university level, enrollment has also increased, with a continuous increase in the total student population in 1985.

Despite the enormous increase in enrollments, university offerings, especially in the high demand fields, are limited. The high demand for graduates in the development process has led to a shortage of trained personnel.

Likewise, there has been a shortage of training involving a dramatic increase in qualitative growth in 1981 - 1985, and a need for training programs in home economics and other fields. Constraints, a combination of economic and technological factors, have limited the development of the technological sector.

### II. Natural Resources

#### 1. Water

Scarcity of water is a major constraint on the development of the agricultural sector. The average annual rainfall is only 150 millimeters, leaving only 15% of the water available for agricultural purposes. This is due to the relatively small area of irrigated land.

Moreover, the distribution of water is uneven, with the highland areas receiving the most water and the lowland areas receiving the least.

Other problems include aging networks and inefficient pricing, which is well below the marginal cost of production.

#### 2. Energy

Solar energy, which is abundant in Jordan, is utilized to a very limited extent. Studies are under way to assess the potential of solar energy in Jordan.

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### 3. Education and Vocational Training

The educational system in Jordan is characterized by a high rate of student enrollment at the educational levels. In 1985, the enrollment rate as a ratio of the total population was 34.2%, with 864,000 students. Of these, 75.5% were enrolled in government schools, 15.8% in U.N.R.W.A. schools and 8.7% in private schools. Community college enrollment was 32 thousand. At the university level, there were 26 thousand students in Jordanian universities, and about 50 thousand abroad. A noticeable feature has been a continuous increase in the number of women students - to about half the total student population. The illiteracy rate fell from 34.6% in 1980 to 28% in 1985.

Despite the enormous increase in community colleges and course offerings, universities and community colleges are still unable to cope with the high demand for higher education. Shortages are still evident of graduates in the pure sciences and in certain skills required by the development process.

Likewise, there has been significant expansion in vocational training, involving a dramatic rise in the number of trainees and a quantitative and qualitative growth in vocational training institutions. During the period 1981 - 1985, about 12 thousand trainees were enrolled in vocational training programs, including agriculture, industry, hotel services and home economics. On the negative side, there are financial and human constraints, a continued emphasis on theory and a general inability to meet the technological requirements of industry.

## II. Natural Resources

### 1. Water

Scarcity of water resources and vulnerability of supplies arising from a fluctuating climate are the chief characteristic features of this important sector. The average annual rainfall in the East Bank is around 8000 cubic meters, out of which 85% is lost, through evaporation and other means, leaving only 15% for utilization. In addition, less than half of all available water is actually utilized, whether for industrial, agricultural or domestic purposes. This is due to the inadequacy of water prospecting studies and to the relatively small number of dams.

Moreover, the general insufficiency of ground water studies in the various regions and the relative remoteness of water sources have contributed to unnecessary increases in capital and operational expenses. As a result, the highland areas continue to be dependent on rainfed cultivation.

Other problems include inefficiency of water use due to extensive loss from aging networks, and irrational utilization, largely due to the fact that pricing is well below water and sewerage costs.

### 2. Energy

Solar energy, which at present is the only domestic energy resource in Jordan, is utilized on a modest scale. Technical and economic feasibility studies are under way for the possible exploitation of oil shale and

geothermal energy. Prospecting and drilling for oil continues, including the evaluation of exploratory wells to determine the level and quality of production.

In effect, then, Jordan relies entirely on imported oil, whose value constitutes one fifth of all imports and represents 80% of the total value of commodity exports. This is due to the large increase in energy consumption during the last decade resulting from the accelerating momentum of development and rising living standards.

The high cost of energy in Jordan in comparison with neighboring oil-rich states has reduced the competitiveness of Jordanian products in those markets, despite subsidies by the Government to oil derivatives used in industrial and agricultural production.

### 3. Mineral Wealth

Mineral resources currently exploited in the East Bank include raw phosphates, potassium salts and some building materials. They constitute a basic cornerstone of the extractive industries and a major component in commodity exports. Preliminary prospecting and surveys had proved the existence of quarrying and mining sediments, but no technical or economic feasibility studies have been carried out so far. Because of the shortage of qualified manpower with expertise in the preparation of pre-drilling feasibility studies, there is a high degree of dependence on foreign consultancy and implementation in this sector.

## III. National Economy

### 1. Production

Although highly sensitive to financial and economic developments in the neighboring Arab countries, the national economy enjoys a high degree of flexibility and adaptability to economic changes in those countries.

In the implementation of successive development plans, public and private sector institutions have demonstrated a cooperative spirit in utilizing the substantial inflow of capital from Jordanians working abroad and official transfers from Arab states, which contributed to high rates of growth in GDP amounting to 12.1% annually during the period 1976 - 1980. The high adaptability of Jordan's economy has been instrumental in containing the economic recession growing from regional retrenchment. Consequently, an average annual growth rate of 4.2% was maintained during the period 1981 - 1985.

Jordan's economic structure has been influenced by a variety of factors directly related to the availability of economic resources, the nature and phasing of capital projects, and defence needs. The size and sectoral composition of GDP has been largely determined by these considerations. Although the overall importance of agricultural production has increased, through expansion of irrigated land, technological improvements, adoption of advanced farming methods, and measures to reduce the adverse effects of climatic fluctuations, the relative sectoral significance of agriculture to GDP has remained low, at an annual average of only 7.7% during the first half of the Eighties. Meanwhile, the dependence of the

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agricultural sector on foreign labor has increased to 57.6% of total workers in this sector and 14.1% of the entire labor force in 1984.

Avoidance by farmers of rainfed agriculture and their preference for irrigation systems has raised fruit and vegetable cultivation to unprecedented levels and led to marketing bottlenecks. This has necessitated a reconsideration of cropping patterns and the imposition of production controls consistent with demand in the domestic and foreign markets.

The value added in the mining and manufacturing sector accounted for 16.4% of GDP and absorbed 9.9% of the total labor force. The sector is characterized by concentration on a few large capital-intensive industries. Phosphate and potash works are the principal activities of the mining industry. Large-scale manufacturing industries include cement, fertilizer and refined petroleum products. In addition, there are a number of intermediate and light industries as well as small private-sector establishments concerned with the production of foodstuffs, building materials and detergents. The sector as a whole continues to suffer from the small size of the domestic market and from weak forward and backward linkages within industry itself and with the other sectors. It is also heavily dependent on imported raw and other materials. These factors combined have resulted in a low ratio of domestic value added to the gross output of the sector.

The construction sector achieved remarkable growth during the second half of the Seventies and early Eighties. Consequently, its contribution to GDP rose to a high 9.2%. The sector employs 15.7% (half of them foreign) of the entire labor force. However, it suffers from weak management and recurring financial problems. The role of foreign institutions is still significant in this sector due to the relative weakness of national consortia, by domestic preference for civil engineering works, and limited expertise in planning, programming, pricing and follow-up. Given these factors, the sector has failed to create a construction-export capability.

The services sector continues to occupy a prominent position. It accounts for 61% of GDP and absorbs approximately two-thirds of the entire Jordanian labor force, besides employing about one-third of imported labor. The structure of Jordan's economy is dominated by the unusually large role of the services sector in GDP and employment. Several factors have contributed to this dominance, including Jordan's geographical location and its attendant 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 the services sector itself. Transportation and communications and financial services account for a larger share than those of Government services, defence and trade, although each of the last two still contributes a high 30% of the gross product of the services sector. On the other hand, in 1985 the share of each of transportation and communications, and finance, in the total value added in the services sector, amounted to 17.6% and 23% respectively.

Financial services are mainly concentrated on the financing of trade, especially imports, which attracted 24% of all credit facilities offered by commercial banks. Foreign insurance companies still account for 22% of all insurance transactions. Their major field of activity is marine insurance, where their share is 84%.

Consulting, administrative, engineering and technical services are still in an early stage of development. They have not yet acquired an institutional structure capable of meeting the various requirements of development projects, including identification, formulation, evaluation and execution. A shortage of proficient technical staff further weakens the competitive position of Jordanian firms vis-a-vis foreign companies at domestic and regional levels. However, the sector still suffers from lack of coordination and cooperation between scientific research institutions and universities on the one hand and specialized local consultancy companies on the other.

In the area of education, existing institutions do not have the resources to meet the growing demand for higher education, with the result that an increasing number of Jordanian students are seeking educational opportunities abroad - further aggravating the balance of payments and demand for hard currency. In 1985, expenditures on education abroad amounted to JD 77 million.

## 2. Consumption and Savings

Remittances by Jordanian workers abroad, together with the substantial volume of official financial transfers to the Central Government contributed to large increase in disposable, domestic and national incomes. This in turn led to an enormous increase in consumption, exceeding GDP and constituting a high proportion of GDP.

This phenomenon has become an inherent feature of Jordan's economy, manifesting itself in a variety of ways, as seen below:

- Increase in demand for consumer goods, both durable and non-durable, as well as for raw materials and capital goods, which led to an increase in imports.
- A change in consumption patterns, characterised by imitation of life styles in the Gulf which are incompatible with domestic income.
- A negative balance in domestic savings due to a rise in consumption at a higher rate than growth in GDP. Although gross national savings remained positive, their ratio to GNP at market prices fell from 38.7% in 1981 to 22.2% in 1985.

Official transfers and remittances by Jordanians working abroad also contributed to the high rates of capital formation realized by both the public and private sectors. The ratio of gross fixed capital formation to total expenditures on GNP in 1981 was 38.1%, but this fell to 26.2% in 1985, reflecting the sensitivity of the East Bank economy to economic and political conditions in the Gulf States.

## 3. External Trade

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### 3. External Trade

External trade plays a vital role in the national economy. In 1985, the total value of imports and exports of goods and services to GNP was 119.7%. This ratio would rise to 152.6% if remittances by workers and income from investments were added to the imports and exports of goods and services.

Jordan's economy is characterized by a chronic deficit in the balance of trade. However, the surplus in the balance of services has had a mitigating effect on the overall position of the balance of payments. Whereas in 1985 the deficit in the balance of trade was JD 762 million (41% of GNP), the surplus in the balance of services was JD 374 million (20% of GNP). The resultant balance in goods and services was a deficit of JD 388 million, or 21% of GNP.

While exports of services are the major part of national exports, accounting for about 60% of the total value of exports of goods and services in 1985, commodity imports constitute three-quarters of the total value of imports of goods and services. As for the composition of commodity imports, oil represents one fifth, equipment and machinery about a quarter and foodstuffs about 16%.

Jordan's export pattern is characterized by a high degree of concentration on specific commodities and destinations. Phosphates and potash make up a major portion of national exports, accounting for JD 128 million in 1984, or about 50% of all commodity exports. Exports of citrus and other fruits, and vegetables, amounted to 12%, while the balance was made up of industrial products such as pharmaceuticals, plastics and paints. As for destinations, in 1985, 51.5% of Jordanian exports went to other Arab countries, while 26.2% went to India and the socialist states.

In general, Jordan's industrial exports have a low domestic value added component. Hence any increase in the export of certain manufactured and processed goods requires a parallel increase in the import of raw materials and intermediate goods.

### IV. Public Finance

Public finance is characterized by persistent overall budget deficits. Domestic revenues remain lower than current expenditures, although the ratio improved from 67.3% in 1980 to 79.6% in 1985. Consequently, the overall budget deficit ratio to total Government expenditures fell from 19.5% in 1980 to 13.5% in 1985. As a proportion of GDP at market price, it also declined from 11.2% in 1980 to 6.8% in 1985.

Tax revenues in Jordan depend to a large extent on indirect taxes, especially customs duties, and to a lesser extent on direct taxes. In 1985, indirect taxes accounted for 58.3% of total domestic revenues and 82% of total tax revenues. Customs duties accounted for 39.4% of total domestic revenues.

Despite the noticeable growth in direct taxes, their ratio to total domestic revenues remained as low as 13% in 1985. Its ratio to GDP at factor cost was only 4% in the same year. Despite improvement in the methods of tax assessment and collection during the first half of the Eighties, the narrow tax base as well as numerous exemptions have inhibited any significant rise over the years in income tax receipts.

Expenditure on defence and security is one of the major items of Government expenditure. In 1985, it constituted 34.2% of total current expenditures. Expenditure on financial administration (i.e subsidies and interest on the public debt) accounted for 31.3%, while expenditure on social services (comprising health and educational services) amounted to 17.3% of total current expenditures in the same year. As for capital expenditures, modest increases in absolute values have been recorded in comparison with current expenditures, resulting in a gradual decline in the ratio of capital expenditures, to total Government expenditures from 40% in 1980 to less than 34% in 1985.

Because of deficits in the current account, the financing of capital expenditures relies heavily on foreign aid and loans. Resort to domestic borrowing is still limited, and the value of the outstanding internal public debt at the end of 1984 as JD 374.4 million.

The general budget is not comprehensive, in that it does not include the budgets of autonomous public institutions, municipalities or local councils. The financial operations of the entire public sector, inclusive of all transfers among the different institutions as well as to and from the Central Government, have yet to be compiled and presented in a suitable form to show explicitly all financial flows.

#### V. Money and Banking System

The banking system has been among the most expansive sectors of the economy during the last ten years. However, it still suffers from certain deficiencies, including the narrowness of money markets and of the secondary market for money instruments (such as government and corporate bonds) as well as the inadequacy and short terms of instruments in current use. The sector also suffers from the fragility of ties between banks on one hand and specialized credit institutions on the other, as shown by the weak flow of funds between them. Direct dealings among commercial banks themselves are still limited, as shown by the fact that inter-bank deposits did not exceed 7.2% of total deposits in 1985. The bulk of transactions by banks and financial intermediaries is concentrated on credit facilities, mainly in Amman.

The same applies to specialized credit institutions, with the exception of the Housing Bank.

As for interest rates, they are subject to rigid policies which do not always respond to domestic economic needs or conform with international rates. Although the structure of interest rates prevalent in the domestic market during the second half of 1985 was in conformity with world interest rates, in most other cases they were noticeably lower than corresponding world rates. This has resulted in an increased outflow of money and in reduced domestic savings and investment.