

The Jordanian Economy
in its Regional and
International Framework

AL-URDUN AL-JADID RESEARCH CENTER

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The Jordanian Economy in its Regional and International Framework

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Introduction

Hani Hourani

Among the most obvious characteristics of the Jordanian economy is that it is a small economy open to the outside world, and it is therefore highly sensitive to regional and international pressure. Indeed, the Jordanian economy has been a true mirror of Middle East developments, both in times of prosperity and in times of stagnation.

In view of this feature, the international and regional developments that have taken place since the beginning of the decade should be examined carefully to determine their repercussions on the Jordanian economy and to enable decision makers, researchers and other interested parties to deal with the prevailing conditions properly and to form a vision of the present and the future.

This initiative was launched by Al-Urdun Al-Jadid Research Center with a view to identifying the patterns and trends of regional and international transformation, as part of an academic approach to solicit various views on the nature of the needed reforms, whether at the level of economic policies or at the level of upgrading the legal and administrative environment so that the potential for economic growth can be realized. In the light of the paramount significance of the timely local, regional and international issues and developments which are the focus of this project, the undertaking proposed by the Center has been generously supported by the Friedrich Ebert Foundation and Philadelphia University.

Jordan is geographically and politically located in a hotbed of transformation and repercussions that necessarily reflect on its small economy, and the conference focused on a number of levels so that the various factors at work could be examined in a systematic fashion. The first focus was intended to examine the Arab and the Jordanian economies in the context of the international economy. The second focus dealt with the likely impact of regional developments on the major sectors of the Jordanian economy. The third focus dealt with the Jordanian economy in

the light of the complex economic relations among Jordan, Palestine and Israel. The conference concluded with a timetable on the future challenges that will be faced by the economies of the Arab region in general and the Jordanian economy in particular.

In the first focus, Dr. Judeh Abdelkhaleq, professor of economics at Cairo University, discussed the multi-faceted factors governing the Arab economies under conditions of globalization as well as the various regional transformations that are under way. His paper noted that two basic concepts will have to be digested by the region. The first concept is that the information revolution has rendered borders among nations more imaginary than real; the second concept involves the principles of national sovereignty and security, competition and involvement in the globalization process. The paper also analysed perceptions *vis-à-vis* the future transformations that are expected to take place.

Professor Dr. Klauss Peter Kisker of Berlin's Free University submitted a working paper which dealt with the anticipated opportunities offered by regional development, within the framework of the crisis in the world economy. The paper focused on Jordan, which is restructuring its economy to adapt to regional and international developments and which happens to be the economy most affected by regional and international developments in the region, a situation that has been evident throughout the past decades. The paper reviewed in detail the dimensions of the current international economic situation and future expectations in terms of growth rates, unemployment levels, operational efficiency, infrastructure, and capital structure, and also focused on how the integration of the Jordanian economy into the world economy would mean that Jordan would clearly inherit certain aspects of this crisis.

The paper pointed out that the transformation of the Jordanian economy into a capitalist economy is an opportunity and a risk at the same time. Although the capitalist system is to be admired, it lacks the human touch, because capitalists act at their discretion *vis-à-vis* the means of production and profits. Finally, the paper stressed the need to benefit from the experience of the merger of the two Germanys. It said that important decisions involving the labour force, privatization, and the

change in the role of the State, as well as the best way to attract foreign capital and investments, were made hastily.

The working paper submitted by Dr. Tayseer Abdel Jaber dealt with the same focus. The paper tried to locate the Jordanian economy in the different scenarios that are currently being displayed. It asserted in conclusion that in the absence of a strong economic alliance in the Arab region and the Middle East region at large, Jordan should adopt an economic policy based on the continuation of economic reform and closer economic ties with the countries of the region, particularly the Gulf States, Egypt and Iraq. Jordan, the paper adds, should also restore its relations with the Palestinian economy, join the World Trade Organization, and continue negotiations for accession to the European partnership on terms that are favourable to Jordan.

In the conference's second focus, the major sectors of the Jordanian economy were discussed, beginning with water and then moving on to agriculture, transport, foreign trade and finally industry. Dr. Zaki Hannoush, professor of economics at the University of Aleppo, and Mr. Fawzi Abu Na'aj of the Jordanian Ministry of Water Resources submitted two working papers highlighting the water crisis in the Arab countries, future ideas for overcoming this crisis, water management in Jordan and the challenges posed in the future. The first paper proposed ways to preserve water resources. It explained that there is no common Arab vision concerning the water crisis. The paper also gave some ideas on how to enrich the water resources and rationalize the consumption of water through linking water prices with the quantities consumed on a progressive basis, opening a water data bank, improving the management of the available resources, utilizing the most efficient ways in the use of water and minimizing the waste and making use of mouths of large rivers. The second paper dealt with the management of the water crisis in Jordan and the measures needed to handle this crisis at present and in the future, stressing the need for regional cooperation in this connection. The paper concluded that a water conference should be held according to the international principles governing the division of water to lay down the

functional regulations for the management of water as well as the material and technical contributions needed to enhance water security.

Within the same focus, Dr. Salem Butrous Maqtash of the Ministry of Agriculture, and Dr. Yusef Hayagneh of the Applied Sciences University, submitted a joint working paper reviewing a number of important issues relevant to the challenges that the agricultural sector is facing in the midst of the transformations that are taking place in the world and in the region. The paper proposed a strategy of adaptation with the changes. It pointed out that the success of this strategy depends on the ability of the Jordanian agricultural sector to respond favourably to changes in terms of its inherent capabilities, market changes, international competition and regional changes. The paper points out that the Jordanian agricultural sector could adapt to the new situation and minimize any adverse impact, if there were a local agricultural policy based on mobilizing local savings, raising the amounts of the local capital invested in agriculture, upgrading management concepts, and utilizing agricultural resources, efficiently.

Dr. Dreid Mahasneh submitted a paper focusing on one of the most important transport veins in Jordan, namely, the port of Aqaba, as part of a strategic study of the transport sector in Jordan. The paper pointed out in this context the obstacles faced by the transport sector, the factors hindering the development and growth of this sector, and the alternatives available for expanding the port of Aqaba and maximizing its advantages. The paper concluded that the best alternative is inter-Arab coordination, not competition, in order to deny Israel the opportunity of controlling the transport sector.

In the banking sector focus, General Manager of the Arab Banking Corporation Mr. Jawad Hadid, Director General of the Amman Stock Exchange Dr. Umayyah Tuqan, and Deputy Manager of the Housing Bank Abdul Kader al-Duwaik, discussed the facts governing the banking system in Jordan and the problems being encountered. They asserted that in light of the regional and international changes, capital should be enhanced, strategic planning and administrative development should be improved, efforts should be made to keep pace with the technological

revolution, and banking services should be diversified. The role of the Amman Financial Market was highlighted in terms of financing investments in the country. The impact of interest rates on the Amman Financial Market was also discussed, and the point was stressed that healthy economic policies should be formulated so as to determine the more appropriate interest rate needed for the activation of the economy.

Jordanian industry expert Dr. Akram Karmoul discussed the changes and challenges facing Jordanian industry in the light of recent regional and international developments. Dr. Karmoul's paper laid down strategic proposals to cope with these changes and challenges, taking into consideration the goals of economic and social development and the priorities and special characteristics of the Jordanian economy. The paper referred to the possibility of benefiting from the experiences of the East Asia countries in exports and the encouragement of investment and joint ventures. It also stressed the need to upgrade and diversify Jordanian products and to adopt international criteria and specifications governing industrial products.

In the field of foreign trade, Dr. Ahmad Qassem al-Ahmed of the Royal Scientific Society and the Diplomatic Institute submitted a paper which explained the structure of international trade and prospects for its development in the light of recent regional and international developments and changes. The paper discussed the structure of Jordan's foreign trade, the problems of the trade sector, and the future of the sector in the light of Euro-Mediterranean partnership and accession to the World Trade Organization, the developments involving the Middle East peace process, and the Jordanian-Palestinian agreement. The paper concluded that the trade sector would remain the sector most affected by international changes and developments.

There were three papers submitted on tourism. The first paper was submitted by Mr. Manfred Haack of the Friedrich Ebert Foundation, the second by Professor Louis d'Amore, and the third by Dr. Habis Samawi of the University of Jordan. The three papers highlighted the contribution of the tourism sector to the national economy and ways of maintaining

sustainable tourism through learning from the experiences of other nations. The papers emphasized the significance of promoting tourism in Jordan and the need to pay more attention to the foreign tourist as well as to develop successful marketing methods. Each of these concepts was cited in the ten lessons put forth by Professor d'Amore and in the presentation made by Mr. Haack. Dr. Samawi pointed out that our outlook to tourism should change, particularly with the advent of the peace process. He said attention should be paid to training, marketing, tourist control and the expansion of tourism beyond the cities of Amman and Aqaba. He said tourist products should be diversified to include medical treatment, national culture and heritage, religious shrines, conferences and beaches.

With regard to the third focus of the Jordanian economy in light of international and regional changes, Dr. Jawad al-Anani submitted a paper asserting the need for the structural adjustment of the Jordanian economy, particularly in the areas of the country's social structure, investment in manpower, economic relations with other Arab countries, immigration and the structure of the economy in general. The paper suggested a thorough review of structural factors so as to activate them and bring about the required change. The paper also drew attention to major areas of structural adjustment, particularly the role of women, the choice of the best model for development, the training and educational systems and the role of the private sector and its relations with the Government. The paper concluded that the introduction of structural adjustment to the Jordanian economy is possible and that what is required is to devise the correct policies and to be prepared to pay the price associated with this change.

Dr. Taher Kanaan and Dr. Khaled al-Wazani submitted a joint paper highlighting the required role of the State in light of the international developments pertaining to globalization, privatization and the free market economy. The paper discussed the role of the State in Jordan, as well as the economic activities it carries out, and outlined a future strategy for the continuation of this role. Perhaps the most important conclusion made by the paper was that there be not only a shift from the public to the private sector, but also the liberalization of the economy and an increased efficiency, with the aim of giving momentum

to economic development and allowing the country to handle the rapid changes associated with globalization.

On the topic of future economic relations among Jordan, Palestine and Israel, three working papers were submitted, by Dr. Ibrahim Badran, Dr. Adel Zaghah and Dr. Jamil Helal. The three papers reviewed facts about the Jordanian economy and the country's future prospects within the region. Several viewpoints were discussed on the likely economic relations among the three entities and the factors which should determine Israel's relationship with the Arab region. Dr. Badran's paper said that the three countries (Jordan, Palestine and Israel) are qualified to establish relationships of a different type than the relationship that would exist between Israel and the other States of the region. Dr. Badran also suggested a number of political scenarios that would generate economic scenarios. The best type, he said, would be the "equity scenario" which would allow for the establishment of a model similar to the Benelux. The basis of all this, Dr. Badran asserted, was that Israel should accept the establishment of a sovereign Palestinian State.

Dr. Zaghah said in his paper that the most suitable future arrangement for foreign trade among the three countries would be a customs union. The paper explained the positive and negative aspects which would need to be dealt with in this regard. Dr. Hilal's paper identified the factors that govern Israel's relationships with the Arab economies and the trends of hegemony and cooperation within the framework of these relationships.

A roundtable was held at the end of the conference, with some 20 economic experts from Jordan and the Arab world discussing the idea of setting up a Middle East market and also discussing the topic of future Arab economic cooperation and integration. A paper by Dr. Mahmoud Abdel Fadheel, professor of economics at Cairo University and the American University of Cairo, laid the foundation of the discussion. The paper discussed the Middle East project from its various aspects as well as the prospects of pan-Arab cooperation as an alternative to the Middle East project. The discussion was focused on the challenges posed to the

Middle East and how to cope with these challenges. Participants who made their interventions during the roundtable proposed pan-Arab cooperation as a working strategy and identified the positive and negative aspects of this strategy.

The various focuses have indeed opened the way for researchers and decisions makers as well as interested parties to examine and review the different dimensions of the challenges posed to the Jordanian economy within its regional and international frameworks. Consequently, the working papers of the conference and its deliberations can be truly regarded as a valuable point of reference for economic decision makers, businessmen, academics, researchers and those interested in the issues of the Jordanian economy and the economies of the Arab region.

One point that the deliberations of the conference brought to light is that the various aspects of economic relations in the region should continue to be examined and analysed with reference to available resources. It was also recognized that pan-Arab cooperation is a must if the Arab countries are to deal effectively with the various proposals pertaining to regional cooperation, so as to maximize benefit and minimize damage.

The peace process has been stumbling, particularly with the accession of the Israeli Likud party to power in the wake of the May 1997 elections. One lesson learned from this development was that the Jordanian economy should keep its strong ties with the Arab countries and should not relinquish economic cooperation with the Arab world. We at Al-Urdun Al-Jadid Research Center are gratified that the conference has highlighted the need of the Jordanian economy to keep its strong relations with other Arab economies as part of the framework of regional cooperation.

Perhaps this conference will pave the way for the holding of workshops and seminars, under the Center's sponsorship, which are aimed at going beyond the scope of the present conference, to include other economies of the region. With regard to our present focus on the Jordanian economy, however, perhaps what is needed most at the present

time is to formulate an alternative national programme to the economic adjustment programme. We need a programme formulated by Jordanians to replace the current structural adjustment programme to expire at the end of 1998. It must be stated in this regard that any economic adjustment programme for the coming phase should take into account several factors which can be summed up in the following:

(a) We should learn from the lessons of the previous phase so as to forestall damage and move ahead towards further stability and growth. This in turn requires that we pause and think about what the current programme has achieved at this point compared with what needs to be achieved in the future.

(b) The proposed programme for the future should not overlook the social consequences of economic reform. A survey should perhaps be done to determine the social impacts, positive and negative, of the previous programme.

(c) A successful adjustment programme is usually based on a diversified number of goals that are integrated and linked with one another, thus allowing gains to be realized in all economic sectors.

(d) The forthcoming programme should be in harmony with international and regional economic developments. In other words, it is necessary to develop a vision of how the Jordanian economy could be reformed, so as to allow the country to accede to the WTO, to meet the requirements of the Euro-Mediterranean partnership and to cope with the possible regional integration schemes proposed.

In the final analysis, the desired national programme should be a product of a national conviction that the programme is the vehicle that can help the Jordanian economy and its goals in attaining ongoing socio-economic development at a time when major regional and international developments are taking shape.

Finally, I must extend my thanks to the Friedrich Ebert Foundation for its sponsorship and generous support, which enabled the conference to succeed and made it possible to publish the proceedings in both Arabic and English.

On behalf of the Center's personnel, I would like to extend thanks to Philadelphia University for its sincere cooperation in preparing for this conference. I would like to thank in particular Mrs. Laila Sharaf, chairperson of the Board of Directors of Philadelphia University, university president Dr. Fuad al-Sheikh Salem, and the Dean of the School of Administrative and Financial Sciences at the university, Dr. Nadir Abu Sheikah.

A word of thanks should go to the members of the preparatory committee of the conference: Dr. Taleb Awad, Dr. Khaled al-Wazani, Mr. Hussein Abu-Rumman, Dr. Uthman Zaid Kilani, Dr. Ihsan Samara, Mr. Ibrahim Abdel Kamel and Mr. Manfred Haack. I would also to thank the personnel of Al-Urdun Al-Jadid Research Center who assisted the preparatory committee. I should mention in this regard Mr. Hamed Dabbas, Ms. Hana' Badawi, Ms. Suha Muhammad and Miss Zahira Jammal.

Thanks are also due to the Philadelphia University students and staff for the many services they rendered to those participating in the conference.

On behalf of Al-Urdun Al-Jadid Research Center, the Friedrich Ebert Foundation and Philadelphia University, I would like to thank the Amman Chamber of Commerce, the Industrial Development Bank, and Mrs. Laila Sharaf for the warm welcome and hospitality they accorded to the participants in the conference. Finally, I would like to thank the Housing Bank for the transport facilities it made available to the guests of the conference.

Opening Ceremony

Speech of **Dr. Rima Khalaf**
Minister of Planning

Speech of **Mr. Hani Hourani**
Director General, UJRC

Speech of **Mr. Manfred Haack**
Representative of the Friedrich
Ebert Foundation in Jordan

Speech of **Dr. Fuad al-Sheikh
Salem**, President of Philadelphia
University

*Speech of Dr. Rima Khalaf, Minister of Planning
and representative of the Prime Minister,
under whose patronage the conference was held*

Your excellencies,
Ladies and gentlemen, conference participants,
Honourable guests,

I am honoured to open this conference of yours on behalf of His Excellency the Prime Minister and to convey to you his best wishes for its success. I begin by extending my congratulations to Al-Urdun Al-Jadid Research Center, the Friedrich Ebert Foundation, and Philadelphia University for choosing "The Jordanian Economy within Its Regional and International Framework: a Future Outlook" as the subject of the deliberations. This topic is important: our lives and future and the prosperity of our children depend on the issues that this subject comprises. It has consumed a great deal of our time and resources as government officials, businessmen and intellectuals.

Before I start speaking about this question, I feel that I should first make a brief review of the events that have taken place in the last 20 years, events that were associated with a deterioration and a downward trend that hardly anyone could have believed would have come to pass. They were, in fact, events that defied the imagination. These events have forced us onto a confused path, one that interlocks with the destiny of others. Therefore, we had to pause at one point to think things over and to assess the best options available to us. The peace treaty followed, and with the unfolding of the peace process, there were signs and insinuations about a New World Order with the various economic, political and military dimensions implied by it.

Suddenly we, like most developing nations, found ourselves face to face with great challenges which we had not accounted for. We were facing new, unfamiliar requirements to join the New World Order. The result was that the traditional options which had been available to us became non-traditional options, and familiar alliances drastically changed. Consequently, our situation at present and in the future had to change.

I believe we must look deeply into the future of the Jordanian economy in light of this new reality. In the next three days, you will certainly engage in discussing the position of our national economy within its regional and international framework. You will agree at times and disagree at other times. When you meditate over all the developments, some of you will take an optimistic point of view and others will be pessimistic. Some of you will be concerned over the conditions of our small national economy which has had to deal with economies that are larger in terms of size and potential, and consequently, you may predict that our economy will be marginalized. Meanwhile, some of you will see golden opportunities which we can utilize for our benefit, to move forward confidently in the process of sustainable development that we all aspire to.

I would like to say that discussing the future of our national economy is not some lofty, visionary task. On the contrary, the various components and elements of our national economy will be formed by the efforts we make today, by our understanding the transitional phase which we are currently undergoing, by our preparedness and by the timeliness of our action. We should begin by taking an objective look at the points of weakness in the structure of our economy and make a serious and genuine attempt to overcome these points of weakness. We should also take the same look at its points of strength and consolidate them further so that our economy may become stronger and more viable.

Many of us believe that the Jordanian economy is vulnerable to two objectives, restrictive factors which are often referred to in the development literature as limitations on growth. These factors are the narrow base of the available natural resources and the small local market. Here I would like to pause to reflect on these two factors which traditional theorists consider to be the main defects in our national economy. As for the narrow base of natural resources, I must note that the greater part of the wealth of the developed nations is a manufactured, not an inherited wealth. Japan and some of the Asian tigers, for example, have very few natural resources. But with a combination of their material (manufactured) capital and (trained) manpower capital, these countries have been able to overcome this handicap, with each standing on a solid

economic base strong enough to resist all attempts at penetration and containment. Meanwhile, they managed to attract large financial investments from all parts of the world. These countries have become a refuge for many businessmen and their capital. All this was due to the development strategies they adopted. The same thing applies to the second factor—the small local market.

Sisters and brothers,

I am neither exaggerating nor being overly optimistic when I say that the restrictive factors just mentioned are easy to overcome and transcend—if we have the will to do so. Will is a part of the freedom with which God dignified Man. We only need to understand this will properly and to keep it always present before us.

Here, I should mention the points of strength which need to be consolidated and built upon in our national economy. To be clearer, I must say that a series of developments has recently emerged, and we should utilize them for our benefit. These developments can be divided into two categories: domestic and foreign.

At the domestic level: A series of challenges stormed our national economy and almost destroyed the achievements that were accomplished in earlier phases. In order to neutralize these dangers, Jordan applied strict adjustment programmes that halted the process of deterioration and restored life to the national economy. I can say that regardless of what might be said about our achievements, our national economy is stronger than before. We are more self-reliant and less dependent on others at present. With the application of the economic adjustment programmes, a substantial drop in the State budget deficit was achieved. Foreign debt also dropped, both in absolute figures and as a percentage of gross domestic product (GDP). Meanwhile, there was an increase in the volume of local savings and local and foreign direct investment.

The Government is working to enhance these achievements by developing the infrastructures needed for sustainable development, that is,

by laying down the foundation for a healthy investment environment that can attract, employ and protect investments and reap maximum benefits from these investments. Within this context, the Government is currently drafting new laws pertaining to customs, competition, the prohibition of monopolies, and the protection of the national economy, as well as laws pertaining to intellectual property rights, companies and securities.

In its endeavours to promote this investment-attracting economic environment, the Government is currently taking all the measures necessary to simplify procedures and eliminate red tape and to enhance the efficiency of the government machinery so as to simultaneously protect the rights of citizens and reduce costs for productive enterprises. In order to boost our capability to compete at home and abroad, the Government is paying special attention to standardization and specifications with a view to simplifying red tape, imposing tighter consumer-protection controls, and applying quality control criteria.

All these measures constitute only a small part of a comprehensive adjustment programme that seeks to enable the national economy to become competitive in the international markets and to overcome the limitations imposed by the country's narrow base of natural resources and small local market. Therefore, what we are more urgently than ever requested to do is to develop the ways and means that would enable us to transcend these restrictive factors, enhance the base of production so that it does not depend on local natural resources only, and continue to invest in our human capital, all the more so because our human resources are both the means and the end of development, progress and prosperity. I have no doubt that our local potential qualifies us to assume a pioneering position in the regional economy.

At the foreign level: Our performance at the local level is inseparable from our performance at the international level, because, simply speaking, we are part of this world and we are closely linked with the events that take place and the alliances that emerge in it. It is within this context that we view the globalization of our national economy as a necessary and desired phenomenon.

International production centres exist now in more than one State. Relative competitive advantage has now become a prominent feature in relations among nations and States. Furthermore, relations among businessmen are now playing a prominent role in determining economic and political relations among the nations of the world.

Under this greater heading of "globalization" we are conducting our negotiations with the World Trade Organization (WTO) with the aim of joining it and benefiting from what is available through it. Our negotiations with the European Union (EU) for the conclusion of an Association Agreement also fall under the same heading.

The challenge we face is to determine how we can reconcile on the one hand our capabilities and potential for production and competition with on the other hand the capabilities and potential of others for competition, in particular when are dealing with large economies such as those of the EU countries.

The approach I would take to answer this question is the same approach I used earlier, and one which compelled me to believe that we can overcome the limitations that the theorists of various schools of thought like to talk about.

I say confidently that the small body is capable of more movement, greater manoeuvrability and greater growth than the larger body. Our growth will depend on our ability to stop imitating others and to initiate a process of innovation and creativity in all fields of economic life. Our national economy will then be able to take its proper place within its regional and international setting.

Ladies and gentlemen,

I look forward to benefiting from your deliberations, and I am fully confident that they will be innovative and creative. Meanwhile, I wish you success in all the work that you are doing for the good and progress of this country and nation.

*Speech of Mr. Hani Hourani, Director General of
Al-Urdun Al-Jadid Research Center*

His Excellency, Prime Minister Mr. Abdul Karim Al-Kabariti,
Your Excellencies,
Ladies and gentlemen, guests of the conference,
Brothers and colleagues participating in the conference.

Your conference, "The Jordanian Economy within Its Regional and International Framework: a Future Outlook", is being held with a feeling of pride and a spirit of optimism for the future. We will spend the next four days designated to the activities of this conference while celebrating the Golden Jubilee of Jordan's independence. We hope that the results of the deliberations and discussions of this conference will be a modest gift we can offer to our noble Jordanian people to reaffirm our appreciation of their sacrifices, loyalty and faith in their values and aspirations and confidence in their will and ability to continue progress towards the future.

Please allow me to seize this opportunity to extend my congratulations to His Majesty King Hussein, to his Government and to the men and women of the Jordanian people on the 50th anniversary of Independence Day, the sweetest and the most cherished of our holidays.

Your Excellency the Prime Minister,
Your Excellencies,
Ladies and gentlemen,
Brothers and colleagues,

We are very happy that you have responded on a large-scale to the invitations we have extended to you to attend the deliberations of this conference. We are honoured to welcome representatives of the State and the community, leaders of the private and government sectors, the academic circles of our public and private Jordanian universities, the international and regional organizations, and the diplomatic corps in our country. Please allow me to welcome in particular guests and participants from the Arab world, the Federal Republic of Germany and the United States, who have travelled all this way to share with us their precious

research and rich intellectual contributions. I am sure that their research and contributions will enrich the discussions of the conference and provide it with further vitality and scientific interest.

Your Excellency the Prime Minister,
Your Excellencies,
Ladies and gentlemen,
Brothers and colleagues,

I would like to answer several questions which some of you at least are thinking about: Why is this conference being held and why now? What is the mission or the goal that is sought behind the convening of this conference? And what could it add to the many other conferences and seminars which were held and are being held at present on the Jordanian economy? I will not try to repeat what was told to you several months ago on the objectives and goals of the conference. Therefore, I will sum up my remarks in the following points:

One: The Jordanian economy, as you are aware, is a small economy open to the region and the world and is influenced by the regional and international developments that have taken place in its surroundings. It has borne the heavier burden and the long-term consequences of the Arab confrontation with Israel, with all of its demographic, economic, social, sentimental and political dimensions. These consequences have left their strong imprint on the structure of the economy and society and left behind an inheritance of numerous structural problems. Furthermore, the Jordanian economy has been influenced by the economic and social developments in the Arab countries. It has adopted a pattern of development very similar to the development patterns that exist in neighbouring Arab countries. It has also been influenced by these development patterns, either positively or negatively. Therefore, it has adapted its production framework and manpower resources to adjust to the patterns of demand in the markets of these countries. The result was that the Jordanian economy prospered when these Arab countries prospered and retreated whenever the developmental and investment momentum in these countries subsided. This retreat in momentum reflected strongly on the Jordanian economy in the aftermath of the second Gulf crisis and war

since the early 1990s, increasing the pressure on its limited resources, creating a need for structural adjustment that could neutralize the fiscal, monetary and sectoral bottlenecks, and paying more attention to the problems of unemployment, poverty, and social and environmental deprivation.

Two: The Jordanian economy is undergoing structural adjustment and change under changing international and regional conditions pressing in the direction of the liberalization of markets, openness to the world economy, minimizing the role of the State in economic activity, encouraging the privatization of the public sector companies, and the liberalization of the investment environment for the purpose of attracting foreign investors.

The initiation of the peace process was associated with promises that decades of conflict would end, that the squandering of resources and the state of instability would be reversed, and that it would be no longer possible to violate the rights of people and their civil liberties under the guise of confrontation and conflict with Israel. Consequently, the time would be right for the peoples of the region to reap the fruits of peace and its economic, social and political gains. These promises came at a time of hard choices, particularly a pattern of regional economic development and cooperation that could materialize before the conditions for a just and comprehensive peace in the region were completed. The rise of a regional economic bloc would be something of far-reaching significance, but would this regional economy be able to stand on its feet if there were no political, cultural and sentimental acceptance generated by a people's peace and the belief in the fairness and durability of this peace?

Three: Whatever options the Jordanian economy has in regional cooperation and integration, it strongly needs a review of its realities, organization and infrastructure. It is also in dire need for the introduction of substantive amendments on the structure, mechanisms and climate of investment, as well as the updating of legislation, the improvement of

government performance, and the promotion of education and the patterns of manpower development.

The regional and international environment that has prevailed during the development of the Jordanian economy in the past decades has changed. However, past experiences have confirmed that the Jordanian economy was capable to deal flexibly with the sudden political and economic shocks and changes while keeping the negative consequences to a minimum.

Nevertheless, the last 10 years have confirmed that Jordan's ability to manage its economic policies and neutralize crises, to cope with changes by political means, and to rely on the competence of its leadership and the ability to forge alliances is no longer a strategy fit for the future. With the end of the cold war on the international scene and the defusing of regional confrontation, it is no longer possible for Jordan to expect continued aid or easy-term loans from governments.

Therefore, there is a need for a new strategy that can maximize the productive capability of the national economy, improve the competitive advantages of Jordanian commodities, release the forces of innovation and creativity, and provide an appropriate climate for local, Arab and foreign investments.

Your Excellency the Prime Minister,
Your Excellencies,
Ladies and gentlemen,
Brothers and colleagues,

When we examine the aspects of change and structural adjustment, we should admit that there are good reasons for this change, for an urgent change, that should not be delayed any further. We are tempted to insist on this change because we are encouraged by the government slogans which call for change. It is important to state that not only our economy, but our whole country needs structural change and reform. Without action against corruption and bureaucratic dereliction, without a basic reform of the various phases of education, and without a review by the

private sector of its old traditions of investment and the introduction of a new mentality capable of rehabilitating the concept of the civil society, our ability to adjust and interact with the international and regional economic changes will not succeed, and we hope that this will not be added to the list of "missed opportunities".

Your Excellency the Prime Minister,
Your Excellencies,
Ladies and gentlemen,

The need for change prompted by the regional and international changes is not requested by the government only, but also from our entire society as well. They are not necessarily changes that we cannot cope with, but are probably an opportunity to generate the elements of strength in our economy and society, particularly our educated, qualified and trained human resources. This includes the semi-paralysed forces we have, the forces of women and youth. Therefore, the participants to our conference are requested to review the achievements of the present and explore the horizons of the future. As much as this will require harsh frankness with oneself and courage to criticize, it also requires a creative vision and ability to design new and innovative solutions.

Your Excellency the Prime Minister,
Your Excellencies,
Ladies and gentlemen,

Our conference will not carry any merit if it is a copy of other conferences and seminars, whether they be official or held by international or regional organizations, which are restricted in their pronouncements by a degree of diplomacy that often bars statements of fact. Our task here is a task of complementarity, not the repetition of efforts by others. This is the merit that our Center has as an independent institution cooperating with Jordanian, Arab and foreign non-governmental and civic organizations that have the same goals in the initiation of dialogue, regulating the differences, generating vitality to our society, and exchanging ideas, views and expertise with others in our world.

Please allow me to extend our greetings to our partners in this effort, beginning with Friedrich Ebert Foundation, which has been one of our most prominent partners in the last three years. The Friedrich Ebert Foundation has succeeded in building bridges of cooperation and friendship with numerous scientific and academic institutions. We are indebted to them for subsidizing this conference. I would like to extend my special thanks to our friend, Mr. Manfred Haack, the new representative of the Friedrich Ebert Foundation in Jordan, wishing him a fruitful stay in our country.

I would also like to thank our partners from Philadelphia University, who have been participating with us in the preparation for this conference for well over one year. My special thanks go to Her Excellency Mrs. Laila Sharaf, the chairperson of the Board of Trustees of Philadelphia University, who has been sponsoring this cooperation. Our thanks also go to the president of Philadelphia University, Dr. Fuad al-Sheikh Salem, and the dean and faculty members of the School of Administrative and Financial Sciences at the University. To my colleagues at Al-Urdun Al-Jadid Research Center, no words could be sufficient to express my profound appreciation for their tireless and constant efforts in preparing for this conference for well over one year.

I am deeply indebted to several private sector enterprises that supported this conference in various forms, particularly the Industrial Development Bank, the Amman Chamber of Industry, and a number of banking institutions.

Your Excellency the Prime Minister,
Your Excellencies,
Ladies and gentlemen,

It is a great honour for us that this conference of ours is being attended by elite economic experts from Jordan, the Arab countries and abroad. We will initiate the work of the conference by discussions and analysis of the international economic developments because of our recognition of their great impact on the Jordanian economy and the economies of the other Arab countries. There will be an opportunity later

for a meditative and analytical outlook at the conditions of the Jordanian economy, at the macroeconomic level first and at the conditions of the various sectors secondly. The conference will make three pauses to discuss public issues that are interesting enough to generate dialogue and discussion—the requirements of the structural adjustment of the Jordanian economy; the economic role of the State in the liberalized Arab economies; and various approaches to economic cooperation in the future from the Jordanian, Palestinian and Israeli viewpoints to be presented by experts from Jordan and Palestine.

Your conference will be concluded with a roundtable that will have an Arab character and content devoted to tackling the future challenges facing the Arab economies, including the Jordanian economy. Fifteen economic researchers from Egypt, Syria, Lebanon, Iraq, Yemen, the United Arab Emirates and Palestine and a similar number from Jordan, will participate in the roundtable.

Perhaps the promises of the conference, with all its issues that will challenge the mind and the intellectual contributions that will be made by this elite Arab, German and American economists, will help you endure the difficult and continuous work over the next four days.

Again, I would like to welcome His Excellency the Prime Minister for his sponsorship of your conference, together with renewing my thanks to the guests and participants. Peace be with you.

***Speech of Mr. Manfred Haack, Representative
of the Friedrich Ebert Foundation in Jordan***

Your Excellency Dr. Rima Khalaf,
Ladies and gentlemen,

Yesterday was the anniversary of the independence of Jordan. I would like on this occasion, therefore, to convey my greetings to the Jordanian people. My hometown happens to be the city of Berlin, and for over 46 years, we did not celebrate independence. It was only six years ago, in fact, that we did. I would like here to congratulate the Friedrich Ebert Foundation in Jordan, which has been in Amman for the last ten years. During this period, many significant changes have taken place:

1. Jordan has built a remarkable model in democracy.
2. It has played an active role in the peace process.
3. It has also begun the structural adjustment programme recommended by the World Bank.

We are currently encountering new challenges, in particular the challenge of economic globalization. Economic globalization is a polite expression signifying the domination of the great industrial powers over the world economy. It also means that the Western model of the free-market economy is laying down the criteria for the world economy. However, this does not necessarily mean that the Western model of the free-market economy is the model best capable of providing people with better standards of living (nor does it mean that the socialist economy is no longer suitable for any of the countries of the world). Nevertheless, whether we like it or not, the process of economic globalization is inevitable. Therefore, Jordan has to deal with the international markets and be open to them, but in a way that would enable its economy to survive.

This means that the Jordanian economy has to improve its productivity. It also means that other basic changes are needed. I believe

that the present conference is a good opportunity to discuss the repercussions of such change and perhaps to find solutions to cope with the process of transformation in a way that would keep the social fabric from tearing.

We underwent this experience in Germany six years ago. The process of transformation began in the Eastern part of the country, but I can tell you that to date the process has not been completely successful. We have managed to change the economy in the Eastern part, but at the cost of a serious rupture in the social fabric. To avert this is the real challenge being faced here in this region. I am confident that the participants in this conference will discuss this issue; perhaps they might define for us the landmarks which could lead us to appropriate solutions for all these problems.

I have two comments I would like to make. The first is that before Jordan can enter European and later on international markets, it and other countries in the region should strengthen their regional economic cooperation. The first step to be taken in entering the international market is the establishment of a regional market. The impression I have is that there is insufficient regional cooperation among the Arab States of the region.

My second comment is that the main obstacle to achieving further prosperity in Jordan is the rising rate of unemployment. It should be noted here that more than half of the population of Jordan is below the age of 16 years. Within a few years, large numbers of this population segment will start looking for jobs—perhaps sophisticated jobs. The recommendation I would like to submit to this conference is that it discuss the unemployment problem as a top priority and that the potential of the youth be appreciated as a basis for any economic reform in the future.

Finally, I would like to thank Al-Urdun Al-Jadid Research Center for the preparations it has made for this conference, in particular the very idea of its being convened. I believe that Al-Urdun Al-Jadid Research Center is a truly democratic non-governmental organization.

*Speech of Dr. Fuad al-Sheikh Salem
President of Philadelphia University*

Your Excellency Dr. Rima Khalaf, representative of
His Excellency the Prime Minister, patron of the conference,
Your Excellencies,
Ladies and gentlemen,
Dear guests,

I am pleased to welcome you warmly on the occasion of the convening of the Conference on the Jordanian Economy within Its Regional and International Framework: A Future Outlook. I would also like to thank His Excellency the Prime Minister for his sponsorship of the conference and Her Excellency Dr. Rima Khalaf for her all-embracing speech, which was indicative of the Government's desire to support cultural and scientific activities in this country.

You know, brothers, that the survival of one's country depends directly on the effort put into building it and to safeguarding its social, scientific, political and economic continuity. This effort is the foundation stone for an advanced and progressing country. No country, regardless of how large it is, can achieve progress or development without such a prerequisite in place.

Brothers and sisters,

We are currently living in a world of large economic alliances based on the joint interests of the member countries of the alliances. Relations among States in today's world have become interlocked to a point where we can no longer live in isolation from other countries. It is a fact of life in the world today that what happens in one country can have profound effects on other countries.

Thus came the idea to convene this conference, with a view to discussing the impact of the changes in the Arab region on the Jordanian economy. Our thanks should go to Al-Urdun Al-Jadid Research Center for taking the initiative to call for the holding of this conference. Meanwhile, Philadelphia University and the Friedrich Ebert Foundation

participated in all phases of planning, preparation and implementation. This joint effort materialized into the conference now being convened. I would like to commend these three institutions for this constructive cooperation: truly, this conference is an example of how efforts can be pooled to achieve effective joint action.

Brothers and sisters,

We are duty-bound to examine the Arab economic situation in light of the requirements of the current phase, so that we can make our contribution to creating a balance between hope and reality and to helping the Arab individual grow and develop in accordance with his inherent potentials and capabilities and the circumstances governing his society. We are also duty-bound to work out serious plans to tackle our economic problems and to rectify our thinking, which has been formed according to foreign ideas that are alien to our homeland. This phenomenon of intellectual alienation reflects on our Arab economic systems, which have largely failed to achieve our pan-Arab goals.

Ladies and gentlemen,

Proceeding from our belief that serious intellectual work committed to the contemporary causes of our nation is the most important contribution intellectuals in our Arab homeland can make and that the value of intellectual work is commensurate with its effective contribution to the progress of the nation, the institutions calling for this conference aspire to achieve the following objectives:

1. The conference should answer the question about the nature of the Jordanian economy we would like to see realized within the regional and international framework, and under what assumptions and conditions this could ensure a better life for us.
2. The deliberations of the conference should contribute to creating a deeper and clearer picture of the relations which should exist among Jordan, Palestine and Israel.

3. The conference should face one particular question and provide a specific answer for it, namely, how can we cope with the future challenges that will encounter the economies of the Arab region, including the Jordanian economy? Can these challenges be encountered by each country separately? And if pan-Arab cooperation or unity is a prerequisite for encountering these challenges, what should be done on the regional level to create this prerequisite?

4. The discussions should pay special attention to the likely impact of regional developments on the major sectors of the Jordanian economy.

5. We should keep in mind that the Arab situation is homogeneous in terms of history and culture, as well as in terms of current realities and challenges, and consequently, we should deal with an Arab homeland that is unique but diversified in its features and characteristics.

6. We should adopt an approach for the future in our discussions, whether the focus of the discussion is theoretical or based on Arab and foreign experiences.

In closing, I would like to extend my thanks and gratitude to all the researchers who have contributed through their valuable studies to enriching this conference and who have traveled from faraway places to attend. I would also like to express my thanks and appreciation to the conference's preparatory committee and to all those in charge of the participating institutions for the distinguished effort they have put forth to make possible the convening of this conference.

I repeat my welcome to you and I thank you for accepting our invitation. I wish your conference every success, hoping that the participants will enjoy a good stay. I pray to God to protect Jordan and keep it stable and growing under the leadership of His Majesty King Hussein.

Chapter One

Arab Economies: From
International to Regional
Transformations

Dr. Judeh Abdelkhaleq

Regional Development and the
Crisis of the World Economy

**Professor Dr. Klauss Peter
Kisker**

ARAB ECONOMIES: FROM INTERNATIONAL TO REGIONAL TRANSFORMATIONS

Dr. Judeh Abdelkhaleq

Introduction

The subject of this paper involves what is commonly known as globalization, with special emphasis on Arab economies, in particular their situation *vis-à-vis* the international transformations now under way, as well as the consequences of such transformations on the regional situation.

The key question is: What sort of international environment will the Arab economies be expected to face in the future? And what is the content of such an environment regarding the regional situation?

This conference takes a look at the future Jordanian economy in its regional and international framework, and since the future is subordinated to the past (as well as to the active will of mankind), it is logical, as a starting point, to look back. This justifies our beginning with what we call the five landmarks or the five transformation points.

1. The five transformation points

The first transformation point: the half century that has passed since the end of the Second World War. The second point: the almost 30 years that have passed since the war of June 1967, a regional event with international consequences. The third point: the 25 years gone by since the war of October 1973. The fourth point: the almost 10 years passed since the end of the first Gulf war. Finally, the fifth point: the almost five years passed since the end of the second Gulf war. These are landmarks that will guide our perspectives of what could happen in the future.

We are all aware of the importance of the Second World War, at the end of which, and as a result of which, a new order was established. This new order gave the United States the leadership of the Western bloc, whilst the Soviet Union was given the leadership of the Eastern bloc. The

world then witnessed a situation of bipolarity which only recently came to an end. This is a fact of history. Another given is the 1967 and 1973 wars and their consequences at the regional level. These two wars led to a transformation of the Arab regional order from a state of equilibrium to a state of confusion. The basis of this transformation was the shift of economic power from Egypt to the Gulf and the creation of a dichotomy between this aspect of power and its other components, namely military, demographic, political and cultural.

2. A basic thesis

The period 1973-1974 was a qualitative turning point (in mathematics, we call it a reflection point). In the 1950s and the 1960s, Egypt was seen as a strong country, with economic and military might. The political, diplomatic and cultural components of force were merely derivatives of the two main elements of power (economic and military). After the 1967 war, it was Egypt that carried the major burden of the Arab-Israeli conflict. Because of this, it began gradually to lose the economic component of force. The October War of 1973 ushered in a radical change: the oil boom which followed the war brought about, for the first time in the modern history of the Arab order, a complete dichotomy of the two main components of force. The economic power shifted towards the East, the Gulf region, whilst the military power remained in Egypt. The aftermath of the 1973 war was characterized by a dangerous imbalance and lack of harmony within the Arab order. Egypt became more vulnerable economically, even if it kept its military might. The Gulf States became economically powerful (at least from a financial point of view), even if they remained weak militarily. In our opinion, this situation is the main cause of confusion witnessed by the Arab world since the 1970s.

This assumption is backed by the figures shown in table 1. During the 10 years from the mid-1960s to the mid-1970s, the share of Egypt's GDP as a percentage of total Arab GDP dropped by more than half (from 19.6% to 7.9%). After having been, before the 1967 war, the top economic power in the Arab world in terms of size of GDP, by 1975

Egypt ranked fourth. Saudi Arabia emerged at that time as the top Arab economic power, replacing Egypt.¹

The 1970s and 1980s witnessed a continuing shift of economic power in the Arab world towards the East, mainly the Gulf region, far from the Nile valley; the Arab world became more sensitive to international transformations.

3. International transformations

After having reviewed the landmark transformation points and the basic thesis of the present study, we now turn to a discussion of the international transformations. These, of course, could be determined on the basis of a number of various criteria, but I propose here to limit them to four elements:

1. Globalization.
2. The new trade (commercial) order, meaning here the Uruguay Round Agreements (GATT 1994).
3. The transformation which occurred in Eastern Europe and the former Soviet Union.
4. The outbreak of new regional conflicts.

Some may see GATT 1994 as part of the globalization process, but for the purpose of this conference, I prefer to separate them. What is important, as we are going to see, is that the result of these international transformations is the emergence of new mechanisms that require a

¹ To understand this reality more fully, let us compare the attitude of Iraq towards Kuwait before the independence of the latter in 1961, and its attitude towards this country in 1990. In the first case, a strong Egypt played an important role in deterring Abdul Karim Qassem from annexing Kuwait. In 1990, however, Egyptian calls for restraint did not meet with any response, and Iraq invaded Kuwait.

complete revision of the concepts of the past. The first element of concern here is globalization, sometimes wrongly called internationalization. What I would like to say briefly is that globalization is a complex concept representing a clear central tendency for the interpenetration of the various dimensions of the phenomena. This means that it is no longer possible, in the framework of globalization, to separate the economic dimension from the political, military, cultural or environmental dimension. These dimensions are now interrelated one to the other in a causal relationship, or a feedback relationship.

Table 1. GDP and Population Development in the Arab World, 1965-1983 (Percentage)

State	1965		1975		1983	
	Population	GDP	Population	GDP	Population	GDP
Egypt	27.5	19.6	26.2	6.9	24.9	8.7
Algeria	11.2	11.6	11.3	9.9	11.6	10.5
Morocco	12.4	10.7	12.1	6.2	12.3	3.4
Iraq	7.4	9.3	7.8	9.3	8.0	8.5
Saudi Arabia	4.5	8.4	5.1	27.2	5.5	30.3
Kuwait	0.5	7.6	0.7	8.3	1.1	5.4
Libya	1.5	5.7	1.7	8.8	1.8	8.5
Total Arab	100.0	100.0	100.0	100.0	100.0	100.0
World	27445.9	106.8	45616.4	141.2	395326.6	181.1

Source: Gouda Abdel Khalek, "Development performance in the Arab world: salient features during the last 10-15 years", CERMOC, Cahiers 48, 49, 50 (1987), pp. 111-115.

The second point involves the unit of analysis. The unit of economic analysis, the unit of political analysis, and the units employed in analysing other dimensions have developed tremendously. The focus of analysis is no longer the nation-State so commonly employed during the 19th and 20th centuries. Since the end of the Second World War, but in particular during the last few last years, we observe that the unit of analysis has changed to transcend the State itself: it is either a bloc of States forming a regional grouping in some part of the world, or entities of a different kind called "multinational" corporations. In the framework of globalization, it is no longer differences or borders that separate States; rather, differentiation of entities is based on regional blocs or groupings, or involves multinational companies.

The question is: if we are to talk about globalization as being a complex and multi-dimensional phenomenon encompassing units of analysis that are different from the nation-State, then what were the factors that brought about such a phenomenon? There are many reasons behind this phenomenon, but the crucial element is the tremendous advancement in the means of transportation and in communication and information systems, as well as personal computers, which are increasingly becoming "information appliances". Calculation, which was the main function of early computers, is now a secondary function of these devices compared with the tasks of storing, analysing, retrieving, transmitting and receiving information. This has brought about a true revolution in the mode of relationships in the economic, political, cultural, environmental and social arenas. In short, it is now impossible to exercise direct control over these phenomena. This development has had a profound impact on the role of the State in the new environment called globalization.

Globalization runs in two directions that may seem contradictory. Borrowing the terminology of nuclear physics, one can observe a trend of fusion (the fusion of small entities into a larger one), in opposition to a trend of fission (the disintegration of a large entity into several smaller ones). One can cite many examples of "fusion": regional groupings such as the European Union in Europe, NAFTA in North America, and the

Asia-Pacific Economic Forum (APEC) in South-East Asia and the Pacific; with regard to multinational corporations, every day sees new mergers and takeover operations. Examples of fission are also plentiful: the Soviet Union, Yugoslavia and, in our Arab world, Somalia; the disintegration of IBM into several secondary companies is an example of "fission" in the corporate world.

The rapid progress that has taken place in the field of transportation and communications has redefined the borders separating the various entities; it has become necessary to redefine the "active size", whether this is viewed in economic, political, social or cultural terms. What is the nature of the international environment that we should expect in the forthcoming years, based on what has happened during the last decade? If we look at the economic giants of the world (table 2), we find that in 1981 61% of them were countries and that the remaining 39% consisted of multinationals. In 1991, the proportion of countries among economic giants decreased to 53%, while 47% were companies. If we add to this the regional groupings, this means that the forthcoming international economic environment will be, by any measure, an environment of giants. Every country should review its strategy, to prepare itself to deal with such an environment, and should seek to join a larger entity in a preferential framework. This issue will be dealt with at the end of the present paper in answer to the following question: what is the best type of entity in this part of the world?

The second element in international transformations is the new international trade system. GATT 1994 includes agreements in various fields, which apparently aim at the complete liberalization of trade. However, although this is the case in the fields of agriculture, industry, services and investment, it is not in a more sensitive field—the field of intellectual property. On the contrary, in this instance a trend in the opposite direction is evident: there is greater restriction and more controls. It is worthwhile to consider the question of how there could be a complete liberalization in all fields, with the exception of one, that of intellectual property.

**Table 2. The 100 Largest Economic Entities,
1981, 1991 (Percentage)**

Type of entity	1981	1991
Countries	61	53
Companies	39	47
TOTAL	100	100

Source: Across the Board magazine (December 1992).

Let us consider the arguments raised concerning GATT 1994, which some say aims at giving greater importance to concepts such as competitiveness, efficiency and distinction, and which others say is a consecration of economic Darwinism, i.e., the promotion of "the survival of the fittest", with the fittest here being the biggest and the strongest, meaning that the criterion of survival has become size, and nothing else.

Consequently, the new GATT environment entails the necessity of self-assessment, and not necessarily to pursue the path of liberalization to the end. Liberalization should be the aim in some fields, but not in others. I would like here to recall Article 24 of GATT 1947 and the consensus reached concerning its interpretation in 1994. This interpretation gives States the freedom to create regional trade arrangements on a preferential basis. This means that, in the context of GATT 1994, the door is open for the establishment of regional groupings. While reviewing our situation in this part of the world, we should bear in mind the possibility and the necessity of establishing a regional arrangement on a preferential basis among the States of our region. The specific States will be dealt with at the end of this conference.

The third element in the international transformations being considered here involves the transformations that occurred in Eastern Europe. In this context, the former Soviet Union split into 15 smaller entities; some of these are very small and have started to clash with one

another. The break-up of the Soviet Union eliminated the bipolarity that was formerly such a prominent feature of our world, and led to the emergence of a single power, the United States, which monopolizes control over many global and regional issues. This development is somewhat worrying. It could have many implications for our region, given its strategic importance in terms of resources and geographic location.

The fourth element in the phenomenon of globalization is the growth or development of what is being called neo-regionalism. The concept of regional groupings is a new one, and includes the increasing cooperation among the countries of the European Union, as well as the establishment of NAFTA and the establishment of APEC. We are now witnessing the emergence of three giant North-South axes: the North American axis, the European axis and the Pacific axis, which includes Japan and East Asia. The question that arises in this context is: after having served as a demarcation of East from West, are the contact lines shifting now to a North-South perspective? This is a very important question, since the regional groupings always seek to ensure better protection for their members. Economists deal with this situation through concepts such as the promotion and liberalization of trade. This conference should therefore seriously explore the question of regional groupings.

4. Concepts to be reviewed

In light of what we have said about the nature of international transformations, it is possible to distinguish four or five concepts which need to be reviewed.

The first concept is that of borders. What is the separating limit between one State and another? Is it the border line drawn and governed by international conventions? This border line is becoming more and more fragile as the revolution in the means of communication continues. Cyberspace, for example, is no longer subject to any given sovereignty, and borders therefore need to be redefined. Many environmental phenomena are now of an inter-border nature; the most recent of these

was the Chernobyl accident that occurred ten years ago. The political borders governed by international law are no longer the real limits between entities, and this is true as well of cultural interchanges, environmental factors and economic interactions.

The second concept which needs to be reviewed is that of national sovereignty. What is the meaning of national sovereignty in this context? National sovereignty is the offspring of the concept of the nation-State, which emerged in the West in the 18th and 19th centuries. The world is moving from a situation in which the nation-State was the active unit to a situation where the active units are other entities—either regional groupings or multinational companies, as mentioned above. Accordingly, the concept of national sovereignty needs to be reviewed. This becomes clear if we realize that GATT 1994 included an agreement according to which the trade policy of States is considered a matter not of individual national sovereignty but rather a matter subject to the control of the countries that are members of the World Trade Organization. We should therefore consider the meaning of national sovereignty in this context. Will it eventually become confined to a national anthem and a national flag? Or are there some new givens that are relevant when talking about national sovereignty?

The third concept that needs to be reviewed is national security.

As for the other concepts, they are purely economic. And since we are at an economic conference, I would like to invite the economists to review at least two of these concepts. The first one is the concept of international prices. The literature published by international institutions, and reflected in the principles of economic reform and structural adjustment, discusses what is called price liberalization, the non-intervention of Governments and the application of international prices. In the framework of this new environment, where the relevant entities are no longer individual States but multinational companies and giant regional groupings, one can raise the question of the meaning of international prices. Let us take General Motors as an example; if there are any dealings between General Motors Germany and General Motors

Egypt, these are carried out not on the basis of international prices, but on the basis of what is called "transfer prices", which do not necessarily have anything to do with the factors of cost within these two branch companies, but rather with the universal accounts of the multinational parent company. Instead of calling them international prices, we should really call them administrative or political prices. Why are they administrative or political? Because they are not governed by full considerations of competition in terms of supply and demand, but by the factor of monopoly, which means that the scarcity of resources is not reflected in such prices.

The last economic concept that needs to be reviewed is that of competitiveness. The literature of international organizations supposes, as a starting point, that the prevailing nature of the market is characterized by competitiveness; that is, the presence of many sellers and buyers ensures that no single one of them can control the conditions of trade with regard to quantity or price. This is nonsense: the reality is otherwise. We are nowadays in an environment governed by a struggle among giants: giant automobile companies, giant energy companies, regional groupings in Europe, North America and East Asia.

I would like to comment on a statement made by Dr. Rima Khalaf in her opening speech. She referred to the ability of a small entity, because of its flexibility, to adapt. I say we should be careful. If we imagine a confrontation between a large entity, an elephant, and a small entity, a mouse, the result is a foregone conclusion: it is the elephant who will win, unless the mouse manages to jump inside the elephant's ear. What does this mean? It means that talking about "liberalizing" everything and being submitted to the market forces is a trap presented as a virtue.

5. Regional consequences of international transformations

What are the consequences of this process at the regional level? This is the final point I would like to discuss. People in this part of the world deal with many conflicting concepts in a confusing way. Of course, many talk about various forms of Arab integration, others about

a Middle Eastern common market, and still others about Euro-Mediterranean cooperation in the context of partnership with the European Union (the 15+12 formula).

Here, I would like to recall the thesis that I presented at the beginning of the present paper: that the 1967 and 1973 wars led to a situation of unbalance in the Arab order, a separation between the economic forces and other forces. This situation has continued until the present time. I believe that if the diagnosis presented here is correct, then the correct course of action would be to regain this lost balance. The unbalance first manifested in the disintegration of the League of Arab States, a framework for regional cooperation, into subregional branches: the Gulf Cooperation Council, the Arab Cooperation Council (which disappeared without making much noise), and the Arab Maghreb Union (which still exists till today). In the aftermath of the Gulf war, a new regional grouping was born: the Damascus Declaration countries.

The question remains: What alternative should we choose? Partnership with the European Union? A Middle Eastern common market? Arab cooperation? These are the items on the agenda of integration in this part of the world. In my opinion, the third alternative, Arab cooperation, is the one to be taken into consideration above the others, for the following reasons:

First, there are many issues common to the Arab States; these are well known and need not be dwelled upon here. It is important to note, however, that although there are common interests, a distinction should be made between the interests of the peoples and those of the regimes. Therefore, the focus should be on the people of a country, because they will remain, whereas the regimes may not.

Second, there are international considerations that impose the presence of a larger entity, whether in the framework of GATT 1994 or in the context of the various international transformations. After the Madrid peace conference, some observers started to talk about a Middle Eastern grouping, such as a Middle Eastern common market, or

cooperation in the Middle East and North Africa region, among other things. The truth, however, is that we should not begin regional economic cooperation before arriving at a political settlement of the Arab-Israeli conflict.

Five weeks prior to the convening of this conference, there was a bloody massacre in Qana, perhaps the most telling testimony that the political equation has yet to be solved. All experiences of the other established entities, in Europe, North America, and the Pacific and East Asia, show that any political problem should be resolved first. Economic cooperation comes afterwards. I believe that the Arabs are mistaken if they think that they can follow a different path. It is against the logic of history and against the reality of the facts on the ground. Let us begin with integration at the Arab level. Certainly, it is difficult to start. However, who could have imagined that countries such as France, Germany, Great Britain and Italy would ever come together in a single entity, especially after six years of bloodshed during the Second World War? The Arab countries have no such record in their heritage, and they could one day overcome their differences.

Every truthful Arab should seek this objective. I call upon the Arabs not to combat each other, but to unite themselves and to join larger entities whether these are Middle Eastern or other. Let it be with Israel, Turkey, Iran, whomever. The most important thing is to start by creating an active and effective Arab bloc. Partnership with the European Union would be an unbalanced relationship.

Finally, some imagine that in the new international environment, the State should surrender and end its intervention, in every matter. However, if we are to join the world of giants, where the concepts of borders, national sovereignty and national security are to be reviewed, we should not seek to limit or to reduce the role of the State, but rather to balance it. To borrow the terminology of the International Monetary Fund, we should restructure the role of the State in order to make it more efficient.

REGIONAL DEVELOPMENT AND THE CRISIS OF THE WORLD ECONOMY

Professor Dr. Klaus Peter Kisker

Since the signing of the 1994 peace treaty with Israel, Jordan has passed through an admirable stage of development. The growth of output and productivity, low inflation rates, the improving of public finances, and the improvement of the trade and current account balance are favourable results of Jordanian economic policy. However, it seems to me to be a serious underestimation of the state of affairs to assume that these improvements will continue on into the future or to assume that the future development of Jordan is now sustained. For the time being, the country's economic growth is based on the peace dividend. Development here in Jordan corresponds somewhat to the "unification bonus" enjoyed by West Germany after the Berlin Wall was toppled.

A. THE SUBJECT OF THE CURRENT PAPER

I do not believe that domestic problems will endanger long-term development in general; there are good reasons that Jordan remains the Switzerland of the Orient. However, the Jordanian economy has always been deeply affected by regional and international events. The challenges come mostly from outside, with the economic development of small and open nations or regions highly dependent on the performance of the global economy. Theoretical considerations and empirical investigations show very clearly that small countries and poor regions are excessively influenced by cyclical crises and are at greater risk of long-term diminishing growth in the world economy. To initiate a discussion of the opportunities open to the economy of Jordan and the dangers that threaten it in a period of rapid change and reconstruction, I want to deal particularly with the external factors that will highly influence the economic development of Jordan in the future. In conjunction with this, I want to point to some grave mistakes made during the reconstruction process in East Germany and in the German reunification. I also want to show some problems of European integration, so that a duplication of such errors may be avoided in this region. Last, I want to present some theoretical considerations on regional policies concerning the development

of local capabilities that would enable economic decision makers to evaluate the opportunities now opening up to this region.

B. CYCLICAL CRISIS

First, I would like to take a look at the status of the world economy. During the last year, the world economy lost its drive. The growth rate in overall economic production of the industrialized countries noticeably decreased. In particular in Western European economies where such growth has stagnated. The status of the labour markets worldwide worsened as well, including the United States.

If we take the hidden manpower reserves into account, there are 22 million people in the European Union—7 million at least in Germany—who are unemployed. According to an ILO report, the number of unemployed rose to 120 million worldwide, plus 700 million underemployed people. Capacity utilization declined, and prices in the raw commodity market dropped.

As a result of the decreasing level of economic activity in the industrialized countries, exports and returns on exports are decreasing. Countries and regions which produce price-sensitive mass-produced goods or which export primary products are overproportionally affected. So far, the effects on the Jordanian economy have been limited, but as the country further integrates into the world economy, the global economic cycles will soon become apparent.

At present, it is extremely difficult to foresee the coming economic trends. Predictions are contradictory. It is safe only to say that the development of the highly industrialized, capitalist countries will still be characterized by cyclical ups and downs, which are nothing new. For about 170 years cyclical crises have appeared quite regularly in capitalist countries.¹ Now is not the time to go into the details of cycle theory.

¹ Even the period after the Second World War, designated in German by the expression *Wirtschaftswunder*, was not free of cycles.

I will only say that there is unassailable theoretical and empirical evidence that the cyclical ups and downs result from the logic of the capitalistic mode and are still the fundamental model of capitalistic development.

C. STRUCTURAL OVERACCUMULATION

The deceleration of economic activity is one aspect of the problem at hand. Long-run economic conditions are the other. Obviously, long-run capitalistic accumulation in the highly industrialized countries has changed dramatically since the mid-1970s. It is most remarkable that gross fixed capital formation as a percentage of GNP has been falling in the long run, in the Federal Republic of Germany from 30% in the 1950s to 19% now, in the United States from 20% to 14%. Looking at the composition of investment, we see that the share of investment directed at increasing efficiency grew at the expense of investment for expansion. As I pointed out, cyclical movements are the norm for capitalistic development. The cyclical ups and downs are moving along long-term trends. This long-term trend has changed. Since the mid-1970s, we see that in contrast to earlier booms:

- (a) The rate of growth in the booms significantly lags behind earlier booms.
- (b) Unemployment is not reduced in spite of the boom.
- (c) Poverty increases even in the most wealthy countries.
- (d) During the boom, massive destruction of capital occurs through mergers and foreclosures as well as in unprecedented crowding-out competition.

(e) In spite of this capital abolishment, overcapacities beyond the cycle remain.²

These new phenomena are signs of a structural break in the long-term development of highly industrialized countries.

What are the reasons for this new development? Until the 1970s, every revival began with new and improved machinery. In every phase of prosperity, technically improved devices were installed. In every recession, parts of the means of production were depreciated. As a consequence, at the beginning of every new cycle there were more and more technologically improved devices than in the previous one. For long-term developments this meant that:

- (a) Because of the technological development, the rate of surplus value increased;
- (b) Because of the growth in capital, the profit increased; and
- (c) Because of the replacement of humans by machines, the profit rate decreased.

This long-term tendency behind the falling profit rates of the economic cycle led to increasing pleas from industry but was unproblematic for the capitalist system itself, as long as falling profit rates were compensated for by increasing profit volume.

Since the mid-1970s, however, the long-term rate of accumulation, which represents the additional capital, viewed as a long-term change in social aggregated capital, has not sufficed to compensate for the fall in profit rates. The rate of accumulation decreases more than the profit rate.

² After the crisis of 1974/75, there were idle capacities for three years in the Federal Republic of Germany. Capacity utilization remained between 80% and 84.5%. In the present cycle it stayed under 85% until 1987 when it went up owing to what has been dubbed "foundation fever".

because the amount of capital stock has increased steadily. The result is that the long-term trend since the mid-1970s has been not only a decreasing profit rate but also a decrease in the volume of profit.³ Only this can explain why:

- (a) Employers try to cut back on their real investments and to concentrate on substitute and rationalization investments.
- (b) They create huge amounts of cash at the expense of real investments.
- (c) They prefer to acquire new plants rather than investing profits to expand plants that already exist.

This long-term development described as *structural overaccumulation* is a threat to the continuation of the capitalist system. It is logical that the system as a whole, as well as every single item of capital, has at least to try to curb this development. The demand of management for government help through rigorous reallocation of national income at the expense of labour is implied by this term, as is the intensified plundering of the third world. Last but not least, the environment pays a price as companies try to stop the decline in profits, whatever the cost.

D. JORDAN IN THE CAPITALISTIC WORLD

Jordan is on its way to becoming a capitalist country and part of the Capitalist World Economy. On the one hand this is an opportunity, on the other hand it is a danger. Capitalism is a system of impressive logic,

³ The rise in profit rates since the mid-1980s is not in contradiction to that. It is a short-run development depending on cyclical movements. Besides, the rise in profits is mainly due to tax cuts and redistribution at the expense of the poor, through means of deregulation.

but it is essentially ahuman.⁴ It is based on the power of the capitalist to freely dispose of production and profit. Throughout the history of capitalism, in the industrialized countries, this power of disposal has been limited by labour movements in social conflicts and class struggles but it has never been eliminated. Because of the competition of individual items of capital—whether this means many small enterprises or a few multinational corporations—the capitalist is forced to maximize and accumulate his profits under the given social circumstances or he will perish. Competition is a characteristic of capitalism, and, as I mentioned, with falling rates of return it becomes more brutal.

This pressure existed in the nineteenth century in the competition among many small, relatively powerless capitalists, as well as today, where the development is shaped to a large extent by the competition among a handful of large multinational corporations.⁵ Those who dream about freeing capitalism from crisis and being able to alter it ecologically as well as socially presume that the given limitations of the power of disposal should not only be maintained, but considerably broadened. They dream that capitalists could be forced or encouraged to come closer to their ideas through a system of commandments and prohibitions, through a reconstruction of the tax system or subsidies. Such dreams are based on the extrapolation of accelerated capital accumulation as it occurred until the mid-1970s throughout the present time and into the future.

However, in face of the waning productivity reserves and with it the decreasing possibilities of increasing the rate of surplus value, capital's margin for concessions is also steadily decreasing. The cry of capitalists for fewer governmental interventions and for deregulation has been

⁴ Even the imminent contradictions are part of the logic valid in certain systems

⁵ Competition does not vanish with concentration or centralization. It is true that, with growing monopolization, the *form* of competition has changed. However, the assumption that with increasing incorporation of production social reason would grow cannot be substantiated.

getting louder. Capitalists look at governmental policies which benefit dependent employees as well as policies which protect the environment as an infringement on their ability to exploit market forces. According to their ideology, these forces are the guarantor of full employment and increasing prosperity. The massive demands for deregulation were a success in all of the highly industrialized countries, at almost the same time. This is no surprise. The reasons for this new orientation of governmental policies can be found in a similar economic development which happened in all capitalist centres.

In the next cyclical crisis and the following, probably lengthy recession, the problems arising from this development will worsen the situation in the world economy. The attempts of capital through rigorous reallocation of national income to stop the decline of profit at the expense of labour, through an increased plundering of the third world, and last but not least, at the expense of nature, will certainly increase. These are the external conditions Jordan faces.

E. MISTAKES MADE IN THE GERMAN REUNIFICATION PROCESS

Let us take a short glance at German-German integration. Here we have a fundamental process of reconstructing an economy under conditions of long-term crisis. With integration, the West German Deutschmark was introduced to the German Democratic Republic and the market for the capitalistic firms was opened. In the election campaign Chancellor Helmut Kohl and his colleagues promised that the currency union would bring the Western standard of living to the people of the German Democratic Republic within a very short time. I am not the only one who believes that the over-hurried process of privatization and the over-hasty step to currency union was a most desperate approach, for the German Democratic Republic as well as for the Federal Republic of Germany. The productivity of labour in the German Democratic Republic was about 40% to 50% of that of the Federal Republic of Germany. Without any protection from customs or rates of exchange, and with the need to bring wages into line with Western levels, the factories in the German Democratic Republic had no chance to survive in worldwide

competition. The outcome was that 60% to 75% of the factories went bankrupt very soon after the union was established. The consequence was an enormous increase in unemployment—and in spite of enormous subsidies, the Eastern regions of Germany became the poorhouse of the nation.

The example of German-German integration shows that, under present economic conditions, developing policy is extremely difficult. Everyone who expected a new *Wirtschaftswunder* in the German Democratic Republic was in the wrong and was not taking the changed situation in the world economy into account. Today the multinational corporations in general have problems of capacity utilization. Why should they invest a great deal of money in new plants to extend their capacities? And why should they invest in a region with high unemployment and low income? In general, capitalists normally do not invest in areas where the infrastructure is poor. Not in the United States, not in the Federal Republic of Germany, nor in any other country do the capitalists go to the poor regions in their territory. We can see the same trend, if we look at international capital movements. About 70% of the direct investments of the multinational corporations located in industrialized countries go to other industrialized countries. The main attraction for foreign investments are the market conditions. Multinationals go to the regions where they find markets. This must be taken into account when Jordan seeks international investors.

F. SOCIAL COST-BENEFIT ANALYSIS

Connected with this, I want to stress another problem. The over-hasty attempt to reconstruct the economy of the German Democratic Republic and the over-hurried process of privatization led to disaster. Firms that could not be sold to private investors were closed, regardless of the subsequent costs for the region. Many firms were sold to investors, which were interested only in the "cover". They wanted to obtain the contracts the firms had, without spending anything on reconstructing the plants. Another reason for buying was simply to eliminate eventual competition and nothing else. Other firms were taken over with the consequence that two thirds of the workers were fired. Of course, the

former German Democratic Republic is not comparable to Jordan, and the reconstruction process here is quite different from the German case. However, this example of privatization points out that not every foreign investment is a good investment for the local society. Henry Ford is quoted as saying, "What's good for Ford Motor Company is good for America." This statement is more than debatable, as we see in East Germany and elsewhere in the world. In many cases, the goals of the multinational corporations are entirely different from the needs of the society. Very often the social costs are higher than the benefits. Therefore, it seems to me very important that any decision related to acquisition or promotion of foreign investments must be carefully evaluated by a social cost-benefit analysis.

G. A GLANCE AT EUROPEAN INTEGRATION

You are looking to form a new regional grouping in this area. Therefore, it may be helpful to look at some special integration problems we have in Europe. In the 1950s and 1960s, the regional differences in Europe diminished, but in spite of the political efforts made, the disparities have been increasing again since the mid-1970s. The reason for this is the already-mentioned long-term growth conditions. The poor regions grew poorer and the rich ones became richer, a development that led to an intense debate about location factors. The importance of different location factors has emerged from this debate, with these factors depending on the branch of business, the company size, and the company task.

It can be proved empirically that the decisions of multinational corporations regarding the location of their subsidiaries are mainly influenced by hard location factors, for example, the demand and supply markets, available human resources, and transportation services. Only if the hard location factors of different regions match are the soft location factors considered. One soft factor is an appropriate economic climate, meaning a flexible administrative machinery without excessive bureaucratic regulations, and an atmosphere open to investors; last but not least is a broad cultural and educational base.

A systematic analysis of location factors has to distinguish between on the one hand endogenous capabilities in terms of investment opportunities and on the other hand regional needs. Both categories contribute to building the basis of governmental regional policy, but the two aspects require different handling.

All resources—both those that are currently being utilized and those not yet exploited—that could give the country a competitive edge in various markets must be activated and developed through activation strategies (R&D). The concept of endogenous capabilities includes resources which need to be transformed to withstand competition (conversion strategies), vocational retraining, for example. Another category is resources that cannot be activated, which would be targeted by passivity strategies (ecologically questionable jobs).

The principle objective of regional measures is to evaluate the marketability of potential resources and to reduce the pressure on them. Budget restrictions preclude granting temporary or emergency subsidies, and so any permanent subsidies would have to be handled in an extremely restrictive fashion.

After these remarks about regional politics, let us return again briefly to the subject of European integration. The intended monetary union confronts the member States with the problem that different levels of productivity can no longer be balanced by manipulating exchange rates of national currencies. The result is that these countries are—similar to East Germany—defenceless against the pressure of competition brought to bear by the stronger companies. And considering that European regional policies have thus far not been able to extend to the relatively weak regions the assistance they need to advance to the general standard of development, then it is to be feared that the European currency union will result in a further deterioration of the situation in the relatively poor regions.

This critical, but in my opinion realistic, view of developments in the world economy and the resulting problems is not intended to be pessimistic, but only to give fair warning that could help Jordan face up

to the challenges presented by the world economy as well as the regional changes under way. I believe that Jordan has the potential and the vision necessary to achieve good development; I hope that this presentation will be useful in stimulating discussion, and I hope also that this conference makes a contribution to securing the future of Jordan.

Chapter Two

The Jordanian Economy and Its
Position Within Possible
Scenarios for Regional
Groupings

Dr. Tayseer Abdel Jaber

Commentary

Dr. Adib Haddad

THE JORDANIAN ECONOMY AND ITS POSITION WITHIN POSSIBLE SCENARIOS FOR REGIONAL GROUPINGS

Dr. Tayseer Abdel Jaber

Introduction

The Arab world and its Middle Eastern environment have witnessed over the past few years a number of decisive and historic developments at the economic and political levels. It is still to be seen what such developments will ultimately culminate into, as various aspects of the transformation process still interact and are subject to change.

At the regional level, the second Gulf crisis and war was a watershed in inter-Arab relations that further weakened the Arab League system, aggravated the waste of resources, and exacerbated the Arab inter-State boycott. On the other hand, despite the fact that the peace process, itself a by-product of the Gulf crisis, has made several steps, it is obvious that a long road will have to be traversed before a comprehensive and durable peace becomes a reality and its economic dividend tangible. This will only lead to uncertainty and ambiguity and will intensify security and economic apprehensions.

At the international level, the collapse of the socialist system and the end of the cold war have resulted in the prevalence of Western economic thought and related international institutions, and in the opening up of the world economy. Such accelerated developments not only have had a great impact on many countries and nations, but have taken many of them by surprise, in particular the Arab countries, leaving them disarmed before a tide of change which they are neither prepared to encounter nor likely to adapt to with minimum losses.

Nonetheless, such regional and global developments leave Jordan with several alternatives and scenarios *vis-à-vis* international economic relations. Some see that a revival of the pan-Arab economic regional order is still viable, albeit on new bases which are yet to be defined. Others think that the peace process has opened up new avenues for an

alternative Middle Eastern market that would include Israel, Turkey and other non-Arab countries. A third party believes that the European initiative, labelled the New Mediterranean Policy, could accommodate a number of Arab countries, including Jordan, which would be incorporated into a grand Euro-Mediterranean economic scheme. Other options are currently under consideration and are being debated.

In the light of all such developments and the alternatives they offer for regional economic grouping, the question to be addressed first and foremost is where Jordan, as a small-size economy with limited resources except for an educated work force, should fit. If it is deemed necessary to make a choice, how should it be decided to favour one alternative over another? And what will the prospective impact of this or that option or scenario ultimately be?

The present paper attempts to tackle this broad and multi-sided subject, which is deeply rooted in past experience and which extends to cover future prospects, with the aim of exploring the various aspects of economic interaction *vis-à-vis* each option and the prospective outcome of such interaction. For this purpose, the paper will first briefly outline the most prominent features of the Jordanian economy and then move on to explore major regional and international economic developments. Possible scenarios for regional groupings and Jordan's prospective position within such groupings will then follow. Finally, the paper will present a number of concluding remarks.

There is one additional point I would like to stress here. The topic covered by this paper is controversial and, as we are addressing alternatives that have not matured yet, it goes without saying that all views concerning Jordan's best option have a personal character. Nonetheless, what we are examining here is an issue that is not purely subject to value judgements but is rather a question that has been the focal point of various experiences throughout the world and of policies that are universally acknowledged for their reliability with regard to purposes of assessment.

A. THE CHARACTERISTICS OF THE JORDANIAN ECONOMY

It goes without saying that the special characteristics of a country's economy have a considerable impact on its external economic relations. This applies to both small and large economies, to economies having diversified resources, a multi-product nature or an orientation to a single or a few products, and to countries with small or large populations, whatever their location, economic policies or investment climate.

Following are the Jordanian economy's most significant characteristics, to illustrate the possible pattern of economic relations that could emerge in various scenarios for the countries of the region.

1. *Small-size economy*

The economy of Jordan is small, with a comparatively limited GDP, not exceeding \$6 billion. The country's population is also relatively small, about 4.3 million people living in an area of 89,000 square kilometres. Although it is true that there are rich, advanced countries—and developing countries, as well—that are even smaller than Jordan, in terms of physical size or economic size, such as Luxembourg, Hong Kong, Singapore and Cyprus, the fact remains that their small-size economies, lack of resources, and limited geographical area have not obstructed their economic growth and development. This does not mean, of course, that the small size of an economy has no negative implications, which are evident in a limited local market that renders any attempt at industrialization with a view to import substitution not feasible, and which are also evident in the prevalence of small and medium-size establishments in the various sectors of the economy. Yet the small size of the Jordanian economy makes it manageable, regardless of whatever problems it encounters. However, a small economy makes an open-door trade policy imperative and also means that few restrictions can be placed on the cross-border flow of personnel and investment.

2. Prevalence of the services sector

Jordan's limited natural and financial resources have resulted in a leading role for the services sector, which will continue to be prominent in the Jordanian economy in the coming years. Lack of rainfall in most parts of the country and underground water shortages have turned 96% of Jordan's total area into arid land. Moreover, only one third of agricultural land in the country is under irrigation. Crude phosphate and potash, Dead Sea mineral salts, and gas reserves are Jordan's main natural resources; most of these are currently exploited and contribute a great deal to the country's export effort, in particular phosphate, potash and chemical fertilizers. The scarcity of resources has had a negative impact on imports, which are highly diverse and which include foodstuffs, raw materials, and capital as well as manufactured goods. The export commodity structure has been another victim of such scarcity.

Lack of water remains a major drawback with regard to Jordan's development potential, and per capita water consumption in the country has consistently been lower than in neighbouring countries. This situation makes it necessary to grant priority to agricultural products and other related activities that increase water consumption efficiency, that is, to give the best economic yield possible per each cubic metre of consumed water. Services account for 65.1% of GDP, with government services in the lead. Financial, real estate and business services follow, and transport, communications and general trade complete the list.

Although successive economic development plans have sought to increase the relative importance of the commodity-producing sector, the services sector has nevertheless retained its lead, accounting for around two thirds of the gross domestic product.

3. The large role of Government

The Government plays a decisive role in the Jordanian economy. It employs approximately 50% of the Jordanian work force and owns companies and corporations that are mostly run on a commercial basis. Government consumer expenditure is 22.7% of GDP, with the

Government providing modern services in various types of infrastructure, as well as in education, health care and other public services. The sizeable public sector role has not been the product of a particular ideological inclination, but much more a by-product of the Government's increasing role in the planning and execution of development projects, as well as an expansion of public facility services. The privatization drive has hence become a significant component of Jordan's economic adjustment programme, successfully implemented starting from 1989.

4. High population growth rate

Population growth rates in Jordan are disproportionately high despite the fact that the country's population is relatively small. During the years 1979-1994 the population grew at an annual rate of 4.4%, owing partly to the return of 250,000 Jordanian expatriates from the Gulf countries as a result of the Gulf crisis and the ensuing war. This added a new dimension to an already high natural growth rate that was the result of a reduction in child mortality rates. This latter feature has left its imprint on the demographic structure, with 41.4% of the population being under the age of 15. Another outcome of this situation is an extremely high dependency ratio—0.8—with a large proportion of the population residing in densely-populated urban areas.

5. Significance of human resources

The limitations that its poor human and financial resources have put on Jordan have spurred the country to invest in human resources development, thus maximizing the significance of an educated labour force that has resourcefully supplied the Arab Gulf countries with their manpower needs over the past three decades. The attention paid to vocational and technical training has guaranteed a supply of moderate-wage skilled labour and technicians for various areas of the economy. However, decreased demand for Jordanian labour abroad and shortages in Jordanian manual labour have been the source of two significant developments in this regard: first, an increase in unemployment rates (15%) among Jordanian workers, especially high school, community

college and university graduates, and second, a dependence on foreign labour to satisfy local demand for manual labour in agriculture, construction and housework. Egypt, Syria and Sri Lanka have been special suppliers of this class of labourers, whose numbers have exceeded 250,000 workers.

Such trends are expected to continue in the near future, whereby a significant proportion of the Jordanian workforce will have to seek employment abroad if unemployment rates are to be brought down; dependence on guest labour for manual labour and housework will likewise continue unless drastic changes are made in the educational system and in other areas to reshape the wage-structure, and unless a considerable increase in Jordanian workers' productivity is attained.

6. Significant role for international economic relations

In view of the local market's small size, foreign trade plays a significant role in the Jordanian economy. Jordan has been consciously conducting an economic policy tightly linked to its external relations and has given the private sector an essential role in import-export operations. Foreign trade thus comprises 85% of the GDP, whereas the country's trade balance has progressively suffered from increasing deficit. This has been mostly made up for through tourist revenues, expatriate remittances and government transactions. External borrowing and foreign-debt servicing have regularly been reflected in the balance of payments over the years of the past decade in the form of surpluses or deficits, depending on the nature of each year's transactions.

Under the economic adjustment programme implemented in accordance with International Monetary Fund (IMF) recommendations, Jordan resorted to the following policies *vis-à-vis* its international economic relations sector:

(a) Rescheduling its standing foreign loans on considerably favourable terms; the purchasing of some loans at good discount rates; and obtaining full forgiveness for Jordan's loans from the United States (\$700 million), as well as loans from other sources.

(b) Enhancing the country's export potential through tax-related incentives, a stable exchange-rate for the Jordanian dinar, finalization of trade agreements, and paying better attention to the quality of Jordanian products.

(c) Lifting restrictions currently imposed on the external payments system by adhering to the provisions of Article 8 of the IMF Agreement, which stipulates that a free flow of current transactions should be maintained.

(d) Development of touristic resources in order to increase their contribution to foreign currency reserves.

7. Fiscal policy

Giving the private sector an effective role in economic activity, the Government has turned to reforming its fiscal policies in accordance with the requirements of the economic adjustment programme. Foreign and domestic indebtedness have been reduced, domestic revenues have been increased and an overall review of the tax structure has been conducted with a view to carrying out comprehensive tax reform. On the other hand, recurrent expenditure increases are now subject to effective scrutiny, and government subsidization of certain basic commodities has been cut to benefit only the poor and low-income strata of the population, thus cutting the budget deficit considerably. Local revenues now exceed recurrent spending, government foreign borrowing on a commercial basis has now stopped, and the privatization drive of hotels, newspapers and certain commodity-producing companies is under way, while the recently imposed sales tax has turned out to be the main source of government revenues.

8. Monetary policy

Jordan's monetary policy under the economic adjustment programme aims at maintaining monetary stability by keeping the

exchange rate of the Jordanian dinar stable and by stabilizing overall price levels.

This objective has been fully achieved over the past five years against the US dollar and special drawing rights in particular (table 1), while price levels have remained under control at a fixed annual rate of inflation of not more than 4%.

Table 1. Main indicators of the Jordanian economy
(Millions of Jordanian dinars)

	1992	1993	1994	1995
Gross domestic product	3,493	3,811	4,191	4,621
Population (in millions)	3.8	3.9	4.1	4.3
Income per capita (US\$)	1,379	1,368	1,431	1,540
Dinar's exchange rate against the US dollar	1.5	1.4	1.4	1.4
Cost of living denominator	100	103.3	107	109.5
Money in circulation	1,004	1,048	1,073	1,051
Money supply	1,716	1,730	1,746	1,746
Bank deposits	4,749	4,939	5,392	5,788
Bank credits	2,218	2,741	2,248	3,706
Domestic government revenues	1,169	1,191	1,306	1,440
External government revenues	466	394	470	657
Government recurrent expenditure	930	1,044	1,115	1,225
Government capital expenditure	419	604	465	534
Public foreign debt	5,203	4,842	4,613	unav.
Public internal debt	1,042	1,144	1,181	966
Exports (and re-exports)	829	865	995	1,241
Imports	2,214	2,454	2,363	2,590
Balance of trade	-1,385	-1,589	-1,368	-1,349
Balance of services	614	879	856	1,000
Jordanian expatriate remittances	573	721	764	886

Source: Central Bank of Jordan, *Monthly Statistical Bulletin*.

The Central Bank of Jordan (CBJ) has guaranteed free conversion of the Jordanian dinar to other currencies, whether through the banking system or market mechanisms (that is, money changers). The Bank has also sought to consolidate the banking system by encouraging bank mergers, as well as by encouraging an increase in bank capital and allocating reserves to deal with bad debts. The CBJ resorted to applying indirect control methods over credit, mainly via interest rates and certificates of deposit. It also encouraged expansion of the banking system and thus approved the establishment of the Export Development Bank and a loan guarantee company. Moreover, the Jordanian dinar remained the legal tender in Palestine, and in addition, ten Jordanian banks have opened branches in the West Bank and Gaza Strip, thus providing the Palestinian economy with a considerably advanced banking system.

This is a brief account of the Jordanian economy's most significant features. Many sectoral and statistical details of policy and legislation could be added, but this would be beyond the purposes of the present paper.

B. THE IMPACT OF MAJOR INTERNATIONAL AND REGIONAL ECONOMIC DEVELOPMENTS

Over the last few years, the world has witnessed a series of historic developments that have had a great impact on the world economy and have reflected considerably on the region, Jordan included. A detailed presentation of such developments is beyond the scope of this paper, but for our purposes, we shall point out some of their most prominent aspects and their impact on regional economies, including that of Jordan, and on future regional inter-State economic ties. Needless to say, such developments are of an intricate and complex nature; they interact in a way that would culminate at some point in a harmonious historical movement at the economic, political and social levels.

1. *Collapse of the socialist system*

Approximately one and a half centuries after Marx and Engels aired their views on the socialist system that would inevitably replace capitalism, and 70 years after the triumph of the Bolshevik Revolution in Russia, the socialist system suddenly disintegrated like a heap of leaves in the wind. The collapse was rapid, leading to the dismemberment of the Soviet Union into several States and the disappearance of the Warsaw Pact and its structures: all economic cooperation linked to Comecon came to a halt. Moreover, the communist party shrank and the central planning system was abolished, while talk of the market economy, free competition and the role of business became the order of the day even in those countries that only yesterday had adhered firmly to a centrist socialist order. In a new development, these countries went running to the International Monetary Fund, seeking membership while nonchalantly opening up their economies to "capitalist" investment.

This historic development had a great effect on the Middle East region, including Jordan, and resulted in the following:

(a) The weakening of socialist ideas that were endorsed by some for various ideological or pragmatic reasons. Whereas there was once a central role for Government in investment, production, pricing and trade, this pattern of economic management has now become a page of the past and lacks zealous defenders, despite the fact that it still remains a highly influential pattern in a number of the economies in the region.

(b) The termination of a destructive regional bipolarity that adversely affected the countries of the region during the cold war, which often turned hot in many parts of the region. Superpower rivalry during the cold-war years engendered competition in the sales of armaments, which not only instigated wars (which served as a testing ground for new weapons), but also burdened the countries of the region with an overload of non-productive and resource-exhausting debts.

(c) Deterioration of economic and cultural ties between most Arab countries on the one hand and the countries of the former socialist

bloc on the other. This has been mostly evident in the decline of barter-based trade exchange and university-level fellowships, and Arab States that had been party to such relationships had to restructure their international economic relations to face up to new realities.

2. *End of the cold war*

The collapse of the socialist system ended the struggle between the socialist and capitalist civilizations, which had been in conflict since the end of the Second World War. For their part, third world countries were a major battlefield for the rivalry that existed between the parties directly concerned, and a target of economic imperialism. Developing countries found it beyond their capacity to strike a balance between the first and second world blocs and manipulate their differences to serve their own ends, as the two blocs had ceaselessly sought to expand their interests and domains.

The end of the cold war had various implications for Middle Eastern countries, reflected mainly in the following:

(a) Some countries in the region felt that they had lost their superpower source of support with the collapse of the Soviet Union, on which they had been totally dependent, and some of these States had to pay a very high economic and political price as a consequence.

(b) Other countries, such as Israel and Turkey, found out that their role as advance outposts against the socialist bloc of the cold war days had lost much of its importance. This development pushed them to seek out a new function, and they have been given sufficient room by the Western powers to accommodate to new realities.

(c) The collapse of old rivalries turned the region into an arena for a non-ideological economic struggle among major world economic powers, namely, the European Union, the U.S. and Japan. Such rivalry will obviously continue to be a major factor in shaping the region's international economic relations.

3. *The second Gulf war and Arab rift*

In the midst of such developments, the Arabs were taken by surprise by Iraq's invasion of Kuwait, and by the failure of the Arab regional order to contain and dismantle the crisis, thus exposing its fragility to the operations of the game of nations. The crisis blatantly culminated in an Arab rift, governmental as well as popular, that resulted in a second Gulf war and the declaration of a state of siege on the Iraqi people. The resulting oil-production shortage was made up for by increased production on the part of other oil-producing countries. Arab countries also had to incur the tremendous cost of the war, which exceeded \$620 billion. Meanwhile, the Arab economic scene degenerated into a shambles in the light of inter-Arab differences, thus undermining for several years to come the likelihood of a relaxation in inter-Arab tensions or of the establishment of economic integration.

Regional resources have fallen victim to a ravaging process of exploitation, which has manifested itself in deteriorating oil prices to unprecedented lows (in real terms) in the history of the region, while at the same time, enormous amounts of money have been allocated for arms purchases, leading to persistent deficits in the budgets of the oil-exporting States and forcing them to borrow abroad and even liquidate a good proportion of their investments.

The Arab States have had to make a weak and fragmentary entry into the peace process. In addition to their loss of the supportive socialist bloc, inter-Arab rifts and Gulf war ramifications rendered every Arab State susceptible to an array of phobias, and they sought Western—in particular U.S.—protection against every imaginable menace in the form of economic boycott, internal violence, border conflict, civil strife, and so forth.

4. *The peace process and its economic impact*

The termination of the cold war and the regional impact of this, together with the Arab rifts created during and after the second Gulf war, cleared the way for the Western alliance, with the U.S. at its helm, to

rearrange the regional agenda. At the top of alliance priorities were the Arab-Israeli conflict and the Palestine question. Hence, an immediate call was issued by the U.S. for the convening of an international peace conference on the Middle East once the Gulf war came to an end. The conference convened in Madrid on 30 October 1991.

The peace process has since traversed several significant steps, albeit not without difficulty. The Declaration of Principles on Palestinian Self-Rule and subsequent economic, security and redeployment accords, as well as the permanent status negotiations of 5 May 1996, were a major breakthrough on the Palestinian-Israeli track. Another outcome of the peace process was the Jordan-Israel Peace Treaty and the numerous agreements that followed. Negotiations on the Syrian/Lebanese-Israeli track are completely derailed, but Gulf Arab countries have ended their indirect economic boycott of Israel.

Some Arab countries have opened representative offices with Israel, while multilateral negotiations are under way, though without much content so far, covering such issues as refugees, water, the environment, disarmament, and regional development.

The peace process has also had a direct impact on the region, as reflected in the following:

(a) New prospects for political stability in the region would arouse private economic interest in investing directly in regional projects, as well as tourism. A more stable situation in the region would also allow the diversion of human and financial resources to promote development instead of military expenditure. A better climate of peace would open up avenues for cooperation in joint ventures and in the joint exploitation of the region's potential in various fields, such as water, electricity, roads, energy, the environment, labour and so on.

(b) New opportunities for the Israeli economy to interact with the economies of neighbouring Arab States would add a new dimension to regional economic relations, against the backdrop of a Middle Eastern

market in which States with different levels of development, technological progress, per capita income, and international economic relations interact.

(c) The aforementioned manifestations will not reach maturity in the absence of a comprehensive and durable peace. Thus the region will continue to be engulfed in an atmosphere of ambiguity and uncertainty pending the culmination into a peace agreement of the peace negotiations on the Syrian/Lebanese track, an agreed finalization of the permanent-status negotiations on the Palestinian track, pacification of Israel's security obsessions and its overreaction to every eventuality. The lifting of the state of siege imposed on some Arab States (Iraq, Libya and Sudan) and the establishing of a healthy and equitable economic relationship between Israel and the Arab States, one that is far from hegemony or a siege mentality, are also a must for bringing to an end deep-rooted suspicions and longstanding differences.

This only means that peace still has a long way to go. It will certainly take its due time and expenditure of effort. Hence, the expected economic profits and dividends of peace will not soon materialize unless the U.S. and other donor countries help to activate this aspect of the peace process. This does not seem to have been the case so far, nor does it seem to be anywhere evident on the horizon of the near future.

5. The international trend towards globalization and economic liberalization

With the collapse of the socialist system, both the industrialized and the developing countries now have to deal with a global economy that, more or less, functions according to the provisions of a unilateral system, in theory as well as practice. The Western economic theory based on a market economy, competition, expansion of the private sector's role, and minimizing the role of Government while intensifying its functions, has become the fashion of the day. The developing countries, not least those who only recently dropped their socialist approach to Government, have raced to endorse and implement such economic concepts, and this in turn has given a larger role to international organizations in running the world

economy and in dealing with the economic conditions of individual countries.

Thus, the World Bank and the International Monetary Fund, which staunchly advocate the policies mentioned above, have come to command a more influential role. The inception on 1 January 1995 of the World Trade Organization to replace the General Agreement on Tariffs and Trade, following the successful conclusion of the Uruguay Round and finalization of the Marakesh agreements in April 1994, has added a third and complementary arm to the world economy tripod. The latter agreements, which cover such areas as industrial goods, agricultural products, services, and intellectual property rights, and which further liberalize world trade in both commodities and services, have all been necessary for the integration of the various aspects of the international economic system.

Adding a new dimension to regional developments, the European Union has proposed to the countries in the region, including Arab States (except for Libya) and non-Arab States on the southern and eastern shores of the Mediterranean, a new Mediterranean policy, elaborated at the Euro-Mediterranean Conference held in Barcelona in November 1995. The new policy calls for the establishment of a Euro-Mediterranean economic area with the participation of 27 European and Mediterranean States, based on a negotiated free-trade area, to be built in an atmosphere of overall political, security, economic, financial, social and cultural cooperation.

In this context, Tunisia and Morocco have each signed an Association Agreement with the European Union, and Jordan and Egypt are currently negotiating similar agreements.

Such developments are catching Arab States unprepared to adapt to the new realities without incurring great loss. Deeply entrenched economic involvement by Governments over the past three decades has rendered their role rather difficult to minimize, and they cannot reorganize rapidly enough. In this context, there has evolved a host of measures and

restrictions engendered by government bureaucracy under the pretext of safeguarding the public interest, but which actually have proved to function as an invisible hand that obstructs economic activity and disrupts its evolutionary progress. Customs duties have become an important source of government budget revenues that are difficult to forego in the long run, and many local agricultural and industrial products are going to encounter challenges that will affect their quality and price, challenges they never had to stand up to before foreign trade liberalization. The makers of certain products will also have to deal with an increase in costs owing to the application of patent and other intellectual property rights. However, a large number of Arab States have not joined the World Trade Organization.

To sum up, it can be said that international economic developments have caught the Arab States unprepared and sorely lacking in the cooperation that would be needed to stand up to the challenges they now face. And such developments do not pause for people and countries to catch up, but rather speed on in an inexorable process of globalization, with ever-stiffer competition, deeper market penetration, an ever-enlarging role for private foreign investment, daily monetary outflows, and more privatization, then the longer an Arab State lingers before adjusting to the new situation, the more marginalized and isolated it becomes from the world's economic scene.

Moreover, these sweeping developments have fostered a new international environment with respect to economic relations, bringing all the nations of the world, including Jordan, face to face with basic questions concerning the essence of the policies and attitudes that best serve their present and future interests. The following section of this paper will focus on this premise, taking into account the possible scenarios for a regional economic grouping and defining characteristics of the Jordanian economy.

C. POSSIBLE SCENARIOS FOR A REGIONAL ECONOMIC GROUPING

The post-Second World War era has witnessed a trend towards setting up regional economic groupings by developing countries as well as by industrialized nations in various parts of the globe. Altogether, more than 25 such groupings have come into existence, ranging from free-trade areas and economic cooperation agreements to common markets. Among the most significant of these were the European Common Market, Benelux, NAFTA, Comecon, the Arab Common Market, the Arab Gulf Cooperation Council, ASEAN, the West African States Economic Grouping, the Central American Common Market, the Andean group, Mercusor and Apec.

The European Union, which groups 15 States, has proved to be indisputably the most successful among the world's economic groupings in terms of continuity and ongoing progress and also in terms of expansion to all sectors and economic policies. Our own region has seen several attempts at promoting economic integration and cooperation, first with the establishment of the League of Arab States in 1945, followed by the Arab Economic Unity Agreement in 1957 and the Arab Common Market at a later stage in 1964. The 1980s witnessed the inception of the Gulf Cooperation Council, the Arab Cooperation Council and the Maghreb Economic Union. Such attempts suffered much from the Arab States' instability and from their inability to guarantee the continuity and solidification of these groupings, a case common among the attempts by various developing and industrial nations to build up economic groupings; in fact, the European Union seems to be the only exception.

The current world economic scene seems to exhibit further globalization of international relations, trade liberalization, increase in the role of direct foreign private investment, privatization and a tremendous inter-State monetary flow as the overriding trends of the day.

The tendency towards setting up economic groupings by geographically linked States remains a prevalent urge and aims at

manipulating cross-border exchange to promote trade, encouraging labour and capital movement, and formulating closer ties of cooperation than those offered by mere globalization.

Most Arab States have endorsed such policies but are hardly ready to put them into effect, as government involvement in the economy has been at the expense of the private sector, and for the most part, Government has resorted to development policies aimed at import substitution and customs-based protectionism. This ultimately resulted in economic inefficiency and the imposition of many restrictions on prices, trade movement, foreign investment and foreign currency transfer, among other things. However, the last few years have witnessed developments that have rendered such policies and related economic trends costly and obstructive. The collapse of the socialist system and the barter agreements associated with it, the inception of the World Trade Organization, which involves 90% of international trade, the eruption of the second Gulf crisis, which divided the Arab States and undermined all their efforts towards integration, the acceleration of the peace process, which has exposed the region to the implications of interaction with the Israeli economy, and the European Union's pursuit of closer economic ties with the Mediterranean States are all real developments of great significance, and the region will have to address them.

Such developments pose new challenges not only to the Jordanian economy, but to the neighbouring States as well, and present several scenarios for regional economic grouping. It is our objective here to identify possible scenarios and assess the evolutionary prospects of each of them, and to identify what Jordan would stand to gain by joining one or another of such groupings, bearing in mind Jordan's small-size economy and its other characteristics.

Jordan's small economy means a small local market and little chance that import-substitution industries could succeed or continue to be protected for long. It also means that it is especially difficult for Jordan to pursue an isolationist line or to limit its interaction with the world economy. Even much larger countries, such as the Russian Federation, China, Mexico and Turkey, are finding it untenable to pursue such

policies. Moreover, other nations' experience is worth learning from, and those who have gone a long way in facing up to similar international economic developments could be an invaluable source of guidance for us in deciding which way to go.

This basically requires that research should aim at a realistic evaluation of alternatives that would be suitable given Jordan's external economic relations; researchers must disburden themselves of illusions and wishful thinking. This is particularly true for an economy whose size does not qualify it to become a centre that would attract neighbouring countries. Centric economies that are capable of playing an integrating role in the world economic scene are few indeed.

In the light of all preceding facts, the central question of this paper is: What are the possible scenarios for a regional economic grouping that Jordan could join? Following are a number of scenarios, given in no particular priority:

(a) A new Arab regional economic order based on developing the structures of the League of Arab States and reconsidering their status *vis-à-vis* other specialized organizations. Such a grouping, of course, would exclusively have the entirety of the Arab States in its membership.

(b) The establishment of an economic triangle comprising Jordan, Palestine and Israel.

(c) Formulation of a new Middle Eastern economic order, the most prominent feature of which would be the integration of the Israeli economy into that of the region and the incorporation of other non-Arab countries, such as Iran, Turkey and Cyprus, while excluding some Arab countries that, by definition, are not part of the Middle East region. This framework could be redefined, however, to include the North African countries.

(d) Establishment of a Euro-Mediterranean economic order, to be based on existing and workable Association Agreements.

(e) Establishment of an economic grouping with the Gulf Cooperation Council as its core, which presupposes a possibility of the GCC opening up its ranks to accommodate the development of its economic ties with a number of neighbouring countries, including Jordan, with a view to setting up a free-trade area, a customs union or a common market.

(f) Maintaining selective cooperation with regional States, as well as those outside the region, according to what best serves Jordan's economic interests. The logical conclusion of this alternative would mean that there would be no effective regional economic grouping.

It goes without saying that Jordan's prospects for joining one or more of such groupings would depend on Jordan's position on the one hand, and on those of other potential member countries on the other hand. A meaningful partnership would require more than a unilateral decision on Jordan's part. Initial steps for joining a certain grouping may be taken and documents may even be signed, but the real success of such a relationship, and the endurance of such a grouping, mostly would depend on how well it fulfilled the genuine economic interests of the parties to the partnership, including those of Jordan. If it did not, everything would come to a halt, and the entire attempt would end on a tragic note, leaving a negative imprint on prospects for any future Arab cooperation.

Table 2 reveals some of the economic indicators with regard to the possible regional groupings that Jordan could join, the smallest of which is the Jordan-Palestine-Israel triangle, with a combined GDP of \$80 billion, with Israel accounting for 90% of this amount, and a combined population of 11.3 million. At the other extreme, a Euro-Mediterranean economic area, with a membership of 27 countries, would be the largest of such groupings, bringing together a combined GDP of \$7,000 billion, and a total population of 572 million people. Groupings such as the Middle Eastern order, an all-Arab order and the GCC are midway between a limited and a large grouping.

Table 2. Possible economic groupings in the region

Grouping	Combined GDP (millions of US dollars)	Population (millions)	Annual per capita income	Number of States
Jordan, Palestine and Israel	77,780	11.3	6,883	3
Middle East	680,182	297.4	2,287	19
Arab States	438,101	243	1,803	21
Mediterranean States	377,346	207.3	1,820	12
European Union	6,655,099	365.0	18,233	15
Gulf Cooperation Council	202,258	24.0	8,437.3	3

Source: World Bank, *World Development Report 1985* (Washington, D.C.: World Bank, 1995). UNDP, *Human Development Report 1995* (New York: Oxford University Press, 1995).

1. Establishment of a new Arab regional economic order

The first scenario involves setting up a new Arab regional economic order, i.e., a grouping of the Arab States on a basis different from what we have seen over the past 50 years, which witnessed the formulation by Arab States in the era after the Second World War of a regional economic system with the Arab League as its base. Founded in 1945, the Arab League was supplemented in the 1960s and 1970s by a number of specialized agencies for industry, tourism, education, culture and science, labour, and specifications and standardization, among others. Through conferences held annually or biennially, these organizations have coordinated Arab positions on affairs of common interest and promoted technical cooperation among Arab States.

The Arab financial institutions are among the most successful aspects of the Arab regional cooperation system. These include the Arab Fund for Economic and Social Development, the Arab Monetary Fund, the Arab Corporation for Investment Guarantee, and the Arab Fund for

Technical Cooperation with Africa. In addition, there are different pan-Arab federations and unions for various professions and industries.

The aforementioned system has consistently been among the most successful of the regional systems in the developing world with regard to scope, continuity and effectiveness. However, political indecisiveness, absence of badly-needed political will, and foreign intervention have weakened the system, which has disintegrated since the early 1980s. First, under pretexts of restructuring the system, agency budgets were cut and large numbers of employees were terminated, and second, the rift in Arab ranks as a result of the second Gulf crisis and consequent war dealt a deadly blow to the Arab League.

Despite the fact that the Arab regional order had tangible positive aspects, it nonetheless could not advance regional cooperation profoundly enough to check regression and prevent disruption of what had already been achieved. Scholars concerned with this sphere of Arab development largely blame the meagre—or non-existent—Arab political will for the failure to develop a viable regional order.

This often-cited factor, together with other factors, of course, led to the deterioration of the pan-Arab order, particularly since 1980. Intra-Arab trade has remained at a low 8%-9% of total Arab external trade volume, while investment in joint Arab ventures has not exceeded \$40 billion, compared with immeasurably greater Arab investments abroad. Certain objective factors have had a part in disrupting prospects for Arab economic integration. Among these are differences in the economic systems endorsed by the various Arab States and duplication, and even outright competition, among Arab productive structures. Most positive indicators of inter-Arab cooperation were at the bilateral level, in particular with regard to assistance and also to labour exchange, along with the development cooperation and expatriate remittances that labour exchange implies.

Seen in a realistic light, the prospects for building up a new pan-Arab regional economic order do not seem promising under the prevailing political and economic conditions. Most of the internal as well

as the external factors that previously battered the Arab system are still in force. Influential Western States have invariably opposed the idea of setting up an exclusively Arab order, and in addition, inter-Arab reconciliation efforts have reached nowhere more than five years after the end of the Gulf war. The only clear path along which regional and international initiatives intersect seems to be in the direction of Israel.

It is not clear on what basis a new Arab regional order could be reconstructed. Could a reactivation of the Arab League system bring this about? No major Arab State seems to be in earnest about setting up an Arab system, and any initiative by a smaller country such as Jordan would not produce sufficient force towards this end.

We can utilize certain overall figures to obtain a picture of the limitations governing the prospects for setting up a viable and durable Arab regional economic order. Table 3, which covers both Arab and non-Arab Middle Eastern countries, shows that the combined GDP for all Arab countries amounted to no more than \$438 billion in 1993, lower than that of Spain, and less than half the GDP of Italy, both of which are members of a European Union that accommodates 15 States (see table 4). This means that even if Arab economic integration could be achieved, the outcome would be frustratingly small compared to other economic groupings set up by advanced economies.

Another disadvantage is evident at the demographic level, as over 40% of the Arab States' population of 243 million is below the age of 15, i.e., non-productive in economic terms. The average per capita income in the Arab world does not exceed \$1,800 annually, and yet even this low level conceals enormous disparities in income and living standards, as well as disparities in other human development indicators. Bahrain, for example, ranks 44 in the human development index, whereas Yemen is far below at 137, along with Sudan, at 144. The per capita income for Qatar and the UAE tops \$20,000, while Sudan, Egypt, Syria and other North African Arab countries not mentioned in table 3 barely reach \$1,000.

Table 3. Main economic indicators for countries of the region, 1993

Country	GDP (millions of US\$)	Population (millions)	Per capita income (US\$), 1992	Per capita income, PPP (1992)	Area (thousand square km)	Rank in the human development index
Bahrain	40 532	5.5	7940	14590	0.7	44
Kuwait	22 402	1.8	18280	8326	18	61
Oman	11 686	2.0	6380	11710	212	91
Qatar	7 173	0.5	15760	22380	11	56
Saudi Arabia	121 530	17.4	7780	9880	2150	76
UAE	24 935	1.8	22640	21830	84	45
GCC States	202 285	24.0	8427		2475.7	
Egypt	35 784	56.4	634	3540	1001	107
Sudan	5 786	25.9	223	1620	2506	144
Iraq	25 000	19.5	1282	3413	438	106
Jordan	4 441	4.1	1130	4370	89	80
Lebanon	7 537	3.9	1932	2500	10	101
Libya	22 942	5.0	6588	9782	1760	73
Palestine	3 600	2.0	1800	1800	6	
Syria	10 179	13.7	743	4960	185	78
Yemen	11 958	13.2	906	2410	528	137
Total Eastern Arab countries	339 485	167.7		1024	8998.7	
Total all Arab countries	438 101	243	1803		13678.7	
Cyprus	7 210	0.7	10200	15050	9	23
Iran	107 335	64.2	2230	5420	1648	70
Israel	69 739	5.2	13411	13700	21	21
Turkey	156 413	59.6	2030	5230	779	66
Non-Arab Middle Eastern countries	340 697	129.7	2627		2457	
All Middle Eastern countries	680 182	297.4	2287		11455.7	

Source: Data taken from various sources, including World Bank, *World Development Report 1995* (Washington, D.C.: World Bank, 1995); UNDP, *Human Development Report 1995* (New York: Oxford University Press, 1995); the data for Iraq, Libya and Palestine are estimates.

Table 4. Relative importance of Jordan's foreign trade with possible economic blocs, estimate for the period 1992-1994

Bloc	Imports		Exports		Foreign trade	
	Value, in millions of dinars	Percentage	Value, in millions of dinars	Percentage	Value, in millions of dinars	Percentage
Jordan,						
Palestine and						
Israel						
Middle East						
(1994)	588	25.1	329	46.6	917	30.1
Arab countries	495	21.1	282	39.9	777	25.5
Mediterranean						
countries, 1994	177	7.5	77	10.9	254	8.3
European						
Union	784	33.5	29	4.1	813	26.6
Total	2343		706		3049	

Source: Department of Statistics, *Annual Statistical Bulletin of Foreign Trade*, 1994.

In brief, the scenario that envisages the establishment of a new Arab economic order has little chance of success. The Arab and international will required for its evolution are lacking. The scenario continues to represent a hope and ambition for those who want to seek solace from a tough reality. If endorsed, such a perspective, which is hard to accept, would have Jordan wait for a long time before formulating international economic ties in order to cater to some hypothetical new Arab order as if it were high on the agenda. In my opinion, Jordan would be better off to seek closer ties with any Arab State that reciprocated its intention to have better relations. This could with time develop into greater coordination that may culminate into the establishment in the coming decade of a free-trade area with Egypt, Saudi Arabia, Syria, Lebanon, Palestine and Iraq, or some of these as partners.

It is in Jordan's interest to take part in any effort by any group of Arab States aimed at constructing a new Arab order. It is by no means

wise to rely on other scenarios as substitutes for the Arab regional grouping option. More than sufficient historical and objective factors stand in support of this viewpoint. For example, Jordan was among those seven Arab States that launched the Arab League, one of few that ratified the Arab Economic Unity Agreement, one of four that approved setting up the Arab Common Market in 1964, the country to host the 1980 Arab economic summit, and the host to the 1995 Economic Summit on the Middle East and North Africa.

Objectively speaking, the Jordanian economy is among the most entwined with Arab interests. No less than one third of the Jordanian labour force works in the GCC countries, and 40% of Jordan's exports go to Arab markets. Over one fifth of Jordan's imports originate in Arab States (table 4), which are the sole source of Jordan's crude oil needs. Annual expatriate remittances of Jordanians working in Arab States top \$1 billion.

Better political stability and security prospects in the region, combined with Jordan's rationalization of its economic relations in line with globalization requirements, if attained, could render it capable of manipulating its geopolitical position and could make closer economic ties with other Arab States quite productive, opening up broad avenues for greater economic activity in more than one field.

2. Setting up an economic triangle (Jordan, Palestine, Israel)

The rationale for this scenario is based on the progress made in negotiations on the Jordanian and Palestinian tracks with Israel, and the political and economic treaties and agreements which the three parties have reached. The Benelux—which grouped Belgium, the Netherlands and Luxembourg as a core and which later on grew to accommodate other European Union States—is usually cited as a precedent for such a proposed grouping. The economic triangle is introduced as a transitional scenario that would gradually include other regional States, such as Egypt, Syria, Lebanon, Iraq and the GCC countries.

A 1995 Harvard University-sponsored report by a team of experts calls for “mandatory abolition within five years of all restrictions on trade between the West Bank and Gaza Strip on the one hand and Jordan on the other, and of restrictions on Jordanian exports to Israel. Jordan, at the same time, should reduce customs duties on a number of goods imported from Israel. By the year 2010, all Jordanian restrictions affecting Israeli exports will be abolished, whereas tariff policies implemented by Jordan will be coordinated with those of Israel, the West Bank and Gaza Strip. The three countries will, at the same time, be party to similar arrangements with other States willing to abide by free-trade commitments.” This would necessarily require the three countries to work towards setting up a customs union among them, although it would be open for other States in the region to join.

The advantages that this scenario offers Jordan are similar to those that would be the result of being a party to any economic integration scheme. Free access for Jordanian exports to Israel would promote export potential, either directly to the sizeable Israeli market or indirectly to world markets via the Israeli market, which has close trading ties with world markets, and which has good shipping and transport potential and effective distribution channels. Liberalization of the Palestinian market to Jordanian exports would also help open doors for a new trade exchange suspended during the long years of Israeli occupation. All such developments are expected to encourage investment, increase production, and create new job opportunities in Jordan.

Nonetheless, Jordan's attempts to revive old economic ties with Palestine, beneficial as such ties would be to both sides, is systematically disrupted by the Palestinian-Israeli protocol governing economic relations, which gives the Palestinian Authority almost no say in trade with Jordan and which restricts commercial exchange to limited commodity lists and to quantities that have to be agreed upon in advance.

Moreover, Israel's control over Jordan-Palestine border crossings regularly obstructs the free flow of import-export movement, thus limiting growth prospects in this area. Added to this is the occupationist nature

of the Palestine-Israel relationship, at least throughout the transitional period, which renders it difficult for the two sides to maintain a balanced and mutually upheld understanding, particularly under the pressures generated by the arbitrary closure measures imposed by Israel.

Recent experience has shown that Israel is not prepared to assume the role of a more advanced catalyst for promoting economic ties between the three countries, as this would require some sacrifices, especially at the outset. The Jordanian-Israeli trade agreement, despite having some merits, is little different from other bilateral agreements in the region which usually provide for certain commodity lists and related exemptions. No meaningful access to the Israeli market has been granted to Jordanian exports, and the implementation of the agreement will meet practical obstacles on the Israeli side closely related to Israel's security and protectionist policies and can also be expected to run into differences over specifications and standards. Studies have shown that the relative importance of commercial exchange with Jordan will remain largely insignificant for the Israeli economy, which is much more involved in trading with the U.S. and Europe. Unfortunately, Israel appears to follow a selective policy in its economic relations with Jordan and to seek to involve Jordan in a relationship similar to the one that it has imposed on Palestine, for example encouraging a subcontracting role for Jordanian industries, secondary to Israeli firms, and promoting Israel's mediative role between Jordanian products and external markets, a role that does not much serve Jordanian economic interests and is needed only in certain cases.

The trilateral relationship is not expected, in the short or medium term, to develop into a clear-cut institutionalized framework involving, for example, the setting up of a free-trade area or a customs union. This is mainly caused by complications of the Israeli-Palestinian transitional agreements; while the latter is striving to end the relationship of dependence and subjugation, with an eye on boosting ties with other Arab and foreign countries, Israel is busy disrupting such attempts. Furthermore, Israel does not seem to be willing to play the role of an industrial State seeking regional economic integration which would benefit

all countries in the region, regardless of the commitments to this effect included in the Jordan-Israel agreements.

In this context, it is in Jordan's interest to work towards strengthening its ties with Palestine and to make use of the trading, labour, touristic and investment opportunities covered in its accords with Israel, while at the same time paying sufficient attention to the need for reciprocity and raising issues that stand in the way of implementing the accords. This is simply one of the alternatives that may be taken into consideration along with others and is by no means an option to which Jordan should confine itself.

3. Setting up a Middle Eastern economic order

Talk of a Middle Eastern market started with the initial stage of the peace process in 1991. According to some definitions (among them the *American Encyclopedia*), the Middle East includes the Asian Arab States, Egypt, Libya, Sudan, and the non-Arab States of Turkey, Cyprus, Iran and Israel. In all there are 19 States, four of which are non-Arab, with a combined GDP of \$680 billion, half of which is accounted for by the Arab Middle Eastern countries. The total population of the area is 300 million, 56% of which are Arabs, with annual per capita income of \$2,287 (table 3).

The new aspect of reintroducing the idea of a Middle Eastern market is the possibility that Arab-Israeli economic relations will be normalized in the framework of the peace process. Economic ties linking other countries in the Middle East have long been stable, and nothing new is in the air to indicate that any economic integration process is under way. Apart from introducing Israel into the regional framework, the Middle East scenario is only a casting about for some alternative to the Arab regional order, in the hope that the new alternative would somehow include a driving force that has been missing in the Arab order.

Nevertheless, conditions for the establishment of a Middle Eastern economic order do not seem workable so far. A comprehensive and

durable peace in the region is an absolute prerequisite; it is impossible to imagine open economic relations between States in the regions, in particular *vis-à-vis* Israel, in the absence of peace. Peace prospects on the Syrian/Lebanese track have long been stalled, and the Palestinian track still awaits a resolution of differences over the final status issues. A second prerequisite for the establishment of a Middle Eastern economic order is closely linked to the peace process, namely, the Arab boycott of Israel, the continuation of which renders all talk of such an alternative wishful thinking. Moreover, immense economic disparities as regards per capita income, GDP, population size, and level of development will continue to raise the question of how to distribute the profits and gains that could be engendered by a Middle Eastern integration.

Based on all this, we do not expect a Middle Eastern economic order to materialize, in the short term or medium term, into a clear-cut framework for regional economic cooperation that would include setting up a free-trade area, a customs union or a common market. Furthermore, a broader membership to accommodate non-Arab States could incite additional differences over water, borders and other issues. Hence, it is hoped that normalized economic relations will ensue in the long run, after the aforementioned conditions have been met.

Jordan's position *vis-à-vis* this scenario is quite close to its stand towards the preceding option. The country continues to maintain good working economic relations with all Middle Eastern States, and Israel's incorporation into the regional context depends a great deal on the aforementioned considerations.

4. Establishing a Euro-Mediterranean partnership

In 1992, the European Union announced its new policy towards the Mediterranean countries, which is considerably different from that endorsed since the mid-1970s and which is based on economic cooperation agreements that granted some Mediterranean nations certain customs duty reductions on their industrial exports, exempted some of their agricultural products on a seasonal and limited-quantity basis from

regular tariffs and offered them financial assistance and loans according to financial protocols renewable every five years.

The Euro-Mediterranean Conference, held 27-28 November 1995 in Barcelona, with the participation of European Union and Mediterranean countries, approved a declaration outlining the principles on which the new policy will be based. These include finalization of Association Agreements between the EU on the one hand and every individual Mediterranean State on the other.

Agreements have already been signed with Tunisia and Morocco, whereas others with Jordan and Egypt are being negotiated.

Association Agreements seek to help in establishing a Euro-Mediterranean economic area, based on political, security, economic, financial, social and cultural cooperation. Major aspects of prospective economic cooperation include the following:

(a) Setting up a free-trade area between the EU and each Mediterranean State by the year 2010 that will initially cover EU industrial imports and certain agricultural products to be approved with each Mediterranean State. The latter in turn will be offering gradual customs exemptions for imports from EU countries.

(b) Cooperation in various economic fields, with a view towards incorporating the private sector into the process.

(c) Allocation by the EU of funds as assistance or loans to the Mediterranean States. Around \$12 billion was allocated on this basis for the period 1995-1999.

(d) Encouraging intraregional economic integration in the Mediterranean through the allocation of funds for financing joint regional projects and making the formation of a free-trade area a condition for cumulation of origin.

(e) Adherence to GATT 1994 agreements and sustained implementation of the given country's economic adjustment programme.

Table 5 gives some main EU economic indicators: total population is 365 million people, combined GDP is \$6,665 billion, and the average per capita income is \$18,233.

Table 5. Main economic indicators for EU States (1993)

State	GDP (billions of US\$)	Population (millions)	Per capita income (US\$)	Area (100 km ²)
Great Britain	819.0	57.99	14,145	245
Austria	182.1	7.9	23,046	84
Belgium	210.6	10.0	21,057	31
Denmark	117.6	5.2	22,613	43
France	1251.7	57.5	21,768	552
Finland	74.1	5.1	14,534	338
Germany	1,910.8	80.7	23,677	357
Greece	63.2	10.4	6,081	132
Ireland	43.0	3.5	12,275	70
Italy	991.4	57.1	17,362	301
Luxembourg	14.8	0.4	37,320	3
Netherlands	309.2	15.3	20,211	37
Norway	103.4	4.3	24,050	324
Portugal	85.7	9.8	8,741	92
Spain	478.6	39.9	12,116	505
Total	6,655.1	365.0	18,233	3,114

Source: World Bank, *World Development Report 1995* (Washington, D.C.: World Bank, 1995).

The attraction of this scenario involves the chance to benefit from the large market of the EU for Mediterranean (including Jordanian) exports and the financial assistance to be made available, as well as the chance to globalize on a gradual basis.

The implementation of Association Agreements will encourage direct European investment as well as tourism in Mediterranean countries. It may also help remove intraregional trade barriers, and it is in this context that a Jordanian-Egyptian free-trade area agreement is being contemplated.

However, under this scenario, Jordan would lose customs duties that currently account for 16% of government budget revenues, and local industries would be exposed to tough competition from similar European companies, driving some of them out of business. Moreover, this alternative is in contrast with the structure of the Arab regional order, as it includes some non-Arab countries while denying some Arab, even Mediterranean, countries the right to membership. It also seeks the integration of developing economies and advanced industrial economies; such a trend has recently achieved some success as evidenced in the North American and East Asian experiences.

5. Setting up an economic grouping with the GCC at its core

Following the 1980 Amman Arab Economic Summit, which outlined a common Arab development strategy and a joint Arab action programme, Arab Gulf countries set forth to establish a subregional economic council among themselves. The Iran-Iraq war had aggravated security apprehensions among the Gulf States, thus underlining the importance of coordination in political and security matters among the six States that founded the GCC in 1981. Despite the fact that economic cooperation is one of its major concerns, the GCC has achieved very little in the way of promoting economic relations among its member States.

The combined GNP of the GCC States stands at \$202 billion—that is, less than that of Belgium—and the total population of the six GCC countries does not exceed 24 million people, with a per capita income of \$8,427. The main feature common to the GCC economies is the predominance of oil exports, which provide for most of their imports, and their drastic dependence on foreign labour.

The GCC States are linked to neighbouring Arab countries, including Jordan, by deep-rooted economic ties in the spheres of trade, investment, development loans, assistance, labour and various other fields of cooperation. At the outset, the Council could have chosen to open its ranks to accommodate new members by granting observer status to some Arab States, with a view to becoming a core for a broader regional integration, but this was not done; nor does this scenario seem to be anyone's present or future concern. It has been introduced here simply as an example of the many options for regional economic cooperation that have not been sufficiently utilized.

It is nevertheless in Jordan's interest to boost economic ties with the Arab Gulf States regardless of whatever regional economic order is in the offing.

6. The absence of an effective economic grouping

In the light of this review of all possible scenarios, the most probable development is the continued absence of an effective regional economic grouping. The Arab world and other countries in the region are subject to influences by several forces in the context of global economic competition that will spill over into the forthcoming century, with Europe, the United States and Japan (together with China) as its protagonists. Arab States do not seem to endorse a unified position in the face of this polarization game; some are more apt than others to remain under American influence, while others are interacting with Europe and still others are somewhere in between. In addition, East Asian countries are now focusing attention on furthering their economic relations with all.

Arab countries continue to show little political ambition.

Based on these facts, Jordan's best interest lies in bolstering relations wherever possible. At the present time, the country's external trade with Arab States, the Middle East and Europe represents 25.5%, 30% and 26.6% of its gross foreign trade respectively (note that the first and second groups overlap). No alternative should be neglected, nor

should efforts be focused exclusively on one single option that may be impossible to realize.

D. SUMMARY

This paper has discussed possible scenarios for a regional economic grouping and the impact of each option on the Jordanian economy in the framework of a new regional and international environment. It has shown that prospects for establishing a new Arab regional grouping are meagre owing to a weak or non-existent political will to advance such a goal in addition to other adverse objective factors that further disrupt the prospects for its success. This by no means denies the importance of Jordan's economic interaction with other Arab States but, rather, underscores the importance of Jordan's choosing to further consolidate ties with them in an increasingly globalized climate of open-door interaction. This also applies to Jordan's economic ties with the GCC countries.

There are economic potentialities that could be realized within the framework of a tripartite arrangement comprising Jordan, Palestine and Israel, although it is hard to imagine such a framework developing into a well-defined economic grouping. Jordan's current drive for finalizing an Association Agreement with the EU and joining the World Trade Organization is one sure way to integrate the Jordanian economy into the international economy.

In the absence of an effective regional economic grouping, Jordan is advised to pursue the following approaches:

1. Continued implementation of the country's economic reform and structural adjustment programme in agreement with the IMF and the World Bank, while taking into account the social implications of this programme and seeking to minimize its adverse effects on the poorer and limited-income social strata.
2. Providing a climate in which private sector initiatives could contribute to investment, production and export efforts, by removing

obstacles contrary to the public interest and by combating the red tape and bureaucracy that are the main disrupters of private sector activities.

3. Promotion of economic ties with Arab States, particularly the GCC countries, Egypt and Iraq, as well as other countries in the region, by activating commerce, free-trade area agreements, the movement of labour, and joint development and intraregional projects.
4. Reconstruction of economic ties with Palestine, long jeopardized or strangled by the 1967 Israeli occupation.
5. Taking advantage of the prospects for exporting to the Israeli market.
6. Applying for World Trade Organization membership and entering into negotiations with it over adjustment requirements aimed at qualifying Jordan for entry, in particular requirements for lowering or eliminating customs duties on imports, implementing the agreements related to intellectual property rights, and liberalizing trade in services.
7. Continuing negotiations with the EU for an Association Agreement with Jordan in line with those between the EU and other Mediterranean States.

Commentary

Dr. Adib Haddad

I would like to begin by expressing my appreciation for the effort made by Dr. Tayseer Abdel Jaber in the preparation of this study, which expresses a clear awareness of the challenges facing the Jordanian economy. His study tackled some vital questions related to the preparedness of the Jordanian economy to cope with emerging issues and alternatives which the Jordanian economy will be compelled to handle with a high degree of competence and efficiency, and from among which it must choose with a view to deriving the greatest possible benefit. The scenarios mentioned by Dr. Abdel Jaber are no doubt realistic.

Before turning to the content of this study, I would like to say the following:

No doubt, the forthcoming decade will be a decade of challenge not only for the Jordanian economy, but also for the entire international economy, which has been witnessing unprecedented developments. These developments have been represented by the trend towards establishing giant economic groupings, by the liberalizing of international trade and by the fostering of greater economic openness, as well as by the huge size of currency flows among States; a trend towards privatization is evident also, and increased levels of foreign investment are being observed.

It is now obvious that economic history will record the forthcoming period as one that witnessed radical changes in international economic and financial situations, as well as in commercial and economic relationships among the various world blocs.

The study refers to the collapse of the socialist bloc, the end of the cold war, the international trend towards greater openness and economic liberalization and the end of the Arab-Israel conflict as an outcome of the peace process. These changes, viewed by economists as positive factors, do not inspire optimism, however. The coming period will witness economic conflicts among the giant blocs that could prove to be more fierce than military conflicts. These developments indicate the great

importance of international economic organizations such as the International Monetary Fund and the World Bank in running the world economy. Dealing with such changes, of course, will put additional burdens on these institutions.

As for the content of the study, the researcher failed to refer to certain characteristics of the Jordanian economy that stem from the new international economic developments; among the most important of these characteristics are the following:

- (a) The low level of investment in the different economic sectors and the low level of per capita GDP, which is a negative indicator of the level of economic welfare.
- (b) The permanent and chronic deficit in the balance of trade and in the State's general budget.
- (c) The increase in the phenomenon of poverty and in the rate of unemployment.
- (d) The persistence of the country's foreign debt.

The researcher considers financial and monetary reforms as being among the characteristics of the Jordanian economy. In fact, however, they are purely financial and monetary procedures undertaken in the context of the economic restructuring programme. As such, they cannot be said to characterize the economy.

In discussing monetary policy reform, the researcher neglected the important role played by the Central Bank of Jordan in reviewing financial and banking legislation through the banking reform programme. This programme includes the elaboration of a new comprehensive banking law that takes into consideration new methods of controlling banks and that aims at tightening control and identifying dangerous practices in banking operations so that they can be stopped before they become a full-blown problem. In the context of its monetary policy, the Central Bank

of Jordan has focused on building the country's reserves of hard currency in order to stabilize the exchange rate of the Jordanian dinar.

The researcher outlined six possible scenarios with regard to regional economic groupings that would be open to Jordan and that could possibly emerge in the coming period:

- (a) The establishment of a new Arab economic order.
- (b) The establishment of an economic triangle comprising Jordan, Palestine and Israel.
- (c) The establishment of a Middle Eastern economic order.
- (d) The establishment of a Euro-Mediterranean economic order.
- (e) The establishment of an economic bloc centred around the Gulf Cooperation Council.
- (f) The non-establishment of any efficient regional economic bloc.

I believe that the adherence of Jordan to any of these blocs raises many questions related to the possible developments of economic cooperation and the possible fields and terms of such cooperation; it also raises the question of whether there would be real regional economic growth rather than benefits accruing to one State at the expense of others. In other words, I believe that the adherence of Jordan to any of these blocs would entail both positive and negative consequences (though such blocs are not expected to emerge in either the short or the medium run). For example, if Jordan joins the economic triangle of Jordan, Palestine and Israel—or as it is commonly called, the Middle Eastern Benelux—the negative consequences would far exceed any advantages, given the fact that Israel will continue to dominate the Palestinian economy in the long run, and also given the close link between the Israeli and the Palestinian economies. To this might be added the huge discrepancies among these



three economies. The Israeli economy is enormous, with a volume of production exceeding \$65 billion, i.e., more than the collective production of the economies of Egypt, Jordan, Palestine, Syria and Lebanon. Per capita annual income in Israel is \$13,000 dollars, while it is only \$1,150 in Jordan. In addition, the Israeli industries are superior in quality and competitiveness. The industrial sector accounts for 31% of Israeli GDP, compared with 12% in Jordan. Industrial exports constitute 92% of total Israeli exports, which amounted to \$14 billion in 1994. It cannot be ruled out that Israel would control this economic triangle for its own benefit.

As for the possibility of establishing a new Arab economic order, Dr. Abdul Jaber has based his assessment of Arab economic integration on the disappointment he feels regarding the limited success and achievements of this experience. For example, inter-Arab trade remains very limited—8%-9% of total foreign trade. Investments in joint Arab projects amount to no more than \$40 billion, while Arab investments outside the Arab world exceeded this amount many times over.

On this point, I agree with the researcher. The collective Arab experience in this area was limited to free-trade zones at the beginning of the 1970s. Until the present time, the Arabs have no experience with customs unions. As for the other objectives on the agenda of Arab economic unity, they remain on paper.

In addition to what has been mentioned by the researcher, the failure of economic unity stems from the close links the Arab markets have with the international market at the expense of inter-Arab integration in the fields of production, investment and commercial exchange. Besides this, one might cite the absence of an inter-Arab perspective in national development plans, which leads to conflicting interests and to the disintegration of the internal market, and which also means that the projects to be implemented are chosen arbitrarily.

In the bleak light of this background, I agree with the researcher about the impossibility of witnessing the establishment of an effective Arab bloc any time in the near future, in particular considering the

deterioration of inter-Arab relations during the Gulf war and the domination that foreign powers exercise over this region.

The establishing of an economic bloc centred around the Gulf Cooperation Council is likewise an impossibility, owing to the natural and financial resources within the Arab Gulf States that are behind American and foreign pressures to divide the GCC countries; any move or scenario that could endanger their control over these resources would be vigorously opposed.

I am also not optimistic regarding the establishment of a Middle Eastern economic order. In principle, a Middle Eastern order would take into consideration the geographical proximity among the Middle Eastern countries, thus neglecting the inter-Arab nature of the relationships between Arab States within the framework of the Arab League. In other words, this would act to sever the Arab organic link, in order to reshape the area into geographical groups easy to dominate. No one can say what would happen if such a geographical group were expanded to include neighbouring countries such as Pakistan, Afghanistan and others. One barrier to the realization of this scenario is the absence of a clear vision of the concept of Middle Eastern economic cooperation.

My own choice is for the Arab alternative, because it relies on the Arab links of common language, history and culture, regardless of the current Arab political differences. The question to be raised here is: in what way could we achieve a new Arab economic bloc? Would the starting point have to pass through a customs agreement among the Arab States, or through the creation of a free-trade zone?

The answer to these questions should motivate the Arab nation to move decisively in order to foster Arab cooperation to serve the common Arab interest, despite the political obstacles. To this end, the Arab States should ask a group of Arab intellectuals to study the possibilities and means of building a future perspective for common Arab economic action to serve the aspirations of the Arabs. The establishment of an Arab economic bloc would no doubt enhance the negotiation capacity with the

other world blocs, and would spur all Arab countries to build up their domestic economic power in order to compete in the international market. In addition, the Arab alternative could play a major role in creating a new Middle Eastern economic order.

As for the future of Jordan's economy, I believe that there are additional factors that are not less important than the scenarios mentioned in the study. Among the most important of these, one might mention the high degree of preparedness of the Jordanian economy to deal with the challenges it will have to face. Given the fact that challenges will emerge and endanger the Jordanian economy in the long run, we should begin immediately to adopt the economic measures and mechanisms that would allow us to enhance the efficiency of the Jordanian economy, focusing on those economic sectors that need to be developed in order to make the country more competitive. Among the measures to be adopted: the development of production, the improvement of quality through the application of international standards, the introduction of up-to-date technology in all fields of production, and the development of marketing strategies.

Accordingly, given the impossibility of putting in place an effective Arab economic order for the reasons mentioned above, new, limited blocs could be established, and old blocs could be revived, for example the Arab Cooperation Council. The important thing to keep in mind is that the Jordanian economy is closely linked to the economies of the neighbouring Arab countries and is affected positively or negatively by these markets. This should motivate Jordan to open up again the channels of communication with its Arab neighbours so as to open the export market for Jordanian industry and for the Jordanian labour force, and to attract tourists from these Arab countries. This could alleviate many problems from which the Jordanian economy suffers, such as unemployment and low levels of real economic growth.

I believe that pursuing such an alternative should be our priority for the short and medium run. As for the long run, we should work on enhancing the readiness and efficiency of the Jordanian economy so that we will be in a position to take full advantage of the situations mentioned

by the researcher, such as the Euro-Mediterranean Association Agreements, and we should try to penetrate the Palestinian and Israeli markets. As for penetrating the international market and trying to be competitive there, the possibilities are limited at the present time.

We should mention some essential points which could constitute opportunities for the Jordanian economy and which could allow it to promote its position in the face of possible regional economic blocs. These include the following:

1. The economic ties linking Iraq and Jordan should not be neglected, especially on the eve of the opening of the Iraqi market in the wake of the Security Council resolution allowing Iraq to export limited quantities of oil. Consequently, we should have alternative mechanisms to deal with the Iraqi market as one of the major export markets for Jordan, regardless of the continuity of the present Iraqi regime.
2. It is obvious that Jordan is on the path of developing cooperation with the countries of the European Union, thus foregoing the option of looking further and seeking links and commercial relations with the new giant Asian blocs, especially Japan. This deprives Jordan of the opportunity to attract investment from these countries and of the chance to benefit from their experience and their markets.
3. Negotiations on the Syrian and Lebanese track will one day end in a solution. Syria will then find itself in total harmony with a Jordan reconciled with Egypt and with the Gulf States. We should therefore anticipate a new scenario linking Jordan and neighbouring countries, including Syria, Iraq, Egypt and Lebanon. Jordan could put forward a good argument for playing a central role in such an arrangement in the form of its geographical location among these States, and this would solve the crisis of the tiny Jordanian domestic market.
4. Jordan should focus in its new agreements on finding new outlets for its main resource—educated skilled manpower—much of which has

remained unemployed following the loss of thousands of jobs in the Gulf owing to the outbreak of the Gulf war.

5. Jordan's trend towards concluding bilateral trade agreements with Arab countries could open their markets to Jordanian goods, with fewer stipulations and restrictions than those imposed upon Jordanian goods by the EU countries. Furthermore, opening the Jordanian market to the goods of Arab countries would reduce Jordan's imports from foreign (that is, non-Arab) countries.

6. Bilateral, regional or international free-trade agreements would penalize local industry and would reduce the State's revenue from customs duties. The solution proposed here, therefore, is to take advantage of the loans granted by these blocs and countries in order to introduce a radical transformation in the mode and quality of local production and to create an investment environment aiming at attracting investment from these blocs and countries in order to establish a solid industrial base that could benefit from the forthcoming liberalization of trade.

7. Despite the general Arab failure to create a bloc or to establish comprehensive Arab economic integration, the choice of Jordan to join any economic bloc of Arab countries would have a real economic benefit. An Arab economic bloc would be a tool for Middle Eastern regional development. The rebuilding of joint Arab action, within the framework of the Arab League institutions, would isolate Israel as a foreign country in the region, which would be treated the same as any other foreign country we deal with, such as Turkey, Iran or Cyprus. The lesson that all Arab countries should draw from their experience of past years is that their cooperation constitutes the best means to face the future. It is time for the Arab countries to rid themselves of their dependence on the industrial countries, who continue to exert a great deal of pressure on them.

The political and economic decision makers in the Arab countries should have the goodwill and the determination necessary to overcome the huge obstacles in the way of setting up an Arab economic grouping.

Establishing such a grouping could be brought about through their disseminating a spirit of awareness and true democracy among their people so that they could be enabled to participate effectively in the achievement of the greater, pan-Arab goal. Our hope is that the future generations will achieve the integration and Arab economic unity that the current and the past generations believed in and dreamed of.

Chapter Three

Arabs and the Water Crisis:
Current Situation and Future
Perspectives

Dr. Zaki Hannoush

Management of Water Resources
in Jordan and Future Challenges

Fawzi Abu Na'aj

The Agricultural Sector of
Jordan and Future Challenges

Dr. Salem Butrous Maqtash

Dr. Yusef Hayagneh

Commentary

Dr. Suleiman Arabiyat

ARABS AND THE WATER CRISIS: CURRENT SITUATION AND FUTURE PERSPECTIVES

Dr. Zaki Hannoush

I. THE CURRENT SITUATION OF WATER IN THE ARAB WORLD

The Arab States have finally started to examine the extremely important, but until now neglected, issue of water. Unfortunately, they only began to give priority to this issue after it had become evident that the outlook was bleak. The opportunity still exists for the Arab countries to catch up, however, if they have the will to do so.

Unlike the Israelis, the Arabs have a long-held belief that water resources are unlimited, inexhaustible natural resources. This belief is scientifically unfounded but is based on metaphysical thinking that emphasizes the concept of predestination. Consequently, only peripheral attention was traditionally paid to this issue in planning for development projects. However, the tremendous growth in population, the excessive levels of water consumption by the various sectors of the economy as well as by households, coupled with the emergence of new water crises in various parts of the world, prompted the Arabs to discover belatedly that Israel had been giving water the same level of attention as that of military power and territorial conquest. In fact, the country's military conflict and drive to occupy more land were originally motivated by the quest for more control over water.

In recent years among the Arabs there has been a radical change at both the country and pan-Arab levels, in thinking regarding the importance of water, following a long period of lack of awareness of this problem. Much has been said about the vital importance of water security although there has been no coordinated effort to tackle the problem.

Water security is one of the most important concepts of our time; it figures nowadays as a prominent item on virtually all economic and political agendas. Water security involves knowledge about water resources in terms of reserves, diversity of sources, means of exploitation,

and suitable methods for improving quality and for guaranteeing water availability so as to respond to the various demands for water, such as household consumption, agriculture, industry and ecological equilibrium. In brief, water security has become synonymous with other fields of security. A study on the Middle East conducted by the Washington-based International and Strategic Studies Center shows that the region is on the verge of major, unprecedented disturbances,¹ in particular considering the fact that most parts of the Arab world are situated in zones characterized by a hot and arid tropical climate. More than 14 Arab countries are under the poverty line for water.² It should be noted that the Arab world receives nearly 65% of its surface water from neighbouring countries. For some Arab countries, this rate amounts to 98.5%.³

One study shows that the per capita share of annual rainfall in the Arab world is 1,300 cubic metres, and that the annual per capita share of renewable water resources is around 1,745 cubic metres; the world per capita average is around 12,900 cubic metres.⁴

Not only are the available water resources in the Arab world relatively scarce, they also tend to be of poor quality. Theoretically, the

¹ Ibrahim Ahmad Said, "Al-amn al-maa'i wa-strategiat al-iktifaa' al-thaati fil-watan al-Arabi" (Water security and a strategy of self-reliance in the Arab world), *Shu'oun Arabiya* (Arab affairs) (Cairo), No. 71 (1992), pp. 66-67.

² The countries which are above the line of water poverty are Syria (with reservation), Iraq, Sudan, Oman and Mauritania. However, it is expected that the amount available to some of these countries will decrease during the next decade. The other Arab countries are all below the line of water poverty.

³ Munthir Haddadin, "Al-ahmiyat al-istratijiah lil-miyaah fil-aqtaar al-Arabiya" (The strategic importance of water in the Arab countries), Water Research and Study Centre, University of Jordan, Amman, 1989.

⁴ Jan Khouri and Abdullah al-Daroubi, "Al-mukhattat al-qoumi lil-amn al-maa'i al-Arabi bil-manaatiq al-jaafa fil-watan al-Arabi" (Pan-Arab planning for water security in the arid regions of the Arab world), *Majallat al-Ziraa'a* (Journal of Agriculture) (Damascus), No. 11 (1990), pp. 6-10.

maximum potential of these resources was estimated at 352 billion cubic metres to 394 billion cubic metres. However, with the current state of modern knowledge, it has been possible to estimate the potential more accurately, at 275 billion cubic metres, including 235 billion cubic metres of surface water and some 40 billion cubic metres of renewable groundwater.⁵

According to the estimates of various researchers and research centres, by the 21st century, demand for water will amount to nearly 368 billion cubic metres. This means that even the aforementioned theoretical estimates will barely meet demand. With the increase in demand arising from population growth and the increasing diversity of water use in the first quarter of the 21st century, the demand for water will not be matched by a similar level of supply. Arab countries will face a serious water deficit.⁶

The problem to be noted here is the uneven distribution of these resources within the Arab world. For example, half of the rainfall is concentrated in Sudan, whose area represents only one sixth of the total land area of the Arab world. Meanwhile, the three Arab countries Egypt, Iraq and Sudan have 70% of the total surface water, while the remaining

⁵ Kamal Hamdan, "Al-mawaarid al-maa'iya al-Arabiya wal-mutaghayirat al-dawliya" (Arab water resources and international changes), *Al-Tareeq* (The path) (Beirut), No. 1 (1995), pp. 85-96.

⁶ One of the most pessimistic studies carried out so far shows that annual renewable fresh water resources (rainfall, groundwater) of the Arab world amounts to 132 billion cubic metres, representing 0.32% of the planet's fresh water. If we add to these resources the water drawn from rivers, the total available fresh water amounts to 294 billion cubic metres, representing 0.72% of the world's fresh water; however, the Arab world represents 9.4% of the world's area. If fresh water were evenly distributed, the Arab region's annual share would be 1,098 billion cubic metres according to the physical area it covers. The Arab per capita fresh water share represents 8.5% of the world per capita share. The study further says that if annual consumption of fresh water in the Arab world were 251 billion cubic metres, the deficit would be 83 billion cubic metres. See Amin Hamed Mash'al, "Al-Arab wa azimat al-miyaah" (The Arabs and the water crisis), *Al-Arabi* magazine (Kuwait), No. 445 (1995), p. 26.

30% is distributed among all other Arab countries. It is noteworthy here that the element of time itself has left a devastating impact on the available river water; international measurements show that the volume of water in the Tigris and the Euphrates rivers has receded by one third since the beginning of this century, while the Jordan River lost half of its resources during the same period. Therefore, any attempt to assess water resources over the long run should take into consideration the negative effects of evaporation and successive years of drought. This also applies, to some extent, to the distribution of the region's renewable underground resources. The data on the distribution of available resources according to population shows disparity and a low per capita share with regard to these resources.

The Arab per capita share of water is expected to drop further, by 30% by the end of this century and by 50% by the end of the first quarter of the next century, while demand will increase dramatically during the coming decades, owing to the increase in the population of the Arab world, which doubles every 25 years on average. The Arab world now has 241.2 million inhabitants, and this figure is expected to rise to 291.2 million by the year 2000, to 440 million by the year 2015 and to around 700 million by the year 2030.

Table 1 shows the World Bank's estimates of the per capita share of renewable water resources in the Arab region in the year 2025 compared with the levels during the period 1960-1990.

The per capita share of water in the Arab world will be much less than the average per capita share in most—if not all—the countries of the world, according to the estimates of the Food and Agriculture Organization of the United Nations (FAO), with the exception of a limited number of Arab countries. Fourteen Arab countries out of a total of 26 will be classified as water-poor (table 2).

Table 1. Evolution of the per capita share of renewable water resources in the Arab region
(Cubic metres)

Country	1960	1990	2025
Algeria	1704	737	352
Egypt	2251	750	645
Iran	5788	2152	1032
Iraq	14706	5285	2000
Israel	1024	467	311
Jordan	529	190	91
Lebanon	2000	1407	809
Libya	538	160	55
Malta	100	75	75
Morocco	2560	1185	651
Oman	4000	1333	421
Saudi Arabia	537	140	49
Syria	1196	550	161
Tunisia	1036	450	319
UAE	300	240	130
Yemen	481	240	72

Source: *Al-Sharq Al-Awsat*, 1996.

It may be useful to summarize the findings of some other studies concerning this problem.⁷ At the Amman Economic Summit, held in Jordan from 29 to 31 October 1995, the Deputy Director of the Middle East Division at the World Bank spoke about the consequences of the lack of water resources on development in the Arab region. He pointed out that the most recent estimates of the World Bank indicate that seven countries in the region were now compelled to use 100%, and even more, of their non-renewable water resources every year. Other countries in the

⁷ It seems obvious that there should be differences in the assessments of these studies. However, they all agree that the Arab world is already experiencing a water crisis. Accordingly, the figures mentioned in this context could be considered as indicative of the seriousness of the Arab water crisis.

region, such as Egypt and Israel, use nearly 90% of their non-renewable water resources. Sanitary potable water is not available to some 60 million Arabs. Meanwhile, the annual per capita share of available water in eight countries of the region is less than 500 cubic metres, which constitutes an obstacle in the face of any aspect of economic development.⁸

The above findings were confirmed by a study conducted jointly by ESCWA and FAO (*Al-Sharq Al-Awsat*, 1995). The study concludes that the shortcomings of water policy in many Arab countries have contributed to a seriously lower level of groundwater aquifers. In some cases, water pumping has even become a non-economical operation. Overpumping of groundwater has led to encroaching desertification in many Gulf countries. According to the study, among the most important reasons for overpumping are inappropriate technology, subsidized loans (which encourage the digging of wells) and the uneconomic, low price of water.

A study conducted by the National Center for Research in Egypt assessed Arab water reserves at approximately 300 billion cubic metres annually, with only 170 billion cubic metres available. This means that water shortage in the Arab world has now reached some 43% of demand.⁹ In the same context, 1993 research conducted by the Arab Center for the Study of Arid Regions (ACSAD) indicates that the total demand for water, for all the various types of uses, is expected to amount to 368 billion cubic metres by the year 2000. This demand will increase to 620 billion cubic metres by the year 2030, that is, an overall deficit of 282 billion cubic metres in the water supply.

⁸ ESCWA/FAO study referred to in *Al-Sharq al-Awsat* 1995, Da'wa li-tahreer as'har al-miyaah wa-taqils al-tawasut al-ziraa'iyya, No. 6332.

⁹ *Al-Hayat* magazine, "Al-amn al-Arabi min manzour iqtisadi" (Arab security from an economic perspective), review of a book by Omar Abdullah Kamel, No. 12030 (1996).

Table 2. Water-poor countries, 1992*

Country/region	Renewable water supply (m ³ per capita)	Population (millions)	Years to double population
Algeria	730	26.0	27
Botswana	710	1.4	23
Burundi	620	5.8	21
Cape Verde	500	0.4	21
Djibouti	750	0.4	24
Egypt	30	55.7	28
Kenya	560	26.2	19
Libya	160	4.5	23
Mauritania	190	2.1	25
Rwanda	820	7.7	20
Tunisia	450	8.4	33
<i>Middle East</i>			
Bahrain	--	0.5	29
Israel	330	5.2	45
Jordan	190	3.6	20
Kuwait	--	1.4	23
Qatar	40	0.5	28
Saudi Arabia	140	16.1	20
Syria	550	13.7	18
UAE	120	2.5	25
Yemen	240	10.4	20
<i>Other countries</i>			
Barbados	170	0.3	102
Belgium	840	10.0	347
Hungary	580	10.3	--
Malta	80	0.4	92
Netherlands	660	15.2	147
Singapore	210	2.8	51
Total population			231.5

Source: Ali Hussein Hajjaj and Muwaffaq Saqqar, *Al-Waahat al-Akheera: Muwaajjahat Nadrat al-Miyaah* (The last oasis: facing up to the scarcity of water), (Amman: Dar al-Basheer, 1994), p. 29.

* Countries whose per capita share of renewable water supplies is less than 1,000 cubic metres. This rate does not include water flowing from neighbouring countries.

Based on this reality, and in an attempt to explore the future prospects with regard to this subject, the London-based Centre for Strategic Studies predicts that the Middle East will, in the coming years, witness a war for the control of water resources. This crisis could occur before the end of this century, thus leading to the destruction of the already fragile relationships among the countries of the region and provoking an unprecedented conflict.

II. WATER: A FUTURE STRATEGIC GOAL FOR ALL COUNTRIES OF THE ARAB REGION

Throughout the past few years, numerous conferences have been convened in the Middle East and in other parts of the world to discuss the issue of water resources in regional and international contexts. In spite of the divergent approaches taken by these conferences, they have been unanimous in their conclusion that in the next two decades the issue of water will constitute a threat to many countries located in arid or semi-arid regions and that this issue will lead to political and perhaps military conflict. Such conflicts could particularly afflict the regions whose countries must share water resources. According to Kamal Hamdan,¹⁰ the Middle East region, with its African and Asian extensions, is considered a particularly vulnerable region.

Given the current situation, it is natural that achieving water security will be one of the most important strategic goals for all the countries of the region. It might even become an absolute priority for them, especially after the dismantling of the war machine after the implementation of the peace process and the relevant peace treaties, including those signed and those to be yet signed.

Four possible scenarios related to the strategic goals of the countries of the region with regard to water are presented below.

¹⁰ Hamdan, *op. cit.*

The First Scenario

It is well known that Israel already controls huge quantities of the water of the Jordan and Yarmouk rivers in its attempt to cover its water shortage, a shortage which will increase by the end of this century. It also controls other water resources in the West Bank and Gaza Strip and in the Golan Heights.

In 1964, Israel constructed the National Water Bridge, which links the lake of Tiberias with the Negev desert. Studies conducted have shown that more than 55% of water consumption in Israel comes from regions located outside the 1948 borders.¹¹ This kind of situation will mean that Israel will insist on exercising effective control of these water resources as a current and future strategic goal. In fact, this was the same goal set by the various Zionist congresses even before Israel was created as a State in the region.¹² This objective was extremely obvious during the multilateral peace negotiations: the Jordan-Israel agreement gave Israel the right to keep its current share of the water of the Jordan River, against an equal share for Jordan, and gave a limited formal recognition of the sovereignty of Jordan over Jordanian territory leased to Israel. It is worth noting that this agreement was concluded in the absence of the other concerned party, Syria.¹³

¹¹ Hamdan, *op. cit.*

¹² The Jewish State desired by the leaders of the Zionist movement was a water State, extending from the Nile to the Euphrates. The issue of water unifies all Israeli leaderships and successive governments, whatever their ideologies or political leanings might be. The control of water resources has always been the undeclared objective of the Hebrew State. One American expert says that if we look at the map of Jewish human settlements in Palestine before the creation of the State of Israel in 1948 and the maps of Jewish settlements in the 1967 occupied Arab territories, we can understand the importance which Israel attaches to the issue of water.

¹³ Hamdan, *op. cit.*

The Second Scenario

The Euphrates River flows across three countries—Turkey, Syria and Iraq. Turkey has erected many dams without prior consultation with its neighbours. The danger comes from the south-east Turkish project in the Anatolian region, called GAP, which aims at achieving a strategic goal. Through this project, Turkey seeks in fact to play again a major political and economic role in the region and, by the same token, is simultaneously making an effort to solve some of its internal problems, including its economic, social and political problems (among them inflation, unemployment, poverty, explosive contradictory ideologies and political conflicts).

This programme will allow the agricultural exploitation of some 1.8 million hectares of land, that is, about one fifth of the country's arable land. It will also make possible the annual generation of 27.7 billion kilowatt-hours of electricity, as well as the creation of 1.6 million jobs through the construction of 21 dams and 17 power stations on the Tigris and the Euphrates. All these projects will constitute a network of development projects in the fields of agriculture, industry, health, education, transportation and communication.

We believe that although the realization of this project would constitute a major qualitative development for Turkey, it could not serve as a workable strategic objective, given the fact that Turkey also has the ambition to supply the neighbouring countries with their demand for agricultural and industrial produce.

Besides this project, we must also take into consideration the "water pipeline peace project", which will carry some 6 million cubic metres of water daily to Syria, Jordan and the Gulf States. The project is momentarily frozen, but it could be revived at any time in light of the progress achieved in the Arab-Israeli peace process. The water pipeline project will make Turkey a genuine bread basket and water reservoir of the whole region. Could a project be more ambitious than this one, to be pursued by a country such as Turkey, which is embroiled in political,

economic and social difficulties, but which still seeks to play a leading role in the Middle East?¹⁴

Considering Turkey's ambitious strategic objective, Iraq and Syria have no choice but to set their own strategic goals *vis-à-vis* water security, particularly since future water shortages, according to the remarks made in this conference, could endanger the economic, military, social, political and national security of both countries.

The Turkish project necessarily means a reduction in the quantity of water allocated to Syria and Iraq, from 30 billion cubic metres to some 12 billion to 13 billion cubic metres annually. The flow of the Euphrates will thus be reduced by half or more. The remaining quantities will only irrigate a small percentage of the Syrian Euphrates basin, while Iraq will suffer deprivation, if not outright catastrophe. Syria's share will drop by more than 40%, while Iraq's share will drop by some 80%. Furthermore, as a consequence of the construction by Turkey of dams on the Tigris River, Iraq will lose 50% of its water share in this river.¹⁵

To this, one can add the degradation of the water quality owing to the use of water on the Turkish side for irrigation, agriculture and industry. Thus, Iraq and Syria will suffer not only from the reduction in their share of water, but also from the pollution of the greatly reduced quantity of water flowing to them, with all the devastating consequences that this will have for the environment.

¹⁴ Ghassan Dimashqiya, *Azmat al-siraa' 'alal-miyaah fil-muntaqat al-Arabiya* (The crisis of the struggle over water in the Arab region), (Damascus: Al-Ahali Publishing and Distribution, 1994), pp. 61-117.

¹⁵ Jalal Abdullah Ma'wad, "Turkiya wal-amn al-qawmi al-Arabi—al-siyaasa al-maa'iyah wal-aqliyat" (Turkey and the security of the Arab nation—water policy and minorities), *Al-Mustaqbal al-Arabi* (The Arab future) (Beirut), No. 160 (1992), p. 97.

The Third Scenario

The third scenario is similar to the first two scenarios mentioned above, but involves a different geographical location. Achieving water security is a strategic goal for Sudan and Egypt alike and is a high priority in their respective national agendas. The Nile River flows through nine African countries to reach Sudan and then flows into Egypt, carrying some 95 billion cubic metres of water annually.

The continuously increasing demand for water from the Nile, and the increasing number of dams erected on this river, as well as population growth and environmental problems, could lead to conflict. The problem is more than acute for Egypt, which consumes its entire share of Nile water (some 55.5 billion cubic metres). The Nile remains virtually the only source of water for the country, and Egypt is completely dependent on it. Moreover, Egypt's demand on this, its sole source of water, is expected to reach some 75 billion cubic metres by the beginning of the next century.

Sudan's share at present amounts to some 18 billion cubic metres of water. In light of the country's plan to double the irrigated areas from 4.5 million to 9.5 million feddans, its water needs will increase to an annual average of 40 billion cubic metres.¹⁶ Because water is the basic element of life, which means that it is a basic factor of development, civilization, health and everything else, there can be no strategic goal that is more important for Egypt and Sudan than achieving water security. It is important enough that it could prompt the two countries to resort to any means, regardless of the cost, to avert any threat¹⁷ to this source of life

¹⁶ Hamdan, op. cit.

¹⁷ Between 1958 and 1964, the U.S. administration made available to Israeli water experts a 17-volume study related to strategic water around Ethiopia and the Nile and dealing also with the topographic nature of the region. In 1990, Israel sent dozens of water experts to Ethiopia. These studies had been originally described as a response to the High Dam project in Egypt. In these studies, the American administration proposed to Ethiopia

or even to try to increase their shares. For all these reasons, achieving water security has become the most important strategic goal for both countries.

The Fourth Scenario

Among the critical transformations that the world has recently undergone, the most important are the disappearance of the bipolar world order, the outbreak of the second Gulf war, and a further imbalance of power in the Arab region, in which the Arabs continue to be at a disadvantage. All these developments could one day lead to conflicts aiming at the control of water resources. Turkey, for example, seeks again to play a key role and to dominate the Middle East. The same thing is true of Israel, which has managed, after half a century of conflict, to impose on the region its own vision of economic-political hegemony to replace its old vision of direct geopolitical control of the region. The economy (and water is part of the economy) has become the natural domain where Israel can exercise its influence to dominate the region.

Israel differs radically from its Arab neighbours in its approach to the implementation of its plans and projects. It clearly has a strategic, strong ally, the United States of America. Despite the peace process, this ally, which is sponsoring the current peace process, has always tried to maintain Israel's superiority over all the Arab countries of the region combined.

In brief, the United States is evidently trying to integrate Israel into the Arab region as a natural member of the Middle Eastern order; in this capacity, it enjoys an advantage owing to its technological superiority; the United States is also attempting to strengthen the role of its ally Turkey in the proposed Middle Eastern order.

the construction of 16 dams and reservoirs that could dramatically reduce the flow of the Blue Nile by an amount of 4.5 billion cubic metres, at the expense of the shares of Egypt and Sudan.

Clearly this complex situation has given rise to a conflict of interest over water security between the Arabs and Israel, which still controls part of the water resources of neighbouring Arab countries. Meanwhile, Turkey controls the flow of the Tigris and Euphrates rivers to Syria and Iraq, and 84% of the water of the Nile River flows through Ethiopian territory. One cannot overlook the advanced degree of coordination between Israel and the United States, with the help of Ethiopia and its neighbours, to use the Nile as a political card to exert pressure on Egypt and Sudan, exactly as Turkey may do to exert pressure on Syria and Iraq.¹⁸

These four scenarios could have serious consequences for the Middle East region. During the coming decade, water issues involving the three principal river basins (the Jordan River, the Nile River, and the Tigris and Euphrates rivers) would either become a factor of unprecedented cooperation or a factor of unprecedented destructive conflict.

In this regard, given the scarcity of water resources in the region, it may be necessary to deal with the issue of water on a purely economic and commercial basis, i.e., water should be considered merchandise with a market value, exactly as oil is.

Such an idea would qualify water to play a key economic role by the Middle Eastern States who control water resources. It is certain that progress in economic and social development, coupled with rapid population growth, will multiply the demand for water and will consequently shift the centre of economic power to those who own the water—that is to those who are in control of one of the most essential factors of development and the key to the future power.¹⁹

¹⁸ Hamdan, op. cit.

¹⁹ Ahmad Zein ed-Din, *Azmat al-Miyaah fil-Sharq al-Awsat* (The water crisis in the Middle East) (Paris: Centre for Arab-European Studies, 1994) No. 21.

These conclusions are supported by a study conducted in the early 1970s by the Washington-based Center for Strategic and International Studies, which focused on the role of Middle East water resources in future regional conflicts. At the time, Washington alerted both Israel and Turkey that in the decades to come the owner of water could control those who drink it. The study remained secret till 1988, when the Center tried to warn the countries of the region that water would become more valuable than oil and would also become a factor in generating conflicts never before witnessed by the region.²⁰

III. NEEDED: AN ARAB VISION OF THE WATER CRISIS

If we are to forecast the future concerning the water situation in the Arab world in light of the rapid political and economic transformations that have been taking place in the region, we must formulate a comprehensive vision of the strategies and plans needed. We also need concerted efforts aimed at finding new ways to exploit the common water basins and aquifers, including underground and surface water, and we need to implement a long-term plan aimed at rationalizing the various uses of water.²¹

It is essential to formulate effective Arab water policies in order to meet the challenge of present and future water security. This can only be done by linking water policies to the general political situation in the region so as to muster the ability to face the other countries who, if they are not actually enemies, are at least competitors pushing for their own interests. In this regard, one can refer to the following factors:

²⁰ ESCWA/FAO study.

²¹ Sabri Said, "Hisar al-miyaah al-iqtisadi" (The economic water embargo) *Al-Ahram al-iqtisadi* (Economic supplement to Al-Ahram newspaper), No. 1279, 1993.

1. *The contradictions involved in the current Arab water policies*

Enemies and competitors, pressure and interest groups, all deal with the Arabs as a one single nation. They assume that there is a certain degree of coordination in Arab policies. The statements we Arabs make to this effect encourage this impression, and others build their strategies to face the Arabs as a presumably united entity. The sad fact is that the Arabs are a "dispersed centre", because we claim to be one single nation, we have an Arab League, we issue joint resolutions, and yet these are only conventions on paper, agreements that have never been implemented.

Arabs should have a common and coherent vision of the water crisis despite all their differences and contradictions. Only through such a coordinated and concerted water policy can the Arabs cope with the challenges and designs confronting them at the regional and international levels.

The following are examples of contradictions among Arab States over water policy.²²

(a) Jordan and Saudi Arabia are waging an undeclared conflict over the groundwater basins and aquifers common to these two countries. This water is used by Saudi Arabia in its agricultural projects, which leads to shortages of water and rationing in the Jordanian capital of Amman.

(b) Iraq, expressing dismay, has accused Syria of using excessive amounts of the Euphrates water crossing into the Syrian territory, at the expense of Iraq's share of this resource. Syria seems to be doing this in order to reduce its dependence on the water of the Jordan River.

(c) The Jordanian-Israeli peace agreement, as well as the arrangements for utilizing the water of the Jordan River, was concluded

in the absence of the third directly interested party, Syria, which also has rights to this water. In fact, no bilateral agreements should have been concluded in Syria's absence.

(d) Relations between Egypt and Libya could deteriorate at any time because Egypt suspects that the water feeding the Great Libyan River comes from groundwater aquifers 30,000 years old that extend under Egyptian territory. Egyptians fear that the Great River could lead to an increase in the salinity of their lands, or at least could divert the course of the Nile River.

(e) There is an almost permanent state of tension between Egypt and Sudan regarding the Nile River. It is unfortunate but logical that in the absence of a unified Arab stand, countries such as Turkey and Israel will take advantage of the situation to pit one Arab country against another *vis-à-vis* water rights, by proposing that Arabs seek their water rights from their Arab neighbours before obtaining these rights from non-Arab neighbours.

All these disputes exist because there is a lack of a common Arab vision and policy, whether at the national or the regional level. It even seems sometimes that the Arabs are acting against their own interests, especially when in 1959 Israel started to divert the tributaries of the Jordan River. At that time, the Arabs kept themselves busy with the meetings of their Arab League, the convening of their Arab summits, the formation of their advisory bodies, military commands, and defence councils, and the formulation of their joint projects to exploit the water of the Jordan River. Meanwhile, Israel was pursuing the implementation of its plans. The Arab project in southern Syria faced a tragic end in the 1967 Arab-Israeli war when Israel occupied the project site in southern Syria and seized its machinery and equipment. As a consequence, all the water and tributaries of the Jordan River are now in the hands of Israel.

²² John Bulloh and Adel Darwish, *Water Wars: Coming Conflicts in the Middle East* (London, 1993).

2. The Arab deterrence

This term does not necessarily mean military deterrence, i.e., preparation for war, despite the fact that such a possibility exists. Furthermore, the peace negotiations do not mean that non-military forms of deterrence cannot be used. In the context of negotiations that ultimately lead to agreements, there is usually the element of pressure and blackmail, which requires some form of deterrence as mentioned by Kilani.²³ The current Arab water situation is vulnerable: the daily needs of the Arab world for water are on the rise; there is a huge gap between what is available and what is needed, between supply and demand; there is a need to provide the necessary quantities of water for country and pan-Arab development plans; and there is also an urgent need to cope with the increasing rate of population growth in the Arab world. All these factors mean that the Arabs must face the water crisis with a pan-Arab, global vision and with policy aimed at resolving the issue of water security within a pan-Arab context.

Dependence on the military balance of power does not constitute the major or only basis of Arab water security, especially at this time of peace negotiations. Arab deterrence is probably the best way to safeguard this security. In other words, water security should be associated with social and national security. Peace is not enough. It should be supported by economic, social and political strength. The coming battle for water will not be exclusively military, but rather a battle involving legal, political, scientific, cultural, economic and social aspects. This is what the Arab vision has failed to see and to understand.

Arab deterrence is the only means available to persuade all neighbouring countries, without exception, that they should act with fairness in this field, and that they should not encroach upon Arab water rights.

²³ Haitham Kilani, "Al-miyaah al-Arabiya wa-ma'rikati al-atmaa' wa-tahadiyat" (Arab water and the battle of greed and challenges) *Al-Kifaah al-Arabi* (The Arab struggle), No. 742 (1992).

3. Correcting the Arab way of looking at water resources

As we have seen, the scarcity of Arab water resources, the ever-increasing levels of water consumption, and the need to supply the agricultural areas with sufficient quantities of water so as to achieve self-sufficiency²⁴ in food production, as well as the development of the industrial sector, which also depends on water, all require an initiative to correct Arab attitudes and vision regarding the question of water. Among these are the following:²⁵

(a) Both formally and informally, people deal with water resources as if they were renewable. This outlook is a manifestation of a lack of development and progress in this sector as well as a lack of qualified human resources. It also indicates a poor state of maintenance and control, an imbalance in pricing policies, a disregard for the water that is so carelessly wasted, a poor state of water networks and a lack of consideration of cost-effectiveness and investment efficiency.

(b) Some Arab countries have resorted to non-traditional water sources. However, the enormous expenses involved in such an approach precludes any cost-effective production of water.

(c) The aforementioned Arab deterrence requires a mechanism for dealing with non-Arab parties, the correction of Arab vision regarding water resources, and above all, self-deterrence and a review of all matters

²⁴ Studies submitted to the Council of Arab Ministers of Agriculture, convened in Damascus in 1993, estimated the cost of wheat imports by the Arab countries in the year 2000 at \$42 billion, and total imports of food at around some \$70 billion. Other studies have also indicated the deterioration of the food situation: the Arab countries nowadays import 80% of their food needs, while at the same time the Arab population increases by 5 million a year (7.2 million according to other estimates). This will lead in the future to a further widening of the gap between production and consumption.

²⁵ Ibrahim Ahmad Said, op. cit.

related to water resources in terms of proper exploitation, sound investment and cost-effective use.

IV. RESULTS AND PROSPECTS, WITH A SPECIAL REFERENCE TO ENVIRONMENTAL IMPACT

The same water that is used to extinguish fires can also generate storms and destruction. It could also be a crucial factor in the outbreak of war and conflict in the Arab region if the problem is not resolved in a permanent and fair manner. The solution to the problem should become a genuine door to peace, owing to the fact that water has political and economic implications. Any peaceful settlement, therefore, will not be possible without prior agreement on water distribution, free of pressure and blackmail.²⁶

If we are to develop a logical and clear vision, we should take the following points into consideration, individually and separately, while noting that they are interlocked in terms of cause-and-effect relationships: results; cooperation; environmental impact; and rationing, or economical use of water.

1. Results

The continuation of the present situation will no doubt have grave consequences for the entire region at both the pan-Arab and regional levels in terms of the destructive conflict that can be expected to be even fiercer than all those which rocked the region during its recent history. While military showdowns are no longer a possibility for the conquest of land, the coming conflict would be a conflict for survival, all the more so since without water, there can be no economy, agriculture or industry, or

²⁶ Ahmad Said Nofal, "Al-siraa' 'alal-miyaah, wa mufawadaat al-salaam fil-Sharq al-Awsat" (The struggle over water, and the peace negotiations in the Middle East), *Dirasat Arabiya* (Arab studies), Nos. 7-8 (1994), p. 38.

even dignity, and all spectres of past hatred and animosity would resurface.

The world balance of power could change in the future, and a new international situation could develop, meaning that prevailing structures would be replaced with new structures. Hence we should seize every available opportunity for cooperation and should strive to seek solutions that are "possible", as opposed to solutions that are "maximal". We should keep in mind that when people are cornered, the situation quickly escalates to reach the gravest levels of crisis. This conclusion will lead us to move smoothly and logically to the next one.

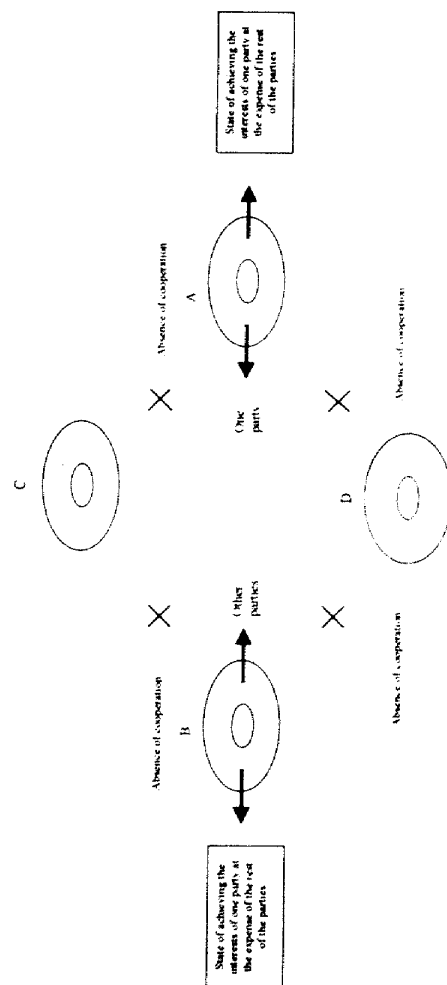
2. Cooperation, and how the others look at the issue

The following two figures attempt to summarize the issue of cooperation among the countries of the Arab region, or more specifically among the Arabs on the one hand, and Israel and Turkey on the other. It is wrong to assume that the Arabs have broken up into isolated fragments, even if they have suffered a temporary setback: history, geography and national feelings of belonging are facts which cannot be dismissed or ignored.

The three or four parties involved (Arabs, Israel, Turkey, and perhaps Ethiopia) face two options: they can insist on pursuing a course of selfish and narrow-minded interests without any party taking into consideration the interests of the other parties and thus destroy all bridges of cooperation, *or* all the parties concerned could begin a rational cooperation aimed at sharing the benefits to be had, in which case the establishment of peace and commitment to its durability would be possible.

- (i) *Conflicting strategic goals, absence of cooperation and the centralization around selfish interests and goals*

Figure 1.



The operation of the negative state of affairs shown in figure 1 will lead inevitably to conflict that will destroy the interests of all parties. In situation (a), several parties, represented by the concentric circle between the inner and the outer circles, will achieve their interests at the expense of one party (the smallest inner circle). In this case, the pressure and losses experienced by the one party will lead to a rupture that will serve to destroy the interests of the other parties.

In situation (b), one party achieves its interests at the expense of all the other parties (represented by the smallest inner circle), which will lead the other parties (represented by the concentric circle between the inner and outer circles) to blockade and strangle it.

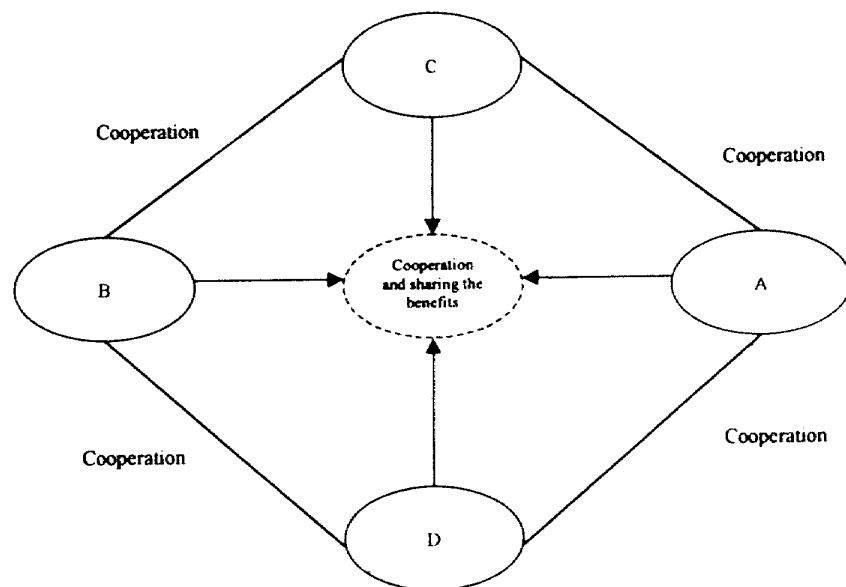
The outermost circle represents the region, which will be embroiled by conflict and explosion, and the inner circles of this larger circle will not be able to escape the consequences. The losses stemming from a state of conflict will be greater than those stemming from a state of cooperation.

We believe that it is not in the interest of international parties to leave this region in a state of instability; after all, their own interests are at stake as well. In any case, the legitimate question which could be asked here is: is it really in the interest of the new leaders of the post-bipolar world to set the region on fire once again?

- (ii) *The state of benefit-sharing through fair cooperation*

In the case of sharing benefits through cooperation, every party concedes some of its demands, so as to reach a state of benefit-sharing as depicted in figure 2.

Figure 2.



One might clearly say that if Israel considers its presence in the region as a temporary one and is bent on adopting a policy aimed at extorting the maximum benefits and then vanishing away and ceasing to exist, then its policy of blackmail can be understood. But if it considers itself to be a permanent and viable entity in this region yet at the same time exercises a policy of blackmail that corners its neighbours and ignites their hatred, the only possible consequence would be an explosion in the region. Israel, among the other States and peoples of the region, is well aware of the significance and implications of the biblical story of Samson.

History is never stable. The collapse of the Soviet Union was a bombshell that could not have been predicted even a few years prior to its happening. The Iranian revolution was another. America likewise is bound to fall one day. We certainly should be able to deal with history in its true context in terms of understanding facts, analysing situations, learning lessons and comprehending implications and changes.

The Israeli intellectuals, foremost among them former Prime Minister Shimon Peres, foresee a new Middle East in a state of cooperation and cohesion. However, the Israelis need to review all their policies and the mechanisms of implementation that they are using in their negotiations with the Arabs. Needless to say, whoever insists on having everything could end up with nothing.

This also applies to a third party on the north-eastern periphery of the Arab world whose interests are deeply rooted in most of the Arab States. Though its interests are currently secured, it could be that they would not remain so in the future. History can tell us a great deal about how the Arabs once rebelled against Ottoman domination when the Ottomans became too heedless of Arab interests.

3. Environmental impact

While the Arab world's shortage of water can cause suffering in the form of drought, famine and poverty, water pollution is no less dangerous with regard to the health of the Arab population. In fact, water pollution

is one of the most dangerous threats to the region's water resources, given the poor state of the available technology for protecting the environment against pollution. In real terms, this situation translates into huge losses of surface water and groundwater and a steady deterioration and pollution of the environment as a result of human, industrial and agricultural wastes. It is noteworthy in this context that every cubic metre of polluted water contaminates another 40 to 60 cubic metres of clean water.

The few water treatment plants in the Arab world are inefficient, meaning not only that water cannot be reused but also that groundwater becomes polluted as a result of contamination from waste water; in such cases, the groundwater aquifers cannot be used.²⁷

The following is a summary of the environmental effects of water shortage on the one hand and water pollution on the other hand, with regard to environmental health, climate and public health, with some proposals for avoiding the damaging effects of these.

(a) There are indications that in Egypt 45% of the incidence of renal diseases are due to water pollution. One of the main types of agricultural pollution stems from the fact that most of the water used for irrigation is saturated with chemical fertilizers and pesticides. The concentration of nitrates, for example, in waste water should not exceed 45 ppm (parts per million). In Egypt, this concentration amounts to some 340 ppm.

(b) The disposal of human and animal waste in water is a grave crime. But the disposal of this waste without treatment is no lesser a crime, given the fact that the water could be reused for irrigation after it is treated, as it contains natural fertilizers. However, waste is still disposed

²⁷ Hasaan al-Shweiki, "Al-amn al-maa'i al-Arabi" (Arab water security), *Al-Wahda* (Unity), No. 76 (1991).

in many Arab rivers and streams without any pre-treatment.²⁸ Iraq, which is the ultimate beneficiary of the water of the Tigris and the Euphrates rivers, is suffering a great deal from water pollution. Many villagers have been obliged to import drinking water from great distances.²⁹ Unlike other countries in the area, Iraq suffers from a geopolitical problem: the decrease in the level of water of the Euphrates leads to a decrease in the level of the Shatt al-Arab waterway. This could lead one day to a halt to navigation in this waterway, which would deprive Iraq of its only sea outlet. It is worth noting that the 10-year war Iraq fought with Iran was motivated by this consideration, i.e., the recovery of sovereignty on the Shatt al-Arab waterway.³⁰

(c) In one of its reports, the World Bank called for the control of pollution in the Arab world and estimated the cost of water pollution on health at billions of dollars. The report focused especially on industrial pollution, which has reached an alarming rate, affecting 86% of the Arab world's inhabitants. The report called on the Arabs to adopt policies which take into consideration incentives, investments and awareness campaigns aimed at promoting clean industries and the use of little polluting energy (*Al-Sharq Al-Awsat*, 1995).

(d) In addition to the aforementioned sources of pollution, industrial plants and workshops are now one of the most important sources of pollution in terms of the solid and liquid waste they release into rivers and seas.

²⁸ Samia al-Ashmawi, *Al-Miyaah al-Arabiya: Azma Kamiyya am Naw'iyya?* (Arab water: a crisis of quantity or quality?) (Paris: Centre for Arab-European Studies, 1995), p. 23.

²⁹ Dimashqiya, op. cit.

³⁰ Mohammad Warda, "Khalfiyat nazaa'at al-miyaah fil-Sharq al-Awsat" (A background of the water conflicts of the Middle East), *Al-Sharq al-Awsat* (Middle East magazine), No. 5569, 1994.

(e) The World Bank's reports and studies indicate that water and air pollution, as well as soil erosion, cost the Arabs more than \$10 billion annually, representing 3% of the gross national product of all the Arab States combined.

(f) One out of four Arab persons lacks safe, clean water, and one out of five Arabs residing in urban areas is living below the "pollution line".

4. *How to develop and rationalize the use of water resources*

There are many ways and means by which these goals can be achieved, and some of which will be mentioned here by way of example. Realizing such objectives is not a matter simply of making available expertise, financial resources or advanced technology—it is first and foremost up to our collective will, which at this point is non-existent. The Arab Governments should reactivate their will and try hard to overcome the water crisis through programmes aimed at achieving the following objectives:

(a) An efficient system of water conservation should be drawn up and strictly applied. Although most Arab legislation regulates the use of water, whether for irrigation, industry or services, the wasted quantities are still very high according to all available figures and statistics. Concerning irrigation, for example, legislation should include clear provisions regarding the prohibition of some types of irrigation, such as immersion and night irrigation, whereby produce is irrigated all night without control, with the result that huge quantities of water are wasted, without any benefit to the crops.

(b) The prices of fresh potable water should be increased, following the examples of Europe, the United States, Canada, China and many other countries. Rates should increase with increasing levels of consumption.

(c) Restrictions should be placed on the rights of owners of water resources, without, however, infringing on their basic rights. Those who cause damage to the environment should be penalized. This means that the right to own property should be balanced with the obligation to protect the environment.

(d) Studies show that many Arab countries pump huge quantities from groundwater basins, at a rate exceeding that of the natural recharge of these basins. Most of this water is used irrationally.

(e) Groundwater sources should be assessed in terms of their quality and management, utilizing up-to-date techniques. The monitoring and the follow-up of water pollution should be done on a continuous basis.

(f) The World Bank advises all developing countries to make a balance between their development needs and the safeguarding of the environment, especially as regards protection against pollution.

(g) The gap should be bridged between the current rates of water consumption for agricultural purposes and expected yield. The use of modern, sophisticated techniques could lead to an increase in the yield of up to 240% to 260%, with 50% to 60% savings in the quantities of water used for irrigation. This rate represents nearly 100 billion cubic metres of water.

(h) Ploughing techniques should be developed that keep rainfall water inside the soil and that combat harmful weeds.

(i) Crops that consume huge quantities of water should be replaced with other crops that need less water and that are drought-resistant.

(j) The flow of water from dams should be improved in order to balance the quantities required for irrigation and those required for the generation of electricity.

(k) The curricula of schools at all levels (including university) should include programmes on raising public awareness on environmental issues, pollution and conserving water.

(l) The proper techniques for using and disposing of sewage water should be encouraged and developed. Waste water in the Arab world in 1990 amounted to some 11.5 billion cubic metres, and it is predicted that this figure will increase to 40 billion cubic metres in the year 2015 and to 50 billion cubic metres in the year 2025.

(m) Since only a small portion of the water consumed by industry is actually used up (in cooling, treatment and other uses), these industries could reuse the water within the same plant (closed-circuit system) or by sharing it with neighbouring plants.

(n) The use of water in cities and towns should be rationed.

(o) Arab water security should be high on the security agenda within the countries of the Arab world, given its importance for the survival, the economies, and the very civilization of these countries. Water resources should be regarded as a pan-Arab issue.

(p) National and regional water data banks should be created and linked to a central Arab data bank in order to centralize all information regarding surface and groundwater sources in the Arab world and how to reach them.

(q) A special Arab institution in the field of water management, research, planning and investment should be set up at the pan-Arab level.

(r) Water resources should be protected and developed through the rationing of their use and through the reduction of every type of waste.

(s) Field studies should be conducted in order to assess the total water reserves nationally and regionally.

(t) Efforts should be made to manufacture locally the tools and equipment required for hydraulic studies, water pumping and transportation, desalination using solar energy, and water treatment facilities.

(u) River basins should be properly used, especially the Nile River and Shatt al-Arab waterway. Huge quantities of fresh water, amounting to 25 billion cubic metres, are lost annually in the Gulf. These quantities would more than cover the needs of the economic activities in the Arabian peninsula if they were pumped and distributed to the member States of the Gulf Cooperation Council. The same applies to the Nile, whose water ultimately ends up in the Mediterranean, when it could be used to irrigate the Egyptian desert. Hydrological and ecological studies should be carried out to determine the likely effects of such large projects.

MANAGEMENT OF WATER RESOURCES IN JORDAN AND FUTURE CHALLENGES

Fawzi Abu Na'aj

Introduction

It goes without saying that there is currently a water crisis in Jordan, and that this crisis will continue in the foreseeable future. Most of Jordan is semi-arid or arid country. It covers around 89,000 square kilometres, most of this (around 86%) being desert. Jordan's population is around 4.14 million inhabitants (1994 census). The annual growth rate is around 3.6%. Ninety percent of Jordan's population live in the hilly areas (the central and north-western part of the country). The highest population density is found in Amman and Zarqa, where around 34.4% of the total population lives. About 78% of the total population lives in cities and urban areas.

I. WATER SOURCES

In Jordan there are only two types of water resources: surface water and groundwater.

A. SURFACE WATER

Surface water in Jordan is not evenly distributed throughout the country. The main source feeding the 15 surface water basins in Jordan is the rainwater that falls on the country between October and April, with an annual average of 7,200 million cubic metres. In dry seasons, this figure shrinks to 6,000 million cubic metres, and in wet years, it increases to 12,000 million cubic metres. The annual variation in rainfall dramatically affects the planning and management of water resources.

Most of the rainfall pours into the sea or evaporates. The remainder feeds springs and water basins (aquifers). Grazing areas depend on this rainfall, especially those located at the bottom of valleys, and so does some irrigated agricultural land.

Average annual rainfall in Jordan ranges from 50-600 mm. The western highlands receive the highest rates. Table 1 indicates that most of the country's areas receive annual rainfall of less than 200 mm.

Table 1. Annual rainfall in Jordan

Rainfall (mm/year)	Percentage of Jordan's total area with the given level of rainfall
500-600	1.1
300-500	1.8
200-300	5.7
100-200	10.4
Less than 100	81.0

It is noteworthy that the Yarmouk basin accounts for 40% of the total surface water in Jordan (including water flooding from the Syrian part of this basin). It also constitutes the main source feeding the King Abdallah Canal, which constitutes the main instrument of development in the Jordan Valley area.

It may seem that the annual available quantities of surface water are enormous. Nevertheless, owing to technical and economic reasons, no more than 277 million cubic metres of this water can be exploited annually.

B. GROUNDWATER

Groundwater is divided into two categories: renewable groundwater fed by annual surface water, and non-renewable groundwater in a state of sedimentation, which is not fed by surface water. Jordan's groundwater resources are distributed over 12 basins (aquifers).

Safe pumping from underground water is equal to the renewable potential; for Jordan, this amounts to 277 million cubic metres annually. However, since the 1980s, the exploitation of such resources increased

dramatically. In 1993, 465 million cubic metres were pumped. This practice adversely affects the quality of water in these basins; it increases water salinity and dramatically reduces water levels.

It is worth noting that the Dissi and Jafer water basins, located in the south of the country, have an abundant, but non-renewable, reserve of water, 84 million cubic metres of which are currently exploited (71 million cubic metres from the Dissi basin and 13 million cubic metres from the Jafer basin). Water quantities available for exploitation from the Dissi basin amount to 125 million cubic metres annually over at least 50 years. From the Jafer basin, 18 million cubic metres could be exploited for a period of 40 years.

There is one additional source of water: the wastewater produced by 14 treatment stations, amounting to an average of 51 million cubic metres. This quantity is constantly increasing, as the process of urbanization accelerates. It could reach 150 million cubic metres in the year 2010. Furthermore, the annex to the 1994 Jordanian-Israeli peace treaty, relative to water, stipulates that Jordan will have a share of 215 million cubic metres of water annually from various sources. Certainly, this extra quantity of water will help to alleviate the water crisis, even if the exploitation of the extra source requires some time.

II. WATER USES

The main sectors using water in Jordan are municipalities, industry and agriculture. The main features of water usage for each sector are detailed below.

A. MUNICIPALITIES

Water usage here includes household, light industry and public usage by municipalities. This sector currently consumes 22% of the total water used in Jordan, i.e., around 220 million cubic metres annually. The per capita share amounts to 53 cubic metres annually (137 litres/day), far below the 180 litres/day that the World Health Organization says is

needed for domestic use in order to ensure acceptable levels of individual and social hygiene.

Most sources supplying the main populated areas are groundwater sources located at some distance from the area they serve. This requires the construction of long (and costly) water pipelines. Between 1962 and 1987, 529 kilometres of pipelines were constructed, costing 117 million Jordanian dinars (JD) and conveying 180 million cubic metres of water annually. Efforts are currently being made to encourage settlement in the milder climate areas located near water sources. These efforts are not meeting with much success or having a significant impact on reducing the water crisis, even though Jordan is a small country with a very good network of roads, which would facilitate the movement of people.

B. INDUSTRY

The current annual demand by this sector amounts to some 40 million cubic metres. It is predicted that demand will increase dramatically because of the anticipated development of industry, and it is therefore wise to encourage the establishment of "dry" industries (in which the yield per 1 cubic metre of water used in production is relatively small). It is interesting to note here that the productivity of the industrial sector is 50 times greater than that of the agricultural sector.

C. AGRICULTURE

Agriculture is the biggest consumer of water among all sectors. It currently accounts for 76% of all the water used in Jordan. Because of the dry climate prevailing in our region, the country relies more on irrigated agriculture than on rainfed agriculture. Since the early 1960s, the Government has invested huge amounts of money on developing various projects in the irrigation sector. It erected canals, irrigation networks and dams and reclaimed vast tracts of land. At the present time, the main obstacle hindering any further expansion in this sector is the high cost of investment capital, as well as the cost of operation and maintenance; to this, one might add the unavailability of water. The cost

of reclaiming 1 dunum of irrigated land increased from JD 75 in the early 1960s to more than JD 479 in the late 1980s.

The annual consumption of this sector is not predicted to increase by more than 0.5%, because of the non-existence of new investment in agricultural projects. Most projects concerned with the water sector now focus on responding to the needs of the municipalities and the industrial sector, as well as on improving irrigation techniques and conducting awareness campaigns among farmers.

Table 2 indicates water use in the various sectors from 1986 to 1994.

Table 2. Water use in the various sectors

Year	Municipalities	Industry	Agriculture*	Total
1986	135	23	461	619
1987	150	24	570	744
1988	165	39	614	818
1989	170	36	624	830
1990	179	43	658	880
1991	179	43	612	833
1992	208	35	700	943
1993	218	33	726	977
1994	220	40	726	1001

* Including livestock breeding.

D. PROJECTIONS FOR THE FUTURE

The amount of water currently available per capita for all purposes in Jordan does not exceed 242 cubic metres annually, despite the continuing overpumping of groundwater aquifers (which exceeds the annual recharge rate for some of these aquifers). This situation puts Jordan below the water poverty line. It should be noted that according to

international standards, the annual acceptable quantity of water for one individual's needs for the various purposes should not be less than 1,000 cubic metres.

Future assessment of the available and the required water (which will be discussed below) shows the existence of a huge and dangerous gap which cannot be bridged without incurring great expense. This bleak picture has put pressure on the Government to give the highest priority to the management and planning of water resources. In what follows, the present paper will address the measures that must be followed to face future water needs in Jordan.

III. ADMINISTRATIVE ORGANIZATION OF THE WATER SECTOR

A. THE CURRENT ADMINISTRATIVE SITUATION

The Ministry of Water and Irrigation was created by Act No. 54 of 1992 as a back-up to the water sector as well as to the Water Authority and the Jordan Valley Authority. However, the implementation of this act did not proceed in accordance with the objectives of establishing such a ministry. The Water Authority and the Jordan Valley Authority still function as independent bodies with two independent laws. The Act creating the Ministry of Water and Irrigation has been seen as a secondary one related to the laws of the two aforementioned Authorities.

The Water Authority functions according to the Water Authority Act of 1988. It deals with municipal water and sewerage and also with protecting water resources in Jordan, except those in the Jordan Valley, for which the Jordan Valley Authority (JVA) is responsible. The JVA functions in accordance with Law No. 18 of 1988 and is in charge of the integrated development of the Jordan Valley region (below 300 metres above sea level north of the Dead Sea, and below 500 metres above sea level south of the Dead Sea). Each of these two Authorities has a Board of Directors chaired by the Minister of Water and Irrigation. The Board

is in charge of the implementation of the programmes, projects and plans of each of the two Authorities. The decision of the Board is irrevocable.

No fewer than 13 other bodies deal with the water sector, among them ministries, associations and research centres. A Canadian consulting company (Deloitte & Touche), with the support of the Canadian International Development Agency (CIDA), is currently studying the restructuring of the water sector. The first stage of the study has been completed.

B. ADMINISTRATIVE CONSTRAINTS

As mentioned above, the current administrative situation has led to the fragmentation of water sector plans, which tend to be short-term in nature. This fragmentation has resulted in a tendency to focus more on trying to increase the productivity of the available sources than on managing demand, and this latter course of action is what is necessary considering the scarcity of Jordan's water resources. Besides this, there is a lack of coordination between the management of irrigation water and drinking water. This scattering and diffusion of responsibility for managing the water sector and the subsequent impossibility of elaborating integrated plans have become one of the most important constraints to the effective management of this sector.

The employees of the water sector are governed by the civil service law. Unfortunately, it is a system that hinders the use of experts because it lacks an incentive system to reward technical and scientific competencies, or to compensate employees for overtime work. In short, this system does not take into consideration the special characteristics and functions of the water sector. Neither does it have the flexibility to employ or manage manpower in a fashion that suits the work of this sector.

Moreover, some of the government bodies in the water sector are subject to government regulations in matters related to purchasing, supplies, finance, audit and control, and centralized bidding. The law

governing the Water Authority clearly gives it financial and administrative autonomy, while the corresponding law for the Jordan Valley Authority does not.

Water sector institutions also face other constraints and obstacles, such as the overlapping of certain laws and regulations governing the work of these bodies and laws and regulations governing other institutions such as the Ministry of Agriculture, the Ministry of Industry, the Ministry of Environment, and the Municipality of Greater Amman. It goes without saying that the multiple institutions of the Ministry of Water Irrigation do not operate in isolation of the prevailing social and economic realities, which sometimes reflect negatively on the action of these institutions.

IV. WATER RESOURCES MANAGEMENT

Certain main facts need to be taken into consideration in water management in Jordan. These include the following:

(a) Water resources are scarce. Increasing these resources can only be done at high cost. In addition, demand by the municipal and industrial sectors is rising continuously.

(b) The quality of groundwater is being degraded owing to the increasing salinity of certain aquifers, as well as to the overuse of chemical pesticides and fertilizers and the contaminated wastewater discharged by some industries.

(c) It is impossible to draw up plans to supply the needed water without taking into account the quality of the water. The consumer expects a certain minimum quality of water, which varies depending on what he is using the water for.

(d) To ensure the success of the management, planning and modernization of the necessary information systems, accurate and adequate information must be available, as well as the technical capability to create an integrated information system.

(e) The water sector suffers from financial deficit and lacks the resources it needs to carry out preventive maintenance. It also lacks technical expertise.

(f) Grass-roots participation in the activities of the water sector is ineffective at the present time.

A. WATER POLICY AND PLANNING

Water policy, as put into practice by the Government in the country's various development plans, has relied on increasing the productivity of all water resources and expanding the area of reclaimed agricultural land. However, the difficult water situation being experienced by the country has led the Government to review its policies with regard to water. The new water policy framework, as set down by the Government in September 1994, and based on the 1993-1997 five-year development plan, focused on five principles:

(a) The public interest as a whole is what defines the priorities for the various uses of water. All water resources in Jordan, whether surface or underground water, are public property (property of the State) and may only be exploited according to Water Authority Law No. 18 of 1988.

(b) The drinking water sector should have the highest priority in the allocation of the available water. Domestic needs should be met first, in a reasonable way, and then come the needs of industry, tourism and the other services sectors. The last priority is the agricultural sector.

(c) The restructuring of the water sector should be given special attention. A solid and cohesive institutional framework should be built up, to ensure complete separation between the management of the country's water resources and the distribution services, as well as the separation of the tasks of organizing and operation. It should take into account the scarcity of resources, and should encourage decentralization

of responsibilities and entrust these responsibilities to private independent institutions, to a consumer group or to the private sector.

(d) Special attention should be given to well-studied planning. In fact, the water plan for the year 1977 should be re-assessed and modernized so as to formulate a National Water Master Plan that would give priority to updating the current systems and to the reuse of treated wastewater in agriculture, as well as giving priority to projects that would make an effective contribution to meeting the needs of the municipalities sector (drinking water) and industry.

(e) Finally, Jordan should work to obtain all its rights with regard to shared international water.

It is clear in the framework outlined above that drinking water has the highest priority; the sustainability of production is also clearly defined as a main objective. The need for the administrative set-up of the sector to keep pace with the latest developments is also recognized.

It is noteworthy here that the first stage of the reforms needed within the sector are within the implementation phase of the agricultural structural adjustment loan (ASAL) and the technical assistance project of the agricultural sector (ASTUP). Moreover, the Government has raised the rates charged for irrigation water in order to encourage the best use of this resource. The Government is also monitoring the groundwater pumping by limiting the number of licences granted to private individuals and by installing water meters on the current wells.

Planning for the management of water resources does not mean absolute control of the Government over such resources. Experience has proved that decentralization is the best managerial approach, in a setting that allows consumers to help determine the priorities and to assume their share of responsibility regarding the management of the water sector.

B. MANAGING SUPPLY AND DEMAND

Steps have thus been taken to address the current water crisis, which means shifting from managing the distribution of water to managing the demand for water. Managing demand means employing direct measures to control the use of water (such as laws and regulations and the use of modern technology) or indirect measures (such as the mechanism of the market, provision of financial incentives, working to increase public awareness). The main objective of these measures is to save water by enhancing the effectiveness of its use. Such rationalization measures are less costly than other approaches and would have a positive impact on the environment.

As for future prospects, the current social and economic indicators (standard of living, population growth, industrial development, percentage of homes that receive piped water) show that the demand for water will rise (table 3).

Table 3. Projected water needs in Jordan

(Million cubic metres)

Year	Municipalities	Industry	Agriculture	Total
1995	255	45	750	1050
2000	340	75	750	1165
2010	450	110	760	1320

Several measures have been adopted with regard to the water available for the needs of the various sectors. Among these are the following:

(a) Limiting the adverse effects of pumping from groundwater basins.

(b) Investing more in extracting and transporting water from the Disi basin.

(c) Improving water and irrigation networks, and reducing the amount of water wasted.

(d) Reusing a greater amount of treated water.

(e) Desalinating water.

(f) Exploiting some new groundwater resources: Jafer, Wadi Araba, Lajwa.

(g) Regaining some water rights according to the Jordan-Israel peace treaty.

(h) Expanding the construction of the planned dams and reservoirs.

(i) Improving water rationalization and public awareness.

(j) Improving the technical and managerial performance of the water sector's personnel.

(k) Implementing existing rules and regulations, especially those relating to non-licensed water wells as well as illegal connection to water pipes.

If all the above-mentioned points are taken into consideration, millions of cubic metres of additional water could become available, as shown in table 4.

However, these figures show that despite all the measures adopted to increase the quantities of available water and reduce the wasted quantities, the water deficit will still be large, as indicated in table 5.

Table 4. Available water (1995-2000)

(Million cubic metres)

Source	1995	2000	2010
Surface water	360	475	475
Renewable underground	275	275	275
Non-renewable	85	135	145
Non-traditional sources	50	100	180
Other sources	25	80	120
Total	795	1065	1195

Table 5. Projected water deficit in Jordan

Year	Deficit (million cubic metres)
1995	255
2000	100
2010	125

It is predicted that after the year 2010, the gap will further increase between demand and what is available. It will be impossible to continue expanding any further, because of the limited amounts of the water resources to be had and the high cost of extracting or channelling them. It is also predicted that demand will continue to rise for the reasons mentioned above.

It is obvious that planning for all these measures does not necessarily mean that it will be possible to implement them completely; some of them are very costly, and obtaining the required finance would not be easy. Table 6 gives some examples.

Table 6. Cost of selected water projects

Project	Estimated cost (millions of dinars)
Pumping Dissi water north	335
Projects of the Annex to the Peace Treaty	441
Mujeb Dam	132
Tanour Dam	15
Wahda Dam	194
Network rehabilitation (water and irrigation)	68

C. ADMINISTRATIVE DEVELOPMENT

It is generally agreed, as mentioned above, that the structure of the water sector urgently needs to be reviewed. The water problem of Jordan, besides being defined by a pressing shortage of water, also involves issues of choice and management, as shown in the following examples:

- (a) Using non-renewable resources for irrigation purposes.
- (b) Poor management and maintenance of water networks; more than half of the water pumped through these networks is lost.
- (c) The non-enforcement of the rules and regulations related to water.
- (d) Poor coordination among the water sector institutions themselves and between these institutions and other concerned institutions.
- (e) The inefficiency of the current administrative arrangements in the water sector.
- (f) Insufficient technical and managerial information, and absence of a modern and unified data system.

(g) Lack of regulations and lack of short-, medium- and long-term planning with regard to the management, development and effective utilization of manpower.

Among the most important studies aiming at improving the management of the water sector is the one currently under way by the Canadian consulting company Deloitte & Touche, with the assistance of the Canadian International Development Agency (CIDA). This study aims at reviewing the current situation of all the institutions working in the water sector. It also aims at highlighting and promoting the role of the Ministry of Water and Irrigation so as to make it the institution of reference in the water sector and in establishing national water policies. The first stage of this study, which has been completed, analysed a number of organizational alternatives and proposed a new institutional framework. It also identified the following six main needs with regard to the water sector:

- (a) Enhance the sector's capacity to develop policies and to plan for water resources.
- (b) Separate managerial tasks from service tasks.
- (c) Separate the wholesale operations (national infrastructure) from the retail operations (distribution services).
- (d) Invest in capacity-building (systems and training) in order to shift the water sector activities towards a commercial orientation (market economy).
- (e) Create the necessary means to enable other institutions and beneficiaries, as well as the industrial sector, to take part in formulating water policy.
- (f) Install financial viability as the main feature of the proposed set-up.

In the recommended set-up, the main tasks of the water sector are clearly defined, and restructuring is proposed, as follows:

(a) Planning, policy, organization and supervision: these will be directly controlled by the Government.

(b) National infrastructure: the new set-up will enable the Government to manage this national infrastructure as a national resource, at the same time making it possible to manage it more efficiently under direct governmental supervision.

(c) Collection and local distribution systems: these could be operated in a decentralized manner, with a gradual shift to financial autonomy allowing, later on, the participation of the private sector in terms of both investment and manpower.

It is noteworthy that the Ministry of Water and Irrigation is making great efforts to ration water consumption and to raise public awareness, by focusing on one of the basic elements of the "Project to Improve and Safeguard the Quality of Water", which is being carried out by the consulting firm DAI, with the assistance of USAID. This effort has begun to bear fruit in terms of new positive behaviours regarding the use of water and greater public environmental awareness.

There is also a national Master Water Plan under preparation within the Ministry, in collaboration with the German agency GTZ. This plan will be established on a solid, integrated database. Moreover, a management information system is also under development within the Ministry.

V. MEASURES AND PRIORITIES

Based on what was said above, it is now possible to make a broad outline of the water issue in Jordan. We can summarize the necessary measures that must be adopted at the local level in order to deal with the current and future water crisis as follows:

1. Water resources are scarce. The gap between what is available and what is needed is wide, and this has an adverse effect on the development process. Furthermore, the country's resources are in a critical state, with regard both to quantity and quality. We must therefore act diligently to find a remedy to this problem.

2. Sound, integrated planning is now a matter of some urgency, as is the establishment of a water policy which clearly reviews the priorities in utilization and the possibility of increasing the available water quantities, especially from non-traditional sources, such as desalination of brackish groundwater or of sea water, or the reuse of treated wastewater.

3. The administration of the water sector should be reviewed, modernized and restructured so that it will be able to cope with needs and realities, both current and future. Administrative development and training should also have the highest priority.

4. Water management (demand and distribution) needs improvement, with a special emphasis on demand.

5. The rules and regulations governing the current water institutions should be modernized in order to allow for restructuring and re-orientation. A proper mechanism for implementing these rules and regulations should also be established.

6. There should be further movement in the direction of decentralization and public participation in water management, so that both continuity and efficiency can be guaranteed.

7. Special programmes to enhance environmental awareness and the rationing of water consumption among all segments of the population should continue to be drawn up.

All indicators and projections show that the proposed solutions at the local level will not be sufficient to solve the water crisis. In the foreseeable future, Jordan and its neighbours will suffer from an acute

shortage of water resources, especially if the current managerial situation remains unchanged. This should lead us to a state of mutual cooperation, which should be very seriously and speedily implemented. It should seek to overcome political differences, to stick to the international legislation of today's world. This cooperation should be the main feature of a new world where there is no place for duplicity and double standards.

VI. REGIONAL COOPERATION

Before tackling this subject, we should define the borders of the region: the region we are talking about here includes Jordan, Palestine, Syria, Lebanon and Israel. Even though some of the countries in the region we have defined share a border demarcated by an international river with countries outside the region, we nevertheless do not wish to expand the definition of the region, because cooperation would become impossibly difficult. Before entering into the substance of cooperation, let us see first what is meant by the term "international river" and how this concept evolved in international law.

A. SHARED RIVER BASINS

In its large and modern sense, international rivers do not include only the visible (natural, geographical) surface water, but also the water basin of the international river, regardless of the volume of the water or the proximity to recognized international borders.³¹ This concept of international river was sustained by the International Court of Justice, an emanation of the League of Nations in 1929, regarding the conflict that pitted Poland against Germany, Denmark and Czechoslovakia, regarding the Oder River.

The International Law Committee, in its 43rd session, held in Geneva in 1991, adopted a new definition of international water network

and the water basin's country: "A water network consists of hydro-geographical elements. It includes rivers, lakes, underground water and canals which form, given their nature, one whole thing."

This new concept of international rivers brings us automatically to the countries sharing international river borders or water basins. Any action that hinders the common use of these resources is illegal. Among such actions one can also mention polluting water resources or hindering the natural flow of water to other countries.

Included within this concept of international river in the Middle East would be the Assi, Yarmouk, Jordan, Tigris and Euphrates rivers.

B. JURISPRUDENCE REGARDING INTERNATIONAL WATERS

The concept of the rights of countries sharing river borders has been developed from the narrow concept of the right of property, sovereignty and freedom of complete disposal, as it existed in Roman legislation and on down until the present time. This concept is based on the theory that the international river is the property of all countries bordering it. Thus, the management of and the investment in this resource should be common. Therefore:

- (a) No upstream country should act in a manner that could reduce the quantities of water reaching a downstream country.
- (b) The upstream country should not make any changes to the natural basin of the international river unless there has been prior consultation and agreement with the downstream country.

Finally, the American jurist Clyde Eagleton introduced the concept of parallel benefits, called the international method in management, which is based on the following principles:

³¹ "International rivers in the Arab world", *Egyptian Revue of International Law*, 1996.

(c) Within this concept, the sovereignty of the State is not unlimited, but rather limited (i.e., not absolute).

(d) Water distribution should be on a fair basis. Arid regions should have the priority over irrigated areas, whether this irrigation is the result of rainfall, rivers, groundwater or other means of artificial irrigation.

(e) The person or body in charge of dealing with the common use of international rivers by several countries should take into consideration the benefits gained by each individual country against the losses and damages sustained by the other countries.

It is noteworthy in this regard that the 1933 international conference held in Montevideo recommended a package of considerations and moral commitments such as: neighbourhood, good neighbourhood, the better use, balanced interests, the fair and reasonable sharing among international rivers bordering countries. There are also historical rights, which may be difficult to prove or to accept. As for the previously gained rights claimed by a given country, they should not be taken as granted without prior verification of their legitimacy and the absence of force.

C. WATER SECURITY WITHIN THE REGION

In order to prevent the emergence of a water crisis in the Middle East region and in order to avoid possible conflicts and differences among countries sharing international river borders, it is essential to adopt a set of principles and criteria for sharing the common water resources in the region, and for managing them in common. These principles and criteria are now very well known to the international community. They could be used as a basis to resolve conflicts and differences regarding common international waters. The path of negotiations and treaties and of mediation and arbitration should be accepted by all with a spirit of cooperation. As a last resort, any country can refer cases to the International Court of Justice, mentioned in Article 33 of the United Nations Charter.

The first step for our purposes in this region should be the convening of a water conference in the Middle East region (as defined above), with the participation of all the countries of the region, under international auspices. This conference should debate all aspects of the water issue.

The agenda of such a conference could include the following objectives:

(a) To agree on the main principles governing the sharing of common water resources in the region and on the form that cooperation should take among the countries with common international river borders or common water basins. Among the main principles to be debated: the concept of parallel benefits, mentioned above, as well as the results of a 1966 conference in Helsinki and a 1977 conference in Argentina. Perhaps the most comprehensive set of principles was the one produced in 1990 by an expert of the International Law Commission in Geneva. These principles included the following:

- (i) The recognition of the right of every country sharing common borders with an international river to have its fair share of the water of this river. This should be based on a compromise between the concept of wide benefit and that of parallel benefit.
- (ii) The avoiding of any damage that could affect a downstream country.
- (iii) The avoiding of any damage to the environment of the water basin.
- (iv) The free exchange of information, data and statistics (if available) regarding the water basin, among bordering countries.

- (v) The mutual exchange of consultation among the bordering countries that could be adversely affected by the implementation of a project or a programme planned by one or more countries of the basin.
- (vi) The positive cooperation among the countries of the basin for the purpose of further developing and enhancing of the capacities of the water basin, as well as the rationalization of the use of water.

(b) To lay down the basis of joint management of the common water resources in the region. The conference could also establish a joint management committee of the international waters within the region. The tasks of such a committee would be to judge seriously any objection raised by a member State. It would also supervise directly the negotiations initiated by countries of the region regarding water and intervene in these negotiations as a third party.

(c) To lay down the principles of international financial and technical participation in order to consolidate water security in the region. This is, no doubt, the main pillar of political peace. Without safeguarding water security for all parties, any bilateral treaty would remain weak and easy to break.

This proposed framework means negotiations which aim at reaching collective agreements that take into consideration the changing situation with regard to water, as well as the recurrent water needs of the population, the quantities, the scarcity and the level of the available water, all of which are continuously changing factors. They are subject to changing social, demographic and economic considerations such as population growth, food production and technological advancement. All these continuously changing conditions necessitate the conclusion of new treaties and the amendment of existing agreements regarding water sharing.

These measures and procedures are time-consuming and will require a great deal of effort to prepare and implement. The wisest course of action would be to act as soon as possible, without waiting for the conclusion of the political treaties or agreements which are currently under negotiation, because, as mentioned above, safeguarding water security for all the member States of the region will be the main pillar supporting the continuity of any current or future political treaties and agreements. Friendly regional cooperation is the ideal road towards achieving this water security.

Annex

**THE PRINCIPLES OF REASONABLENESS AND EQUITY,
ACCORDING TO THE HELSINKI RULES OF 1966 AND THE
INTERNATIONAL LAW COMMISSION (1983)
(Adapted from CAPONERA, 1985)**

According to the Helsinki Rules (ILA, 1966):

1. What is reasonable and equitable share is to be determined in the light of all the relevant factors in each particular case.
2. Relevant factors which are to be considered include, but are not limited to:

(a) The geography of the basin, including in particular the extent of the drainage area in the territory of each basin State;

(b) The hydrology of the basin, including in particular the contribution of water by each basin State;

(c) The climate affecting the basin;

(d) The past utilization of the water of the basin, including in particular existing utilization;

(e) The economic and social needs of each basin State;

(f) The population dependent on the water of the basin in each basin State;

(g) The comparative costs of alternative means of satisfying the social and economic needs of each basin State;

(h) The availability of other resources;

(i) The avoidance of unnecessary waste in the use of water;

(j) The practicability of compensation as a means of adjusting conflicts among users;

(k) The degree to which the needs of a basin State may be satisfied, without causing substantial injury to a co-basin State.

According to the ILC Report of 1983 (ILC, 1983):

1. In determining whether the use by a system State of a watercourse system or its water is exercised in a reasonable and equitable manner in accordance with article 7, all relevant factors shall be taken into account whether they are of a general nature or specific for the watercourse system concerned. Among such factors are:

(a) The geographic, hydrographic, hydrological and climatic factors together with other relevant circumstances pertaining to the watercourse system concerned;

(b) The special needs of the system State concerned for the use or uses in question in comparison with;

(c) The needs of other system States including the stage of economic development of all system States concerned;

(d) The contribution by the system State concerned of water to the system in comparison with that of other system States;

(e) Development and conservation by the system States concerned with the watercourse system and its water;

(f) The other uses of watercourse and its water by the State concerned in comparison with the uses by other system States, including the efficiency of such uses;

(g) Cooperation with other system States in projects or programmes to attain optimum utilization, protection and control of the watercourse system and its water;

(h) The pollution by the system State in question of the watercourse system, in general and as a consequence of the particular use, if any;

(i) Other interference with or adverse effects, if any, of such use for the uses or interests of other States including, but not restricted to, the adverse effects upon existing uses by such States of the watercourse system or its water and the impact upon protection and control measures of other system States;

(j) Availability to the State concerned and to other system States of alternative water resources.

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THE AGRICULTURAL SECTOR OF JORDAN AND FUTURE CHALLENGES

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Introduction

The present paper consists of three sections. The first section deals with general economic indicators, the special characteristics of Jordanian agriculture, performance indicators in the agricultural sector, agricultural trade and the food situation in Jordan.

The second section deals with the impact of regional and international changes on the Jordanian agricultural sector. It comments on the structural adjustment programme being implemented by Jordan, the various economic groupings and free-trade areas that have recently been established, the Barcelona Declaration, the Agreement Establishing the World Trade Organization (WTO) and on the liberalization of international trade and the regional changes that have implications for Jordanian agriculture.

The third section discusses some of the proposed features of a strategy for adapting to the recent regional and international developments. It makes observations regarding the ability of the agricultural sector in Jordan to respond positively to these developments. Finally, some proposals are made in this regard.

In presenting this paper, the authors hope that they have made a modest contribution to the focus being discussed that, together with other contributions, would shed light on the Jordanian economy in the context of both the current international and regional changes being experienced and the future challenges that will have to be faced.

I. THE JORDANIAN ECONOMY IN GENERAL

A. GENERAL ECONOMIC INDICATORS

Jordan's gross national product (GNP), calculated at market prices, rose from JD 2,429 million to JD 4,314 million in the period 1990-1994. The gross domestic product (GDP), also calculated at market prices, rose from JD 1,908 million to JD 2,521 million over the same period.

The average growth in GDP was positive but varying, reaching a maximum of 12% in 1994 and dropping to a minimum of 5.5% in 1994 as average growth in the construction and agricultural sectors slowed; in that year, these grew only 4.1% and 1% respectively, compared with 55.4% and 17.3% in 1992.

Total imports amounted to JD 2,363 million in 1994, against JD 975 million in total exports. In other words, the aggregate balance of trade suffered a chronic and increasing deficit, which rose from JD 1,114 million in 1990 to some JD 1,388 million in 1994.

The workforce in Jordan is estimated at 860,000 workers; about 212,000 workers, or 25% of the total, work in the commodity production sectors, and the remaining 75% work in the various services sectors.

The total investments of the public and private sectors amounted to JD 1,304 million in 1993, of which only JD 20 million was allocated to the agricultural sector.

Inflation rates for the main groups of items included in the cost-of-living index show a declining trend, with the rate of inflation dropping from 16% in 1990 to 3.6% in 1994. Average inflation in food prices exhibited the same declining trend.

The wholesale price index showed a rising trend, going from 234 to 262 during the period 1990-1994 (1979 = 100). This was evident in the price of meat and fish, which rose from 200 to 236, and in the price of vegetables, which rose from 174 to 206. It was also somewhat evident

in the prices of grain and legumes. The prices of dairy products and eggs, on the other hand, were more or less stable.

B. AGRICULTURE IN JORDAN

The characteristics and problems of agriculture in Jordan

The main features of agriculture in Jordan can be summed up as follows:

(a) *Small area of arable land and poor investment potential.* Agricultural land in Jordan is estimated at about 9 million dunums, of which only 2 million dunums are fertile. The remaining area of Jordan is either arid or semi-arid land, making up an estimated 81% of the country's total area of about 89 million dunums. The cultivated area is estimated at 4 million dunums; 3.5 million dunums of this depend on rainfall, and about half a million is irrigated. This means that horizontal expansion in the cultivated area should be possible. Jordanian agriculture is characterized by a high degree of fluctuation in terms of area cultivated and also in terms of productivity.

(b) *Lack of water resources, low standard of development of the resources that are available, and a poor database on these resources.* The country's water shortage amounted to some 282 million cubic metres in 1995 and is expected to reach 1,440 cubic metres in the year 2020. This will naturally put very tight restrictions on the expansion of irrigated agriculture and could even affect the areas currently cultivated unless other sources are developed to provide sufficient quantities of water to cover the increasing needs of the population and of industry. The annual demand for water by households and industry is expected to reach some 855 cubic metres by the year 2020.

(c) *A poor base of fodder resources and a low level of investment in pastureland, particularly in the Badia (desert) area,* which constitutes some 70% of the total area of Jordan. This will inevitably place

limitations on the expansion of livestock production. However, it can be said that the pasturelands in the Badia are promising in terms of the potential for the production of sheep, goats and camels.

(d) *The migration of labour in agriculture.* There are about 55,000 workers active in the agricultural sector, or 6.4% of the total labour force. Some 48,000 of these work in farming or animal-breeding. A large and increasing number of such workers are foreign labourers, a phenomenon which adversely affects the productivity of the agricultural sector. The concept of capitalist-oriented agriculture is being developed, but this concept is incompatible with the current pattern of land ownership, since about 70% of the total agricultural land is divided into plots 5 to 50 dunums in size.

(e) *A poorly developed base for producing the requirements of agricultural production and processing,* which means that the country depends heavily on imports of these requirements and also that the Jordanian agricultural industry ends up exporting a large percentage of its agricultural value added. This state of dependence has negative implications for the country's food security and for the national economy in general and puts sharp limits on the country's prospects for agricultural development.

(f) *The technological gap.* The gap between Jordan and the developed countries is still wide despite the quantitative and qualitative expansion in the use of agricultural technology in Jordan.

In view of the low income of farmers, their limited financial capabilities, the small size of the plots of land that they farm, and other factors that work against the utilization of advanced agricultural technology, one can conclude that the vertical expansion of agriculture has its own limitations.

(g) *Poor base of supportive services* such as research and development institutions, agricultural extension centres, and agricultural finance and loan associations. Furthermore, institutional coordination is

poor, and agricultural extension workers and researchers work under difficult conditions.

(h) *Continuously changing agricultural policies and difficulties in implementing government policies that run counter to the Agricultural Law.* Consequently, it may happen that an agricultural policy is ignored, because it disagrees with the Agricultural Law, or that the Agricultural Law is ignored, because it disagrees with a stated government policy on agriculture. Such a situation creates an environment up making decisions that are necessarily based on self-interest rather than the public interest.

C. PERFORMANCE INDICATORS IN THE AGRICULTURAL SECTOR

The level of agricultural performance is reflected in the following performance indicators:

(a) Agricultural production at cost price accounted for JD 231 million out of a total GDP of JD 3,462 million, or 6.7% of GDP (average for 1993 and 1994).

(b) The average per capita agricultural domestic product was JD 69 compared with around JD 840 per capita GDP for the same period.

(c) The average deficit in the agricultural balance of trade was JD 353 million, as agricultural exports covered only 30% of agricultural imports.

(d) The wholesale price index in 1993 and 1994 rose to 260 and 261 respectively (1979 = 100). The index for the prices of agricultural produce rose to 103 and 107 respectively during the same period.

(e) Studies indicate that unirrigated areas cultivated with field crops and main vegetable crops showed negative growth, whereas the areas cultivated with fruit-bearing trees showed positive growth.¹

¹ Salem Butrous, *The Jordanian Economy: Problems and Prospects* (1994).

(f) Studies have also shown that the productivity of each dunum of unirrigated field crops showed positive growth for some crops and negative growth for others. Meanwhile, meat productivity exhibited relatively positive growth rates.²

(g) The deficit in the commodity balance totalled 650,000 tons, while the commodity balance showed positive growth in the production of fruits and vegetables.

(h) The unit share of technology in agriculture is low compared with the agriculturally developed countries.

D. AGRICULTURAL TRADE AND THE FOOD SITUATION

Some products, such as rice and sugar, are not produced in Jordan, and are necessarily imported. In addition, the country suffers from a clear and increasing shortage in cereals, legumes and oils. In other words, there is a shortage in the strategic commodities that are essential for food security (table 1).

Table 1. Expected average consumption of main food commodities
(Thousands of tons)

Commodity	1995			2000		
	Consumption	Production	Self-sufficiency (%)	Consumption	Production	Self-sufficiency (%)
Wheat	669	97	15	814	97	12
Barley	87	20	23	106	20	19
Maize	261	--	--	317	--	--
Beans	17	1	4	21	1	3
Lentils	9	5	54	11	5	45
Olives	13	12	90	16	14	86
Red meat	60	14	23	73	14	19

Source: Salem Butrous, *The Jordanian Economy: Problems and Prospects* (1994)

Meanwhile, Jordan is running a surplus in the production of vegetables and a relative surplus in the production of eggs and some kinds of fruit. This is an indication of the importance of agricultural trade for the country. It is noteworthy that the value of agricultural imports is well over JD 500 million, and the figure is increasing; agricultural exports, on the other hand, total only JD 146 million and are rising, but at a lower rate than imports. This situation has led to a chronic and increasing deficit in the balance of trade for foodstuffs, which has amounted to as much as JD 400 million in some years.

If the deficit resulting from the import of the requirements of production is added to this, then the importance of agricultural trade in the national economy and in Jordan's food security status becomes readily obvious.

The following points should be noted about Jordan's handling of agricultural trade and the question of food security:

(a) Jordan has sought to develop its production of food commodities and in addition is trying to develop the means for locally meeting the demand for the requirements of agricultural production. It is also developing certain industries that use agricultural commodities as an input, such as the tomato-paste industry.

(b) Jordan has sought to upgrade inter-Arab trade, with 97% of its total agricultural exports going to other Arab countries.

(c) Jordan is committed to the various endeavours to consolidate joint Arab action and Arab agricultural integration.

(d) Jordan is following a policy of maintaining a strategic food reserve, improving its economic capabilities, and improving its relations at the Arab and international levels, to safeguard its food security. In fact, far more attention has been paid to this latter point. Consequently, significant results have not materialized owing to the weak base of agricultural resources.

² Ibid.

(e) A study on pricing policy and food consumption revealed that the daily per capita consumption of basic nutritional categories in Jordan are as shown in table 2; Jordanian consumption is compared with the quantities recommended by the Food and Agricultural Organization of the United Nations (FAO).

Table 2. Per capita Jordanian consumption of basic nutrients
(Grams)

Food ingredients	Energy and protein	Fats	Oils	Starch	Calcium	Phosphorous	Iron	Vitamins
Jordan	2900	95	76	404	578	2963	24	986.9
FAO standards	2440	61	81	366	700	unspecified	12.1	663.2
Difference (percentage)	119	156	94	110	82	unspecified	195	149

It is evident from the table that the daily per capita consumption of food in Jordan is generally higher than the balanced consumption of the main nutritional categories, meaning that the national food consumption pattern is wasteful; it amounts to 48.6 million calories, 35.6 tons of protein, 40 tons of iron and 128 tons of vitamin C. In contrast, there is a shortage in fats, amounting to around 80.4 tons.

II. THE IMPACT OF RECENT REGIONAL AND INTERNATIONAL DEVELOPMENTS ON JORDAN'S AGRICULTURAL SECTOR

The 1980s harbored a number of indicators about what the following phase would be like. The following pages outline the most prominent short- and medium-term changes associated with Jordan's economy, including agricultural development activities. The changes

discussed here include the structural adjustment programme implemented by the Government, the rise in various parts of the world of regional economic blocs and groupings, the Barcelona Declaration and the various Euro-Mediterranean agreements to establish free-trade areas, the establishment of the World Trade Organization (WTO), and various regional changes within the Arab world.

A. THE STRUCTURAL ADJUSTMENT PROGRAMME

Jordan's structural adjustment programme is a series of economic measures proposed by the International Monetary Fund (IMF) and the World Bank. A number of countries in various regions of the world began to implement structural adjustment programmes in the 1980s as their foreign debts accumulated to the point where they were incapable of servicing them. This was associated with the economic crisis of that decade, in which average rates of growth declined, unemployment increased, and inflation rates rose in a number of developed countries; these problems were reflected in the form of compounded economic difficulties in the developing countries.

Despite the efforts made by these latter countries to activate trade and to apply various measures to restore economic health, they did not manage to remedy the structural imbalances in their national economies. The new loans, aid and facilities that these countries received from the IMF and the World Bank were all conditional on the acceptance by these countries of IMF and World Bank economic advice.

Needless to say, since the IMF and World Bank are under the influence and hegemony of the developed nations, the advice they tender is more in the interests of the economies of the developed countries rather than those of the developing countries, including the Arab States.

The economies of the Arab countries have been brought to the point of no choice because of their patterns of excessive consumption, their heavy expenditure on infrastructure and military projects, and their inability to employ the loans they have obtained in an economically viable

way, such that they could service their foreign debt. Consequently, they were forced to accept the IMF and World Bank prescriptions on how to rectify their structural imbalances and market distortions. These prescriptions inevitably involved the application of a package of economic policies, the most prominent items of which include the liberalization of trade and linking debt rescheduling and financial assistance to the progress achieved in the application of the proposed economic reform programme.

Arab countries were forced to accept the terms dictated to them. They were no longer in a position to choose those policies that they deemed suitable for their own circumstances or those policies that could alleviate the social costs and burdens of implementing restructuring programmes. In such a case, they could not avert the rise of social and economic problems similar to the problems that had arisen during the past phase and which were the outcome of following the advice of these international institutions so that the countries concerned could obtain loans and aid at the time.

B. ECONOMIC ALLIANCES

Several economic alliances have recently emerged in various regions of the world, and other alliances are likely to emerge, since the world economy has not yet stabilized. Among the most important economic alliances that have already been formed are the following:

- (a) The North American Free Trade Area among the United States of America, Mexico and Canada (NAFTA).
- (b) The Free Trade Area between Brazil and Argentina. Other Latin American countries will probably join this economic alliance.
- (c) The Free Trade Association of South-East Asia which consists of Indonesia, Brunei, Malaysia, the Philippines, Thailand and Singapore.

It should be noted that enhanced trade among the countries of these economic blocs will diminish Jordan's market capacity and will affect their conditions of trade with the Jordanian economy.

C. THE BARCELONA DECLARATION

The Barcelona Declaration seeks to create a free-trade area among the Mediterranean States, within the context of a European partnership that includes political and social aspects. European-Arab dialogue has taken on the form of a Euro-Mediterranean dialogue (this is excluding the Gulf States, of course, which are considered to be within the American sphere of influence).

Jordan is nearing the conclusion of an Association Agreement with the European Economic Community similar to the agreement which Tunisia has already concluded with the EEC. This agreement will open Jordan up to international markets in an atmosphere of acute competition in the various fields of industry, agriculture, services, banking and insurance.

D. THE WTO AGREEMENT

The first round of the negotiations concerning the General Agreement on Tariffs and Trade (GATT) began on 30 October 1947, among the then 32 GATT member States, including Syria and Lebanon. There were a number of subsequent rounds of negotiations, and yet it was only in the seventh round—the Uruguay Round—that trade in agricultural commodities was discussed. One hundred seventeen States, including seven Arab States (Jordan not among them), participated in the Uruguay Round, which lasted from 1986 to 1993. The Round culminated in the conclusion of the Final Act Embodying the Results of the Uruguay Round of Multilateral Trade Negotiations, on 15 April 1994 in Marrakesh, which was signed by 109 States. It was agreed that the application of the Agreement Establishing the World Trade Organization (WTO) would go into effect on 1 January 1995. The WTO, which replaced GATT, was to implement the various agreements annexed to the WTO Agreement.

Perhaps the most prominent feature of these is the reduction of the levels of subsidies provided to the agricultural sector and for agricultural produce. The relevant agreement (the Agreement on Agriculture) allowed developing countries to make reductions at a slower rate than those required of developed countries. It also granted them several exemptions in scientific research and agricultural extension and other areas. The agreement stipulated timetables for implementation.

Among the most noteworthy aspects of the Agreement on Agriculture was that it has transformed the most commonly used measures—quantitative restrictions, quota systems and import bans—into price restrictions (tariffs).

In view of the importance of the WTO Agreement, which is expected to govern the course of world trade relations in the future, and in an attempt to assess the consequences of the application of the WTO Agreement on agricultural commodities, the author designed a simple dynamic mode indicating the percentages stipulated by the Agreement will produce higher prices in the local and international markets in the short run. Furthermore, the transformation of trade restrictions into customs duties and the reduction of these duties in the importing countries will lead to lower commodity prices in the local markets and an increased demand for imports. Thus, the net impact of the agreement will depend on the ratio of change in these two variables—the flexibility of local and international supply and demand, and the degree of self-sufficiency from local production.

In discussing the likely impact on Jordan, the following points can be noted:

(a) The international price of wheat is expected to increase by 4.5% per year as a result of the application of the WTO Agreement. Since Jordan's imports of wheat are substantial, the country will without doubt be negatively affected in the short run, and since the prospects of producing wheat and grain in Jordan are limited in general, the negative impact will likely continue on into the long run.

(b) The prices of red meat and poultry, butter, cheese and powdered milk are expected to increase annually by 3.8%, 2.7%, 5.4% and 7.7% respectively. Jordan has the potential to expand in the field of livestock-raising by utilizing its pastureland resources, but this would still require further imports of fodder, such as maize (which is difficult to produce in Jordan). One can see, therefore, how difficult it would be to achieve a balance between the inputs and the output in a manner that would be financially and economically profitable. The Jordanian experience indicates that the country could increase its production of red meat, poultry and dairy products over the short and medium terms. In this case, Jordan would be likely to benefit by the rise in international prices and is expected to consume more poultry and less red meat.

(c) Vegetable oil prices are expected to rise by 4.6% per year. Consequently, Jordan will be adversely affected in view of its increasing dependence on vegetable oil. Meanwhile, Jordan is expected to benefit from olive oil production, particularly in the long run, in view of the feasibility of expanding production in this commodity.

(d) As for the commodities which Jordan cannot produce at all, such as rice and sugar, Jordan will likely be adversely affected by the rise in international prices. Meanwhile, there are indications of a trend to reduce consumption of these two commodities.

(e) In general, Jordan's import bill for agricultural commodities will rise significantly in the short run (1995-2000)—10% to 40% depending on the type of commodity—a situation that will put additional burdens on the country's economy. Measures should be taken to contain the impact that this situation will have on the country. In financial terms, this increase could cost JD 50 million, according to the analysis model used in the model referred to here and according to the findings of various Arab and international studies.

E. REGIONAL CHANGES

The most prominent feature of the regional changes that are taking place is perhaps the retreat of joint Arab action in all areas, including economic matters. It is noteworthy that, since the establishment of the League of Arab States, Arab economies had been heading on a course of integration. Arab economies entered a phase of coordination in 1956 when the Arab League adopted the following resolution:

Whereas economic unity is one of the most important objectives that the League of Arab States is seeking to achieve, the Political Committee recommends that a committee of Arab experts be formed to undertake the management of a full project on such economic unity.

An agreement on this project was reached in 1962. On the strength of the agreement, the Council of Arab Economic Unity was formed. In 1964, the Council issued a decision establishing the Arab Common Market, with a view to achieving the following goals:

- (a) The freedom of movement of persons and capital.
- (b) The freedom of exchange of Arab and foreign commodities.
- (c) The freedom of residence and work.
- (d) The freedom of transport and the use of the means of transport as well as the use of ports and civilian airports.

However, despite the efforts that have been made, the lack of political will has foiled the implementation of the agreement. For political reasons also, the trend continues towards the closure of the institutions engaged in joint Arab action, in particular since Arab League member States have not kept their dues paid up. This has forced several institutions engaged in joint Arab action to curtail their activities and has brought about the bankruptcy of some, including the Council of Arab Economic Unity.

The collapse of the institutions for joint Arab action reached its climax in the aftermath of the Gulf war, in which the United States sought to cobble together an international alliance aimed at dismembering the Arab nation and paving the way for the hegemony of the United States and world Zionism, represented by the Jewish State in Palestine. While the United States was engaged in exercising direct influence over the region (once the Arab order collapsed), the Arabs, with the Palestinians in the lead, conceded the Arab Palestinian right to Palestine and concluded "peace" treaties with the colonizing enemy. The Baghdad Pact (Central Treaty Organization) returned to the region under the name of the Middle East Project, and the Arab boycott of the Israeli economy was lifted.

The regional economic changes that are taking place are only a byproduct of regional and international turmoil. The economy cannot go forward in isolation from the political and economic goals of the Jewish State and those of world imperialism or from the economies of the Arab world; such discussion would lead nowhere. In this connection, we must refer to a number of economic, as opposed to political, indicators:

(a) The United States seeks to create a politically and economically stable region in the Middle East in which the Jewish State acts as an entity subordinate to the United States, whereby the United States could secure the subordination of the entire region to the American economy, which in turn would help the United States face up to the other world economic alliances and spread its hegemony over Europe and other countries.

(b) The Jewish State is trying to achieve a series of economic objectives through the realization of an "Economic Greater Israel". A top priority of the Jewish State, therefore, was to see the Arab boycott of Israel lifted. One Israeli study estimated the accumulated effect of the Arab boycott of Israel at some \$45 billion: an estimated \$24 billion of investments were prevented by the boycott from flowing into Israel; and Israel's lack of access to Arab markets because of the boycott cost Israel \$20 billion.

The Jewish State is expected to attempt to gain control over agricultural land either by outright purchase or by entering into partnerships with owners and national or multinational agricultural companies. Israel will also seek to control water resources, appropriate agricultural technology and utilize Jordanian agricultural labour in Jewish agricultural projects or in joint Jordanian-Israeli projects. An example of this is the project for the development and integration of the Wadi Araba basin with the development projects in the Palestinian autonomous areas. Another example is the project of the canal planned to link the Red Sea with the Dead Sea. The project will produce fresh water for several purposes, foremost among which to show that the Jordanian agricultural sector could benefit from regional development in terms of a qualitative and quantitative increase in production. However, the continuation and sustainability of such a development remains hostage to the Israeli authorities, particularly if we add to this the imports of Israeli agricultural technology that Jordan would be bringing in. This means that Jordan must think very carefully about how best to utilize the projects and programmes of agricultural development and how best to safeguard the sustainability of agricultural development so as to insulate it from political influences.

III. PROPOSED OUTLINE OF A STRATEGY FOR ADAPTING TO THE CHANGING CONDITIONS

The ability of the Jordanian agricultural sector to respond to change can be evaluated by examining the following points: locally available resources; the transformation to a market economy; international competition; and regional changes. These are detailed below.

1. *Local resources.* Jordanian agriculture is based on rain-fed agriculture, which could be horizontally expanded in the medium term. The possibilities for expanding irrigated agriculture, on the other hand, are limited in the short run, although vertical expansion could be achieved by increasing the productivity of the acreage under cultivation. There are also good prospects for expanding livestock-raising, by exploiting the Badia (desert). However, this would require huge financial investments that are beyond the capabilities of the Jordanian private sector.

The needs of the population for agricultural produce are increasing, and yet the self-sufficiency ratio is declining, particularly in terms of strategic commodities. Furthermore, the number of Jordanian farmers is decreasing, and Jordan is becoming increasingly dependent on the use of imported technologies of production. All these factors place major limitations on the development of the Jordanian agricultural sector and on its ability to respond to the changes taking place.

2. *Changing to a market-oriented economy.* If we add to the first point—Jordan's limited resource base—the demands of adjusting to the market mechanism and to the liberalization of international trade, then it is readily apparent that the absence of a strong private sector, as well as the absence of the social and political conditions that would make it easy for the private sector to take over the task of agricultural development, puts severe limitations on the responsiveness of the agricultural sector to the changes and requirements of structural readjustment to market economies and to the liberalization of international trade.

3. *International competition* in the form of giant and competing economic blocs, which have varying—and often opposing—economic interests. The relationships that these blocs have with Jordan directly affect agricultural and non-agricultural development in Jordan.

4. *Regional changes.* The already heavy burden that the agricultural sector has to bear becomes even more onerous if the sector is to develop its ability to respond to the regional changes that are under way. At the regional level, there has always been a trend, deeply rooted in history, for Arab unity and freedom. This trend has its own institutions and aspirations for achieving Arab agricultural and commercial integration. Also operating at the regional level is the peace process and the trend towards establishing a Middle East market, which runs counter to the trend towards the integration of Arab commerce and agriculture. The proposed Middle East market would give a freer rein to Israeli ambitions to dominate the Jordanian agricultural sector. The Jordanian agricultural sector could become inextricably attached to and dominated by the Israeli economy and the great economic powers. To this sobering picture should

be added Jordan's current economic burdens in the form of foreign debt and the financial requirements needed to continue the development process.

A PROPOSAL FOR ADAPTATION TO REGIONAL AND INTERNATIONAL CHANGES

We have admittedly drawn a bleak picture of Jordan's economic capabilities. However, judging from Jordan's experience with history and its skill in utilizing international and regional events and developments in the service of the country's economic development, Jordan will likely benefit from the regional and international changes and manage to reduce the impact of their negative effects if it formulates a local agricultural policy based on increasing domestic savings and on raising the capital of the country's companies. This policy should also be based on upgrading the management approaches utilizing agricultural resources in an economically sound way. Meanwhile, Jordan's foreign policy should try to serve the country's interests and at the same time avoid clashing with the interests that are to be found in the international markets. To achieve this goal, the following should be done:

(a) An electronic database needs to be built.

(b) An effective institutional base needs to be constructed.

(c) The country should rely more on national investment in agriculture. It also needs to efficiently exploit and develop the available resource base and to raise the standard of the utilization of the technology for agricultural production, in accordance with the economic principle of optimum utilization of resources.

(d) A mechanism for pricing, income, expenditure and media policies should be adopted, with a view to curtailing excessive consumption and to creating balanced consumption patterns as well as reducing waste, diversifying and increasing production and minimizing the food deficit.

(e) The governmental and the private sector roles in the process of economic reform need to be defined according to the relative advantage of each sector in the economic activities related to agricultural production. Although there is no ready-made prescription for the governmental role *vis-à-vis* free-market mechanisms, the form and scope of governmental intervention should change as the need arises. The government role should be clearly spelled out with regard to certain considerations, among them the following: ensuring food security; formulating strategy; planning and coordination; remedying the phenomenon of distorted market prices; addressing the private sector's reluctance to invest in certain fields; carrying out agricultural supervision, control, education and extension; and providing market information. All this requires a series of studies to be carried out over the course of the economic adjustment. It is usually on the receiving end of the consequences of international and regional changes. Therefore, Jordan should follow a foreign policy that enables it to coexist with others, to benefit from the changes that are inevitable and to minimize their negative impact. In this connection, we propose that Jordan's agricultural production and manufacturing policy be based on diversifying production (including the production of processed goods) and improving quality in accordance with the principle of relative advantage, to enable Jordan's agricultural exports to compete in local and foreign markets. Jordan should also make every effort to maximize the exemptions granted to developing countries by the various international free-trade agreements covering agricultural commodities and agricultural production inputs.

(g) In view of the acute competition at play in international markets, the recent emergence of giant economic blocs, the international trend towards the liberalization of international trade, and the regional trend (sponsored by the West) to establish a Middle Eastern market, the status of Jordan's agricultural trade can only become more complex. Therefore, facing up to the dangers and securing Jordan's agricultural production, as well as Jordan's market, call for the adoption of a three-pronged policy, to deal with: countries outside the region, the non-Arab Middle Eastern countries, and the Arab States.

Although it is difficult to propose specific policies in this connection, it is important to point out the importance of the Arab strategic dimension within the framework of regional cooperation and the Middle Eastern market. This Arab strategic dimension could constitute a strength for Jordan that would reinforce its negotiating position. Integration in the area of Arab food production and Arab food security along with the integration of the base of the industry concerned with the production of agricultural inputs could provide a secure foundation for independent decision-making and would keep Jordan from falling into the trap of economic dependence. This kind of integration could also provide Jordan with markets for its agricultural produce both under normal circumstances and in cases of emergency.

Needless to say, Israel has ambitions in Arab territory and seeks to control the economies of the Arab world, including the Jordanian economy. Therefore, we would like to caution against permitting any kind of Israeli agricultural investment in Jordan; the agricultural sector in Jordan must not be allowed to become subservient to Israeli technology. We would like also to draw attention to the need for examining the relations between Jordan and non-Arab Middle Eastern States, as the manifestations of alliances have begun to surface and to encircle the Arab world. We would also like to call for reviewing the question of Arab production and agricultural business integration and how we could benefit from the experiences of previously established economic blocs to build a base of mutual interests among agricultural Arab economies.

Commentary

Dr. Suleiman Arabiyat

The paper by Dr. Salem Butrous Maqtash and Dr. Yusef Hayagneh was a realistic description of the importance of agriculture for the Jordanian economy. The paper also sought to assess the impact of recent regional and international changes on Jordanian agriculture and attempted to draw up the features of a strategy for adjusting to these changes, together with a number of recommendations. Before beginning, it may be useful to refer to several concepts that are often mentioned in the literature describing the role of agriculture in the national economy and the characteristics of agriculture in developed countries. Then we will try to "integrate" agriculture and other economic sectors with the socio-economic development of the country. Modern agriculture has become a business, and farmers behave like businessmen and now belong to the world of commerce; they often utilize sophisticated technical information and have access to a system of research, extension, marketing and funding organizations.

Traditional agriculture, which is characterized by the intensive use of unskilled labour, does not necessarily account for a high share of national income. However, the agricultural sector in developing countries is no longer homogeneous but may be heterogeneous and diversified. Often, the agricultural sector of developing countries can be broken down into two subsectors: one advanced, using a limited number of workers and achieving high levels of productivity, the other backward, labour-intensive and recording low levels of production. This phenomenon is known as dualism.

Among the characteristics of traditional agriculture in developing countries is that its main elements of production are land (small plots of land) and labour (usually family members). This usually amounts to subsistence agriculture. Labour in subsistence agriculture is also a source of manpower for other sectors of the economy. Wages for agricultural work are usually low, with such labour being abundant. Farmers are unacquainted with modern technology. Their situation can be described as one of technology stagnation.

The classical analysis of the role of agriculture in the economic development of developing countries focuses on four factors:

1. *Product contribution.* Agricultural production constitutes the main material used in the food processing and textile industries.
2. *Market contribution.* In addition to being producers, the farming population constitutes a consumer market for local industries and production inputs.
3. *Factor contribution.* Agriculture is the main source of capital investment in other economic sectors. Some farm labourers may transfer from agriculture to other supplementary industries.
4. *Foreign exchange contribution.* Agriculture helps strengthen the balance of payments, either by increasing the volume of exports or by reducing the volume of imports.

Researchers can use this pattern to identify the contribution of Jordanian agriculture to the national economy. The researchers have identified the problems of agriculture in terms of lack of fertile soil, scarce water resources, immigration from the rural areas to the cities, technological backwardness, poor services base, and continuous changes in and lack of control over agricultural policies.

I believe that the agricultural sectors in most Arab and developing countries face a similar number of technical, economic, institutional and natural obstacles. However, one of the most prominent problems of the agricultural sector in Jordan is its inability to keep pace with new economic developments. It has not been given priority in the national development plans; certain other sectors have received the lion's share of attention and funding and were provided with encouragement and facilities not made available to the agricultural sector. People working in the agricultural sector are not able to adjust easily to other sectors. It is enough to point out in this connection the complete or partial closure, whether for political or economic reasons, of some Arab markets to Jordanian agricultural produce; this is a particularly relevant point

considering the fact that a significant portion of our agricultural sector has been developed with a view to exporting Jordanian produce to neighbouring Arab countries. As a result, the agricultural sector was dealt a blow at its start and incurred enormous debts. The Government had to intervene, and the State Treasury had to take on part of the burden.

I find it difficult to accept the argument presented that one of the problems of Jordanian agriculture is the presence of foreign labour in Jordan. In fact, the presence of these workers is a positive factor, namely cheap labour, which enhances the competitive position of Jordanian agricultural products.

The researchers summed up the performance indicators of the agricultural sector in terms of the low contribution it makes to GDP, the deficit in the agricultural balance of trade, the low productivity in certain agricultural commodities, the low per capita agricultural domestic product compared with per capita GDP. These are indeed indicators of low performance.

Nevertheless, we have to deal with these realities whether they are positive or negative, and we must not under any circumstance belittle the role of agriculture in the Jordanian economy. Agriculture is still performing its expected role in economic development, whether in terms of contribution to national income or in terms of absolute value. A valuable base of national food security, it provides new jobs to the labour force and serves as a reserve of jobs if foreign workers should leave the country. The agricultural sector has undergone structural transformations so that it now requires the sophisticated skills of agricultural technicians, university graduates in agriculture, and businessmen, to upgrade the sector to a level of required efficiency in production.

The researchers identified five variables with regard to the impact of regional changes on Jordan's agricultural economy. One may say that they could have listed more variables or fewer variables, and one might not differ with the researchers in measuring the degree of impact of these changes on Jordanian agriculture. One point that might have been

addressed, but which was not, was the current situation for Jordan specifically, after the adoption of the country's economic adjustment programme, in particular the way the agricultural loan programme was handled. However, here let us pause at two variables in particular: the WTO Agreement and the regional changes that have been taking place.

The WTO Agreement on Agriculture dealt with the following topics:

1. Transformation of non-tariff barriers, such as the ban on imports and the various export quotas and restrictions, to customs tariffs.
2. Gradual reduction of customs tariffs in the industrial countries on all products included in the Agreement on Agriculture.
3. Gradual reduction of export subsidies.
4. Reduction of the government subsidies given to the agricultural sector.

It is noteworthy that the WTO Agreement clearly points out that negative results could ensue as a result of reforms in those less developed countries which are net importers of food and which are suffering from food deficits. The Agreement also places restrictions on the subsidies allowed for production and exports. Thus, from the practical point of view, agricultural trade is in a weak position, and consequently, the reduction of such subsidies would generate a rise in the prices of agricultural products and a further increase in the balance-of-payments deficit, particularly as a result of the rise in the prices of wheat, meat, dairy products and sugar. The prosperity of producers, consumers and exporters alike would be affected as a result of the rise in the price value of Jordan's imports of wheat, rice, sugar, red and white meat, oils and dairy products would reach some \$559 million per year if Jordan fully applies the agreements in the Final Act of the Uruguay Round. The additional cost of food imports would amount to \$55 million in the year 2005, which is the end of the transition period set for developing countries. Therefore, Jordan should follow up developments in the

international markets and should make plans for agricultural production and for introducing structural changes in the patterns of production and consumption.

Some people say that Jordan will have better access to foreign markets for fruit and vegetables. The truth, however, is that the scarcity of water resources will place limitations on the production of certain commodities. Furthermore, Jordan is facing restrictions from the European Union despite the trend towards Euro-Mediterranean partnership. Jordan should therefore focus on the markets of the neighbouring Arab countries and other Eastern markets, such as the republics of the former Soviet Union.

The model used by the two researchers to measure the impact of the agreement on the liberalization of trade needs to be tested, and its variables should be changed. It was not clear whether the results reached by the two researchers in terms of their expectations of the rise in the prices of some commodities and the estimated value of loss in prosperity were reached through the direct application of the equations of this model to the reality governing Jordan's foodstuff imports.

On the question of regional changes, even if one agrees with the authors' rigid patriotic position and their averring that economic policies cannot be decided in isolation from politics, one perhaps cannot accept their conclusions, which were drawn out of context. At times they tended to focus on politics and ideology rather than economics, although the relationship that may exist in this connection cannot be denied. Even if one agrees with the researchers on their method of analysis in terms of the acquiescence of the Arab and Jordanian position to a *fait accompli* and the collapse of the Arab order, I strongly feel that Israeli ambitions to spread its hegemony and penetrate the Arab order are not expected to succeed to the point that Israel would gain access to Jordanian agricultural land, regardless of the methods Israel may use in this regard.

Political analysis was predominant in drawing up the recommendations and in discussing the issues and reaching conclusions.

Furthermore, the proposed strategy of adjustment or adaptation are out of touch with reality. With all due respect for the patriotic feelings of the researchers, I feel that if we take into consideration the existing facts, their proposals amount to "swimming against the current".

If the paper is ever re-drafted, it may be useful to amend some of its assumptions so as to deal with some of the more important variables in the national agricultural adjustment programme that have put a heavy burden on the Jordanian farmer:

- (a) Liberalizing.
- (b) The removal of fodder and water subsidies.
- (c) The restructuring of the institutions of the agricultural sector and the continuation of the trend towards privatization (the Agricultural Marketing Company, the Agricultural Marketing Organization and the Agricultural Credit Corporation).
- (d) The Government's refraining from intervention in the production patterns of the agricultural system. This measure is tantamount to the termination of the role of Government in the agricultural development process and investment in the agricultural infrastructure. Such measures will necessarily produce harmful effects. What is needed are specific programmes that can allow us to move along, with minimum losses, to the point where the objectives of the agricultural adjustment programme are achieved.

Chapter Four

Jordanian Industry in its
Encounter with Challenges
and Changes

Dr. Akram Karmoul

A Strategy for the Jordanian
Transport Sector

Dr. Dreid Mahasneh

JORDANIAN INDUSTRY IN ITS ENCOUNTER WITH CHALLENGES AND CHANGES

Dr. Akram Karmoul
Senior Consultant, UNDP

Introduction

The Jordanian economy has grown in a balanced way in the last four decades owing to domestic stability, the country's base of trained personnel and the remittances sent back by Jordanians working abroad. The country prospered in the 1970s and 1980s as a consequence of Jordan's openness to the adjoining States that were enjoying a period of prosperity.

With the beginning of the 1970s, rapid political and economic changes began to take place at the regional and international levels. Jordan entered a period of stagnation requiring economic structural adjustments. And at the dawn of the 1990s, the Arab region witnessed the outbreak of the Gulf crisis and the consequent rearrangement of the region, with negative effects ensuing.

Internationally, the communist system in the Soviet Union and Eastern Europe broke down, and a new world order based on a unique power appeared. The countries of the world began to adjust themselves to this new order, but still, its main features have not yet crystallized.

In 1991, the States of the region began peace talks which are expected to lead eventually to a new regional order that will be supplementary to and integrated with the new world order.

Economic relations among the various countries of the world are expected to chart a new course of relationships based on new patterns of thinking that will pose new challenges to the States of our region. We therefore need to be alert and to act properly to protect the development process of these States.

These events have coincided with the growing phenomenon of regional economic blocs, through which the participating States seek to expand their markets and to secure a superior position for their economies. The role of the United Nations operating in the field of liberalizing and regulating international trade in the world has been enhanced.

Rapid technological developments produced transformations in the relative advantage of the various countries of the world, particularly those which depended upon their raw materials as a major resource; it is now the case that knowledge has become more important than money in activating the economy and in pushing the wheel of development forward.

Jordan, like other countries, is undergoing this phase of accelerated change, a critical phase with respect to national economies and developing industries.

After discussing some of the indicators and trends, the paper will focus on the main changes and challenges that are being encountered by the Jordanian economy in general and the industrial sector in particular, and will try whenever possible to propose likely solutions that would safeguard the integrity of the economy as well as the necessary developmental strategy and measures needed to cope with these events.

I. SOME MAJOR INDICATORS OF THE INDUSTRIAL SECTOR IN JORDAN

Jordan's industrial sector is viewed as one of the major tributaries of the country's economy and national income. The output of the industrial sector in 1994 totaled more than JD 1,700 million. Industry employs well over 100,000 workers. Products have become diversified, and most infrastructure is now available. The manufacturing sector accounted for some 14% of GDP in 1994. Industrial exports totaled 89% of the total value of national exports for the same year.

The industrial sector continues to suffer from chronic economic problems despite the fact that Jordan has been applying an economic

adjustment programme since 1989. Some of these problems are the following:

- (a) A chronic deficit in the balance of trade.
- (b) A foreign debt burden which resulted from the financing of the development process.
- (c) Unemployment resulting from the high rate of population growth compared with the rate of growth in income, the small size of the labour market and its consequent inability to absorb those who enter the labour market every year.

The adjustment programme has produced a reduction in the budget deficit and in inflation, to a certain extent. Nevertheless, Jordanian industry is still vulnerable in terms of competitiveness in quality and price, particularly in non-Arab international markets. Furthermore, there is a weak link between the industrial sector on the one hand and other major sectors, such as the agricultural sector, on the other. In fact, the productivity of the industrial sector is low because of lack of utilization of its full available resources.

The following are some of the reasons for the weakness of the industrial sector:

- (a) The limited local resources and industrial inputs of the sector.
- (b) The small size of the available markets, in addition to the high rate of imports and low rate of exports. Exports were only about 37% of the total value of basic imports. In other words, the deficit in the balance of trade is well over 50%, amounting to around JD 507 million in 1994.

The products of the extractive industries, such as phosphates and potash, as well as the fertilizer and pharmaceuticals industries, are regarded as the most important industrial exports. However, these exports

depend on traditional neighbouring markets and are vulnerable to the risk of fluctuations, particularly in light of the rapid international developments that are tending towards the liberalization of international trade.

It is reassuring that some Jordanian industries have recently managed to receive ISO 9000 certification. However, it is noteworthy that many other industries are heading in the same direction.

II. THE REPERCUSSIONS OF THE INTERNATIONAL AND REGIONAL CHANGES ON THE JORDANIAN ECONOMY AND INDUSTRY

All indications are that the next phase will be characterized by openness in the commodities and services markets for the products produced by all countries in the region. This openness is expected to place the Jordanian economy and Jordanian industry under pressure, as competition will grow more acute. Nevertheless, these changes could work in our favour if we can deal with them in an alert and dynamic fashion and with the genuine participation of the private sector, which in the final analysis will be the sector that will have to face the problem. The following paragraphs describe various agreements concluded and changes anticipated.

A. THE PEACE AGREEMENTS AND THE ECONOMIC AGREEMENTS WITH ISRAEL

These agreements have not to date achieved any significant cooperation despite the great expectations they have aroused in this connection. Mechanisms for Middle Eastern cooperation have been formulated and regional institutions have been established to support this cooperation, such as the Cairo-based Bank for the Development of the Middle East, the Tunis-based Regional Council for Tourism, and the Amman-based Regional Council for Business.

The United States, the European Community, Japan and Canada are supporting the trend towards Middle Eastern cooperation with the aim of

integrating the countries of the region with the Israeli economy and opening the region's markets to free trade, which would create a large consumer market for the products of the industrial countries and Israel.

One study prepared by the University of Tel Aviv pointed out that Israeli exports would increase by 22% if the Arab boycott of Israel were eliminated. Moreover, the removal of the Arab boycott would increase the size of foreign investments in Israel by 10%, thereby increasing the competitiveness of the Israeli products in the Arab region.

A quick comparison of the industrial indicators in each of Israel and Jordan, the two major countries in the peace process, shows that Israeli industry, which utilizes advanced technology, contributed by some 25% of gross income in Israel, compared with 14% in Jordan. Israeli industrial exports for the same year totaled some \$6 billion.

Industry in the two countries have both suffered from the small-size domestic market, prompting each to focus on exports, which for Israel now represent the crux of its strategy in light of the openness of world markets to its products.

With regard to Jordan's industry, the country has competent workers and specialized training institutes. If these two elements are utilized well, they could contribute to the speedy transfer of technology to Jordan and help in its progress, as was the case in East Asia, a region lacking in natural resources and raw materials.

Because of the potential economic friction that could result from the large disparity between the Arab States and Israel, it is vital that Arab efforts be pooled at an early stage, to handle economic moves cautiously and in a way that would strike a balance in the interest of all States of the region and that would ensure that the Israeli economy is not the only one to grow. In light of the major advantages granted to it by the United States and Europe at the expense of the relatively weaker and non-supported Arab economies, Israel is poised to enjoy just such an advantage over its neighbours. Jordan could benefit in this regard from

the advantage of subcontracting in labour-intensive industries in view of its relatively low labour costs. It could also benefit from its central geographic location, which means lower transport costs.

To regulate all this, the Arab sides concerned should collaborate closely, particularly Jordan and Palestine, which should act as one party in the negotiations with Israel. These Arab blocs and agreements should seek the goals of restraining any inequitable expansion of the Israeli economy, precluding harmful competition, and forming an economic negotiating force that could acquire the best market and technological privileges that the West grants to Israel. Jordan and Palestine should together act as the safety valve for the protection of the other markets in the Arab region, since these two will be the main bridge for the passage of Israeli products and goods to the various countries of the region. Meanwhile, a joint Jordanian-Palestinian and Arab economic power would have a better chance to become a competitive bloc, particularly in the areas of industrial services and personnel.

What is reassuring in this connection is the equitable agreement concluded between Jordan and Palestine on trade, banks, industry and the regulation of joint investments and cooperation in the various other fields. The agreement is awaiting application when the desired stability is achieved.

In conclusion, if the Arab countries do not choose for themselves a safe approach based on solidarity, coordination and economic integration with one another, others will choose this approach for them, and a new Middle Eastern order, which would entail subservience to the West, will be imposed on them. Consequently, the Arab States of the region would be incapable of utilizing their resources for the benefit of their peoples.

B. THE EMERGENCE OF INTERNATIONAL TRADE BLOCS

The trend in the international economy towards large trade blocs will limit the opportunity for small and developing countries such as Jordan to export their goods to the countries that are members of such

blocs unless these small countries improve their products, efficiency, competitive capability and economic and commercial alliances with others.

Among the international changes that will affect the strategies of the small, developing countries in this connection will be the decline of the financial support which the West formerly provided to these countries. Now that the cold war is over, there is no political justification for the financial support which originally was intended to confront anti-Western camps and to attract developing countries. Thus, these developing countries, including Jordan, should now plan carefully for an economic future that depends less on foreign aid and more on themselves.

Therefore, the promotion of other sources of foreign currency, especially exports of industrial goods and services, assumes a top priority in any economic strategy charted by Jordan to achieve economic stability and growth in the face of the rise of new international blocs. The 1993 World Bank report refers to the question of the rise of a fourth international economic bloc under the leadership of China, which the report said may rank ahead of Japan by the year 2002. Consequently, international competition will be tougher for the Arab countries, and the report states that their economic role will depend on their ability to form a bloc to safeguard the level of their annual growth and achievement in the face of international blocs.

C. INTERNATIONAL AND REGIONAL TRADE AGREEMENTS

1. *The GATT agreement*

The long trade negotiations of the Uruguay Round finally led to the Marrakech Declaration of 15 April 1994 announcing the establishment of the World Trade Organization (WTO), which aspires to liberalizing world trade and regulating trade flow among the various countries. The WTO is the institutional framework that embraces all the agreements and legal documents dealing with the liberalization of trade and the protection of intellectual property. It also provides an institutional framework for the

settlement of trade disputes among member countries. To ensure that no harm could be sustained by the national industries under these agreements, there are special provisions related to dumping and to commodity subsidies. These provisions allow the Governments of the countries that sustain harm to take measures to rectify their position.

Here also the private sector, because of its long experience and efficiency in handling such matters, must participate in everything that takes place.

In Jordan, there is apprehension that commodity imports will increase as a result of the opening up of international markets and the reduced tariff rates. The tougher competition for national industries will mean that their output will be less attractive in terms of price and that imports of similar products will be more attractive. The country would thus revert to imports. Reduction of the customs duties may be offset by a rise in the sales tax and other taxes, to recover the revenues lost from customs duties. Clearly, in a liberalized environment, the local industry would be burdened, the level of protection would be lowered and the relative attractiveness of commodity prices would be weakened.

Furthermore, commitment to the intellectual property rights will increase the cost of production for industry, which will have to pay the going rate for the use of the patents and for the use of trade marks. This is all the more true in the case of pharmaceutical and computer industries. Besides this, the exemption of export revenues would be prohibited under WTO regulations, thereby stripping the exported industrial products of their export advantages.

Even if Jordan does not join the WTO, these risks will still persist, because WTO member States are entitled to exercise various types of protectionism against non-member States; it would be difficult for the goods of a non-member State to enter the markets of a member State. Furthermore, member States may request Jordan to prove the authenticity of patents used, in the case of medicines and computers, before they could be exported to member States. In addition, it could happen that if Jordan does not become a WTO member, it could be the victim of illegal trade

practices such as dumping, the export of subsidized items or the use of specifications that are difficult to resist, as the WTO cannot protect Jordan from such practices unless it is a member. It is noteworthy that the principle of the most-favoured-nation status could benefit Jordan if the country knew how to utilize it. Jordan's commitment to the agreement on the protection of intellectual property would encourage investment in Jordan, as investors would be reassured that their rights and patents are safeguarded. Under the circumstances, Jordan should amend its laws concerning the protection of property and should enact new laws that can serve its balanced objectives, especially as regards countervailing measures, such as dumping and protection against harmful practices as well as the protection of the consumer against monopoly.

2. The Euro-Mediterranean Association Agreements

Agreement on the principles of this partnership was reached at the European-Mediterranean conference held in Barcelona in 1995. There are political dimensions to the agreement in the spheres of stability, security, human rights, democracy and anti-terrorism. The economic dimensions of the agreement involve accelerating economic recovery, minimizing differences, encouraging regional cooperation and integration, setting up free-trade areas, and the provision of European assistance to needy countries. There are also cultural and social dimensions stipulating the development and professional training of human resources and cooperation in the spheres of health, youth, municipalities and education.

According to the Association Agreement, customs tariffs on industrial commodities would be gradually reduced until they are completely eliminated by the end of 2001. Work will also be done to eliminate non-tariff barriers as well. European countries will help vulnerable industries of partners to reconcile their position and raise the quality of their products if deemed necessary.

As for Jordan, the agreement stipulates the gradual cancellation of the customs tariffs on imported European commodities within a period of 12 years and the immediate cancellation of the tariff on Jordanian

industrial commodities exported to Europe. There is no doubt that if the European-Jordanian Association Agreement is handled in accordance with appropriate economic policies and proper industrial practices, it will open vast opportunities for Jordan.

The risks to the balance of payments, the State budget and the industrial sector are detailed below.

With regard to the State budget and the balance of payments, the graduation in the reduction of tariffs over a period of several years is a safety valve to allow the country to cope with the substantial increase in imports; this safety valve should be effective if the application is done on the basis of a wise import policy. Furthermore, there is a European pledge to help if needed. Meanwhile, the Government of Jordan has its own instruments through which it can offset the shortage in tariff revenues (at the expense of the importer), although raising taxes on imports would certainly curb the volume of imports.

As for the industrial sector, some export industries may prosper as a result of the Agreement, including phosphates and phosphate by-products, including fertilizer, as well as potash, as these are already competitive industries producing at international levels of quality and price. The Agreement could therefore open new markets for these products in EU countries, which were virtually closed to them at an earlier period. Small and medium industries, such as foodstuffs, beverages, construction materials and clothing, may retain their competitiveness in the local markets and perhaps in neighbouring Arab markets, because they are cheaper than products imported from outside the region and are also in harmony with local tastes; however, special attention will have to be paid to these industries in terms of focusing on quality improvement.

The electronics and electrical industries will continue to be in danger, as most of them are assembly industries. Here, it is necessary to pause to examine the likely impact of the Association Agreement on these industries so that we could improve the output and apply suitable national

and pan-Arab policies. Otherwise, the products of these industries will most likely become obsolete, and the industries would disappear.

In light of the preceding, the industrial sector should make an honest review so that it can set its priorities straight in terms of production and export and so that it can balance between its local economic policies and inter-Arab economic policies, with a view to maximizing any advantages it has and overcoming the current state of inertia. Industry is entering a phase of openness in which the improvement of quality is a must. Moreover, the European financial and technical support available to those seeking to improve their products for export purposes is a significant advantage that should not be overlooked.

III. PROPOSED ECONOMIC STRATEGIES FOR COPING WITH CHANGES AND CHALLENGES

The progress of technology and information and the advancement in communications around the world as well as the implementation of the international agreements that have already been concluded will shorten distances between countries, probably bringing them into direct contact and creating economic friction. Therefore, we should prepare ourselves to face up to the negative impact of these changes by formulating a strategic framework that takes into consideration the long-term developmental objectives, priorities, characteristics, features and problems of the Jordanian economy. We should also try to derive the maximum benefit from export opportunities and open markets to support our developmental goals. The implementation of part of these strategies has already begun, in the economic adjustment programme. The current policy is export-oriented, not one based on import substitution. This is being done by increasing the industrial value added, improving quality, introducing competitive prices, and applying other relevant measures.

The experiences of the countries of East Asia are an example that can be followed in this connection. The economic success of these States depended on promoting exports and investments. East Asian countries managed to match technical knowledge, marketing, management and

information with local and foreign resources. They have also reaped a great deal of benefit from their joint projects with the advanced, wealthy countries. In our case, we should raise the level of production, diversify exports and adopt ISO standards before the end of this century. Furthermore, we should continue the development of the industrial infrastructure (particularly communications), simplify laws and bureaucratic procedures, choose appropriate techniques, and pay more attention to research and development and the training of labour.

Those Jordanian industries which may suffer as a result of the application of the Agreement on the protection of intellectual property, or which are basically assembly industries, or which produce undifferentiated or inferior commodities should agree among each other to specialize in production, to increase value added and to establish joint centres for research and development.

Such specialization would certainly help to expand inter-Arab trade and strengthen the Arab economic bloc. It would also maximize the benefit of free-trade areas and the economic blocs that grant special privileges to their members.

It is important to render support to private sector institutions, such as business federations and associations and to institutionalize some of these as a necessary step for increasing their efficiency and for enabling them to play an important and practical role in influencing the course of economic events and changes.

Furthermore, the shift in industrial policies means that industrial policy makers and those who implement these policies must keep pace with the changes that are in progress. They should possess high economic qualifications and should be well known for their experience, knowledge and ability to understand differences among countries and the impact that these have on the competitive strength and relative advantages of the country's industry so that advantageous policies and protection may not be misused by ineffective implementation.

A STRATEGY FOR THE JORDANIAN TRANSPORT SECTOR

Dr. Dreid Mahasneh

Introduction

The Middle East has been the crossroads of transport lines between the West and the East, as is evident from its name, since the old ages. Recent archaeological discoveries of the Eila site in Aqaba indicate that there was a thriving trade between China and Iraq from the 7th to the 12th centuries BC. Numerous Chinese and Iraqi artefacts were discovered at the site.

Later on, the Silk Road became the transport route between Europe and China, via Turkey and Iran. Meanwhile, the first international land route in history was built to link Egypt with Asia Minor via Palestine and Syria, with goods being transported from Egypt to Ethiopia and Somalia and then by sea to Oman. Omanis speak with much pride about the trips their boats made to Aqaba and to East Asia.

During the 12th Egyptian Dynasty, from 2000 to 1788 BC, a canal was built to link the Nile River with the Red Sea. Arabs and their successors used this canal until the route to India was discovered around the Cape of Good Hope in 1497.

These routes played a key role in the rise of production centres in Turkey and the Nile Valley. Consequently, trade prospered between the two regions and extended to other regions such as the Hejaz and Iraq. Goods and services were easily transported to these various regions. However, both transport routes and means of transport evolved into something completely different with the development of technology in the modern age. Carts pulled by animals were replaced by vehicles. Modern roads and railroads were built. Giant ships replaced sailboats. Planes transported passengers and goods. It became possible to transport liquids via pipelines that ran across borders.

The development of routes and means of transport shortened the distance and time between countries. The Middle East continued to maintain its central and significant position for the passage of goods. The region grew further in importance with the development of various production centres within the region. Its significance was again enhanced with the discovery of oil and gas in the region and the opening of the Suez Canal. The historical and geographical factors can be taken together to explain the rise of production centres and routes and means of transport to serve the region's population and contribute to its prosperity. It is in this light that transport projects for the region should be identified, encouraged and built.

External transport from and to the region constituted the larger size of the goods transported via the various transport means by land, sea and air, whether for import, export or transit purposes. Among the various means of transport, maritime transport emerges as the larger in terms of size and investment. It should be mentioned here that the opening of the Suez Canal made a highly significant contribution to the consolidation of maritime transport.

Jordan increasingly came to depend on the port of Aqaba for its trade ever since the port was established in 1952. The port has become the backbone of transport from, to and via Jordan. The significance of the port of Aqaba is further enhanced by the fact that railroad transport in the region continues to be poor, as no significant investment has been made in this sector. This is why the present study has highlighted Aqaba Port, including its strategic location and unique significance; it has emerged as one of the best ports in the region in terms of performance and capability.

I. AQABA

The Gulf of Aqaba is 180 kilometres long and 14-16 kilometres wide. Along with the Gulf of Suez, the Gulf of Aqaba surrounds the Sinai Peninsula. The Gulf of Aqaba overlooks Saudi Arabia, Egypt, Israel and Jordan, the last of which has a 26.5-km coastline on the Gulf of Aqaba; it is Jordan's major and sole outlet to the sea.

Jordan's coastline on the Gulf of Aqaba has undergone rapid development in the last two decades. The coastline has been used for a number of industrial purposes—phosphates, fertilizers and energy, among other industries. Quays were built on the coastline (the main Port of Aqaba, a container quay, an oil quay, etc.). Multi-purpose warehouses were also constructed. Furthermore, there is some tourist activity on the northern coastline of the city of Aqaba.

The economic development of the Aqaba region generated a sixfold increase in population in the city of Aqaba in the last two decades (from 10,000 to 60,000 people). The growth of population was accompanied by numerous infrastructure projects aimed at providing water, energy, roads, telephone service, an international airport, and a sewerage station in the city. Meanwhile, as Jordan's only outlet to the sea, Aqaba was witnessing the growth of economic sectors such as industry, ports, freight and tourism. Opposite Aqaba, the Israeli port of Eilat was witnessing intensive tourist activity. Hotels were constructed all along the Israeli coast, with a few quays to export phosphates and to import oil. There is also a container quay on the Eilat coastline.

In contrast to the Jordanian and Israeli coastlines, the Egyptian coastline on the Gulf of Aqaba saw no industrial activities, with the exception of the Nuwabi' harbor, which is used only for passenger traffic. Besides this, no large ports have been constructed on the Egyptian coastline, although numerous tourist villages have been set up—in Taba, Nuwabi', Dahb and Sharm el-Sheikh. As for the Saudi coast, no significant economic activities are in evidence.

The various activities carried out on the Jordanian coastline occupied some 35% of the total area of the coastline, with the major share going to the ports (75%). As in most phases of economic development in Jordan, the city and port of Aqaba were affected by the political and geographical factors that were the consequence of the various wars fought in the region.

Jordan had no strong port in Aqaba before the 1970s, although the port was built in 1952. The reason for this was that most Jordanian exports of phosphates, as well as the country's imports, were handled via the Beirut port, for a number of reasons, the following being the most important:

- (a) Beirut port is closer to Jordan's phosphate mines in Rusaifeh and Amman than is the port at Aqaba.
- (b) Beirut port was better equipped than the Aqaba port.
- (c) The roads from Amman to Aqaba were poor, and the city of Aqaba itself lacked the necessary infrastructure services, such as transport, airport and appropriate housing.
- (d) The closure of the Suez Canal after the June 1967 war forced ships to navigate around Africa and then proceed to Aqaba, driving up the cost of maritime transport to Aqaba.

Nevertheless, the outbreak of the civil war in Lebanon in 1975 and the reopening of the Suez Canal after the conclusion of the Camp David Accords between Egypt and Israel in 1979 restored life to the port of Aqaba. After 1975, Jordan's dependence on the port of Aqaba became almost total. However, the outbreak of the Iraq-Iran war in 1980 and the diversion of many ships destined for Iraqi ports to the port of Aqaba was the main reason for transforming the port into a regional port with strategic dimensions.

The second period in the life of the port, falling between 1975 and 1980, witnessed a tangible growth in mechanization and an increase in absorption capacity and handling capacity. New installations and facilities were added to the port—a port for containers and quays for passengers, oil, grain, industrial byproducts, such as fertilizers and potash, as well as quays for cement, and liquids. The period also witnessed growth in the size of goods handled. Table 1 explains the handling movement in the port.

Table 1. Development of the handling movement in the Aqaba Port
(In millions of tons)

Year	Imports	Exports	Tons
1985	7.15	9.7	16.85
1988	9.14	10.95	20.09
1989	8.7	10.00	18.7
1990	6.2	8.9	15.1
1991	5.5	7.7	13.2
1992	6.0	7.4	13.4
1993	5.3	6.4	11.6

In contrast to the periods of prosperity taking place between 1952 and 1990 even under conditions of political crises, the second Gulf war of 1990 left an enormous negative impact on the volume of trade via the port of Aqaba. United Nations Security Council resolutions imposing a boycott on Iraq and the quarantine of the Aqaba port and the inspection of ships at the Straits of Tiran contributed significantly to reducing the volume of goods handled at the port, particularly transit goods destined to Iraq, as shown in table 2.

Table 2. Development of the movement of the handling of goods, including transit goods at the port of Aqaba
(In millions of tons)

Year	Jordanian goods	Transit goods	Total
1985	9.5	5.9	15.4
1988	8.0	9.9	17.9
1989	10.4	7.3	17.7
1990	11.5	3.6	15.1
1991	11.7	1.6	13.3
1992	11.3	2.1	13.4
1993	10.3	1.3	11.6

The port is currently operating at less than half of its large capacity, which can handle well over 30 million tons of goods annually at the full capacity, utilizing its 18 quays.

II. FUTURE INDICATORS

Future indicators will evidently be directly linked to inter-Arab relations and to Jordanian-Israeli relations. The following is a review of these relations:

A. INTER-ARAB RELATIONS

1. *The Jordanian-Palestinian relationship*

We should here discuss the impact of the Gaza-Jericho agreement on Jordanian-Palestinian economic relations, and even more so the impact on the Israeli-Palestinian economic agreement. Of specific concern about this agreement is the following: Will the Palestinian economy resort to the use of the Israeli ports for its trade, or will it revive the Gaza Port?

Assuming that the Palestinian National Authority would be compelled to use Israeli ports for the passage of goods to and from the autonomous region, the impact on the port of Aqaba would be negative. This question should in fact be discussed in Jordanian-Palestinian talks or even in Jordanian-Israeli-Palestinian talks. The talks would naturally open the way for considering various alternatives to enhance trade via the port of Aqaba, particularly goods coming from or bound for East Asia or India. The question would also be discussed in further detail when Jordanian-Israeli relations are discussed. The second alternative, which is the reuse of the Gaza port, depends on several considerations:

(a) Gaza urgently needs a proper, yet costly, infrastructure, including the construction of roads, power stations, water and sewerage networks, communication lines and airports, before it can build a modern, competitive port.

(b) The Israelis will try hard either to resist the revival of the Gaza port or to weaken its role, in the interest of nearby Israeli ports overlooking the Mediterranean, such as the Ashdod port. This port has been prepared by the Israeli Government to receive Arab, particularly Jordanian and Palestinian, goods.

Jordan should play an important national role in the establishment of the Gaza port as a supplementary port to Aqaba. Jordan should conduct all its free trade with the European countries and the countries of the west Mediterranean countries via the Gaza port, while it should conduct its trade with East Asia, India and Australia via the Aqaba port. Only through this arrangement can each of the two ports have a strong, strategic and viable regional role. After reaching such an agreement between Jordan and the Palestinians, Jordan should play the more important role of building up the Palestinian capability to construct ports. This goal cannot be achieved in one or two years. Building the Gaza port and making it competitive would take at least 10 years and would require enormous funds. This effort should be coordinated with Egypt, so that full benefit of Egypt's vast experience in maritime transport can be derived.

2. *Jordanian-Syrian-Lebanese relations*

Beirut port seems to be regaining its effective role on the eastern coast of the Mediterranean. Syrian ports seem to be continuously growing, although at a slower pace than Beirut port, in view of Lebanon's more flexible laws and broader experience in dealing with the movement of goods. However, this should not stop the Syrian ports of Latakia, Tartus and Baniyas from continuing to progress, particularly considering that the socialist system of government in Syria will have to change course. If the Government does not make this change voluntarily, it may be compelled to open up to international trade and markets as one of the facts of life in the future. Here it also seems necessary for Jordan to work out a relationship of integration with Syria and Lebanon by establishing a free zone in each of them and by strengthening land transport between Jordanian ports and each of Syria and Lebanon, and between Syrian and Lebanese ports and Jordan. This requires the unification of numerous laws and measures, such as building a modern road network and putting together a land fleet of vehicles and a modern railroad system for transporting passengers and goods among these countries. These countries would thus be poised to take full advantage of their central location for the free trade which most certainly will increase between the north

(Turkey and Europe) and the south (the Gulf countries, including Saudi Arabia).

3. *The relationship with the Arab States overlooking the Red Sea*

No active maritime trade has so far been conducted among the Arab countries overlooking the Red Sea. Other than the success achieved by the passenger bridge between Jordan and Egypt via Aqaba and Nuwabi', the prosperity of the Saudi port of Jedda and the Egyptian port of Suez has come about at the expense of Aqaba, in the aftermath of the Gulf war. After being inspected, some ships were forced to turn back, and those compelled to do so left their cargo at these ports.

The northern and southern Red Sea regions have yet to enter into a productive trade relationship. Although it is difficult to find a convergence point with the oil-producing States at present, trade relations could be strengthened with Sudan and Yemen. The Sudanese have managed to understand this phenomenon much better than the Jordanians. Many Sudanese ships anchor at the port of Aqaba, although Jordan is still incapable of building a maritime fleet in view of the unsuitability of Jordanian laws for meeting the needs of such investment and the weakness of the Jordanian maritime lines. Whether Sudanese or Jordanian, these ships can carry various Jordanian exports to Sudan and even encourage Jordanian technical personnel to participate in building up Sudan, as investment in that country is highly feasible, from an economic point of view, particularly in agriculture. Jordan should have utilized the unique reputation which His Royal Highness Crown Prince Hassan established in Sudan through the work of the Hashemite Charitable Organization.

Meanwhile, Jordan should strengthen the Aqaba-Nuwabi' maritime line for transporting goods to North Africa and passengers between Aqaba and Sinai. This line would be dealt a fatal blow were a land route between Egypt and Jordan to open via Eilat (Israel); Jordan would lose a substantial amount of revenue. Although the Israelis have said that they

would like to see only tourists on the road, large numbers of Egyptians traveling to and from the Arab Gulf would probably use it as well.

The maritime line helped open more Arab markets, such as the Libyan market, to Jordanian products. It also strengthened Jordan's position as an important transit centre. Through this line, enormous quantities of goods are carried from countries such as Syria, Iraq, Saudi Arabia, the Gulf States and even Iran to North African countries. This line has also strengthened trade relations between Egypt and Jordan. It must be kept in mind that for Jordan, Egypt constitutes an important trade link. We should also remember that this relationship began in 1982 when the Arab Cooperation Council was founded.

Table 3 shows the movement of passengers and vehicles on the Aqaba-Nuwabi' line and also shows Jordanian financial revenues from this line.

Table 3. Movement on the Aqaba-Nuwabi' line and Jordan's financial revenues

Year	Number of ship passengers	Number of passengers	Number of vehicles	Jordan's revenues (millions of JDs)
1989	894	707,777	54,930	2.7
1990	949	805,772	72,400	3.6
1991	1,009	867,819	65,437	3.5
1992	1,162	1,211,635	86,562	5.8
1993	1,032	1,259,920	86,973	7.2

B. THE JORDANIAN-ISRAELI RELATIONSHIP

Although the signing of the peace treaty with Israel laid down a basis for cooperation between the two countries, this cooperation has not

reached a degree where the two countries do not compete with each other. This is due to the following reasons:

(a) Israel is attempting to undermine the potential of the port of Aqaba and is trying to replace it by proposing a new joint port at the Gulf of Aqaba under the name of the Canal Port.

(b) Israel is trying to promote the Ashdod Port as an alternative to the Port of Aqaba, particularly for transport purposes with the western Mediterranean (used by Europe and the two Americas). It is preparing the port for such a function, including receiving U.S. food (wheat and grain), which could be unloaded at Ashdod. This port would serve as a distribution centre for the entire region, thus cutting the costs incurred by the U.S. Government if such shipments were transported to Aqaba via the Suez Canal.

(c) There are no appropriate export centres in Jordan that enjoy exemptions or free-zone status which could serve as a centre for receiving goods from various sources for the purpose of re-processing and selling, if necessary.

(d) The trucks making up the Jordanian land transport fleet are old and few in number. They do not enjoy any customs or tax exemptions that would encourage investors to invest in a new transport fleet.

To cope with these problems, an upgrading of the transport and transit services sector in Jordan should be conducted promptly. The upgrading process should include adjusting the numerous laws, regulations and measures involved so as to encourage investments in this sector and develop infrastructure such as roads and railroads, while taking the following into consideration:

(a) The port of Aqaba is more convenient than other ports in Syria, Lebanon, Iraq, Israel, Palestine and even Turkey. Its unique location on the Red Sea makes it possible to export to or import goods from the Far East and South-East Asia at a reduced cost, as ships do not have to sail through the Suez Canal. Consequently, Jordan should be

given favoured treatment in the other ports overlooking the Mediterranean. For the port of Aqaba to become capable of offering this service, the following should be done:

- (i) The machinery and equipment of the port should be updated, as should the operational procedures.
- (ii) Aqaba port prices should remain below the prices of other ports to keep them competitive and to attract further business.
- (iii) The storage capacity of the port of Aqaba should be increased by adding new areas for the storage of goods.
- (iv) The private sector should be encouraged to invest in the building of quays.
- (v) The free zones adjoining the dockyards should be upgraded, and additional free zones should be established.

(b) The northern Red Sea region should be linked with the maritime transport sector via Aqaba and with the Jordan Valley region (Al-Jurf) via Wadi Arabah. The development of Wadi Arabah, starting from Aqaba and ending at the Dead Sea, should utilize the port of Aqaba in the service of projects aimed at developing Al-Jurf in the following manner:

- (i) Linking the port of Aqaba with the industrial export centres in Al-Jurf and utilizing it for the export of the products of these centres, such as Jordanian potash and phosphates, as well as derivatives of Dead Sea salts.
- (ii) Linking the port of Aqaba with these industrial centres by means of railroads and roads that could handle the expected increase in the volume of traffic.

- (iii) Offering the services associated with exporting the agricultural produce of the Jordan Valley region.
- (iv) Offering the port's services in the construction of the Red Sea—Dead Sea Canal (the "Canal of the Two Seas") by importing the materials and requirements needed for the construction of the canal via the port of Aqaba and facilitating their passage.

It should be noted that in all the foregoing, the port should be a major element in the Master Plan to develop Al-Jurf region.

III. THE JORDANIAN STRATEGY FOR TRANSPORT

The transport sector in Jordan depends on its operations in the port of Aqaba and the volume of goods handled by it. This is due to the fact that Aqaba is the only port in Jordan and is the centre of the country's import and export activities. Throughout the years, the port of Aqaba has been gaining a strategic significance *vis-à-vis* transport in the region in view of its unique geographic location, its efficiency in handling cargo, and its cheap cost.

Jordan's main geographic handicap and one that prevents it from controlling the transit trade in the region is that it has no port on the Mediterranean. Thus ships heading to Jordan from the north and west Mediterranean regions (Europe, the two Americas and North Africa) would have to cross the Suez Canal and incur an additional cost, while Arab and Israeli ports overlooking the Mediterranean have the advantage in this regard.

Therefore, any Jordanian transport strategy should be based on reducing this cost so that the port of Aqaba can compete with other ports. In this connection, the overall cost of transport to the importer and exporter could be determined by the following factors:

- (a) The cost of maritime transport to and from the port of Aqaba compared with the Israeli ports on the eastern Mediterranean (table 4).

Table 4. Maritime freight charges
(US dollars)

Region	General		Aqaba Port*	Ashdod Port**
	merchandise (per ton)	20-foot container		
North and Northwest Europe	46	33	1,377	657
West Mediterranean	35	25	1,077	577
Far East	90	100	1,277	1,557
South-East Asia	75	85	1,177	1,457

* Maritime freight charges on the basis of LIFO include loading charges only and do not include the additional cost resulting from vessel inspection operations in the Gulf of Aqaba.

** Maritime freight charges to the Port of Ashdod are the charges quoted by the Israeli maritime company Zim.

- (b) The cost of handling goods in the port of Aqaba compared with the Israeli and Arab ports in the region (table 5).

Table 5. Port service fees
(US dollars)

Port	General merchandise (per	
	ton)	20-foot container
Aqaba	3.5	23
Ashdod	5.5	33

- (c) The efficiency and speed of handling in the port of Aqaba and the availability of appropriate quays, dockyards and warehouses needed for the various goods as well as the equipment necessary for handling these goods. Furthermore, the maintenance, inspection and supply services should be adequately provided.

Table 6. Land transport charges

(US dollars)

Transport route	General goods (per ton)	20-foot container
Aqaba-Amman	12.5	300
Ashdod-Amman	18	400
Ashdod-Jerusalem	8	200
Aqaba-Jerusalem	10	300

(d) Modern support systems should be provided for the handling of goods. There should also be free zones in the port as well as laws encouraging investment in the maritime and land transport sectors.

(e) Means of transport, whether truck or rail, should be provided at appropriate cost.

(f) A proper road network should be available to handle the flow of trucks. Centres for providing the necessary service and maintenance should also be provided.

(g) There should be a marketing policy linked to a strong and continually growing economy as well as bilateral, regional and international agreements and treaties.

Table 7 explains the overall economic viability of transporting Jordanian and Israeli goods via the ports of the two countries without sailing through the Suez Canal.

As we noted earlier, Jordan's point of weakness lies in the fact that it has no ports on the Mediterranean. However, this is offset by a point of strength manifested in the fact that the port of Aqaba has the capacity to efficiently handle trade with the Far East and South-East Asia without the ships having to sail through the Suez Canal; the capacity of the port is well over 30 million tons per year and what is currently being utilized is no more than 12 million tons per year. The port of Aqaba could become a substitute for the Syrian, Lebanese, Israeli and even Palestinian

ports if it is utilized for export and import purposes with East Asia in return for Jordan's use of any of the ports of these countries for its trade with Europe and America. Jordan would have the advantage of choosing whichever of the east Mediterranean ports which has the cheaper cost and the better service.

Table 7. General goods

Transport route		Total transport cost (\$/ton)		Estimated savings per ton
		Aqaba	Ashdod	
Jordanian goods	Northern and northwestern	103.50	113.50	10+
	Europe/Amman			
	Western Mediterranean	88.50	98.5	10+
Israeli goods	East	62.00	56.50	5.50+
	Asia/Jerusalem			
	South-East Asia/Jerusalem	51.00	48.50	2.50+
20-foot container				
Transport route		Total transport cost (\$/ton)		Estimated savings per ton
		Aqaba	Ashdod	
Jordanian goods	Northern and northwestern	1700	1090	200+
	Europe/Amman			
	Western Mediterranean	1400	1010	200+
Israeli goods	East	1610	1100	600+
	Asia/Jerusalem			
	South-East Asia/Jerusalem	1510	1000	400+

The implication of all this is that Arab countries should not engage in strong competition among one another but should coordinate their activities to preclude Israeli domination of the transport sector. It is possible, for example, for Jordan and Egypt to reach an agreement whereby Egypt would reduce Suez Canal fees for vessels heading to

Aqaba, using the logic that a strong Aqaba port would boost business for the Suez Canal, because through the Suez Canal, goods would continue on their way to Aqaba from Europe and the United States.

It is evident from the foregoing that there is broad room for economic manoeuvring in this field, in an equation with the Mediterranean ports on one side and the Red Sea port of Aqaba on the other. Such manoeuvring requires that we act quickly to hold talks between Jordan and the parties concerned (Egypt, Israel, the Palestinian National Authority, Syria and Lebanon). Jordan would achieve the best results if it managed to see one of the following demands met:

(a) To have a foothold on the Mediterranean coast in the form of a harbor to be run by Jordan in return for a harbor to be given to the other side in Aqaba. These harbors should have free zones, not only for the storage of goods, but also for industry and free trade.

(b) To conclude similar transactions in the use of ports where a harbor at Aqaba could be exchanged for a Mediterranean port.

(c) To acquire discounts on Suez Canal fees for vessels heading to Aqaba, using the selling point that increased traffic to Aqaba from Europe and America means increased traffic for the Suez Canal.

(d) To establish joint land transport companies with any country willing to exchange the use of one of its ports for the use of Aqaba port, to preclude Israeli's domination of the transport sector in Jordan, and through it, to other countries.

The other alternative is to establish a terminal on the Jordanian-Israeli border, through which containers and goods would be transported from Israeli trucks to Jordanian trucks (back to back), which would carry goods and containers to and from Jordan and other countries. The most important reasons for this alternative are the following:

(a) A greater share of land transport could be kept for Jordanian trucks so as to prevent Israeli trucks from dominating land transport to the Arab countries via Jordan.

(b) Israel is unwilling to have Arab trucks enter its territories for security and environmental reasons.

(c) Jordan could acquire a larger share of the transit trade to the Arab countries so as to keep its role in land transport in the region from being marginalized.

The construction of a major railroad from the Dead Sea to Aqaba would facilitate the transport of the Dead Sea salts and Jordanian and Israeli potash to be exported abroad, particularly to East Asia. Meanwhile, the upgrading of the Aqaba railroad and the Hejaz railways would enhance transport to and from Aqaba if these railroad lines were linked with the networks of other Arab countries such as Syria, Saudi Arabia and Iraq.

It seems that the time element is important if the greatest possible gains for Jordan are to be realized. Jordan should utilize the positive reactions generated at the international level by the Washington Declaration, since Jordanian negotiators proved that they possess the capability to take the initiative and to obtain their demands. Jordan should take the initiative to approach all the parties directly concerned (Israel, Egypt, Syria and Lebanon), and even the other regional parties (Saudi Arabia and the other Gulf countries, Iraq and Turkey), to conclude bilateral and regional agreements. Meanwhile, it should work on the domestic front to upgrade the existing laws and legislation so as to encourage foreign capital investments in the transport sector and to open the way for this sector to contribute towards building modern transport facilities that would operate on the basis of profitability.

IV. PROPOSED TRANSPORT PROJECTS

A. ROADS

There could be three major road networks between Jordan and Israel, as follows:

- (a) The first network: Haifa/Afoula/Sheikh Hussein bridge/Irbid.
- (b) The second network: Ashdod/Jerusalem/King Abdallah bridge/Amman.
- (c) The third network: Aqaba/Eilat/Ras el-Naqab.

In these projects, terminals would be constructed on the Jordanian-Israeli border crossings to join the road networks between the two countries.

B. RAILROADS

The following railroad lines could be constructed:

Amman-Damascus
Zarqa-Haifa
Mafraq-Baghdad
Amman-Aqaba
Maan-Tabouk
Dead Sea-Aqaba
Aqaba-Hakel-Tabouk

C. PORTS

- (a) Aqaba could be singled out as the major port on the Red Sea to transport Jordanian, Israeli, Syrian, Lebanese and Turkish goods from the Far East and South-East Asia.

- (b) One of the Mediterranean ports (Lebanese, Syrian or Israeli) could be singled out for the transport of Jordanian and Iraqi goods from north and northwest Europe and the western Mediterranean.

- (c) A joint land transport company could be set up with any of the countries whose port on the Mediterranean would be used in exchange for the use of the Aqaba port.

Chapter Five

Intervention by
Mr. Jawad Hadid
on the banking sector

Intervention by
Dr. Umayyah Tuqan
on the Amman Stock Exchange

Commentary
Mr. Jawad Hadid

The Role of the Jordanian
Banking System in Light of
the Likely Consequences of
Regional and International
Developments on the National
Economy
Abdul Kader al-Duwaik

Commentary
Mr. Jawad Hadid

The Likely Effects of Regional
and International Developments
on Jordan's Foreign Trade
Dr. Ahmad Qassem al-Ahmad

Intervention by *Mr. Jawad Hadid* on the banking sector

The banking sector consists of commercial banks, investment banks and specialized loan associations. My intervention will primarily deal with commercial and investment banks.

The 20 banks in Jordan include 14 commercial banks and 6 investment banks. However, since the investment banks in Jordan carry out almost the same functions as those of commercial banks, they are not investment banks in the true sense of the word. Investment banks in the United States, for example, cannot accept deposits or grant loans. Their function is restricted to the field of securities, serving the capital market by creating and developing the instruments of this market, in other words, by mobilizing savings directly from the investor, not through deposits. In Jordan, however, an investment bank can accept deposits and lend these deposits to others. In this sense, a Jordanian investment bank is like a commercial bank, and we can therefore say that there are 20 commercial banks in Jordan.

Jordanian banks have 410 branches, which means that there is a bank branch for each 10,000 citizens. This statistic indicates congestion in the Jordanian banking sector. In the United States, by comparison, there is one bank branch for each 13,000 people. However, the enormous disparity in annual per capita income, which is 13 times greater in the United States than it is in Jordan, should be noted here.

Since the amount of money is the more relevant criterion for banks, the real difference is much larger than the difference between 10,000 and 13,000 persons. This indicates that we can offer excellent banking service to the Jordanian citizen with fewer than one tenth of the existing banks and bank branches. In fact, this prompts a question about a complex problem and challenge that is facing the Jordanian banking sector, namely, fragmentation: where will this fragmentation lead us to?

One of the prominent features of the banking sector at present is the high rate of interest paid on deposits. In view of the fact that the banking sector is congested, banks are competing to attract deposits. The result is that the interest paid on these deposits can reach up to 9.5%, a rate of

interest that is much higher than could be justified by the current economic situation in the country. It is true that the monetary policies of the Central Bank of Jordan have led to this result. Nevertheless, banking congestion, in turn, materializes into results that have gone far beyond the official monetary policy, to reach unjustifiable levels of interest rates paid on deposits.

In light of congestion, strong competition usually leads to a reduction of the bank lending rates. For the borrower, the best lending rate is the lowest rate, just as the best interest rate for the depositor is the highest rate. The result is that the margin between the interest rate paid and the lending rate collected is gradually diminishing in the banking sector. At an earlier stage, the margin was 6%, but is down to 3% at present. Needless to say, several factors must be taken into consideration, that is, income tax, shareholders' rights and the reserve ratio set by the Central Bank of Jordan. The Central Bank imposes an annual fee on the commercial banks amounting to 2% out of the interest rate that has to be paid on new loan portfolios, as allocations for guaranteed debts. This means that the 3% margin has to cover this 2%, as well as profit, tax, compensation for lending risks and other things.

All these facts refute the belief that banks are charging a high lending rate. Nevertheless, the current interest averages are artificial, because lending differs from one borrower to the other. In some cases, banks are able to accept a net profit of 1% to 0.5% for loans that carry no risks, but can accept no less than 6% or 7% as a net profit for riskier loans.

One of the dangers of the existing state of competition in the banking sector is that it makes banks overlook the criterion of safety in their banking operations. For example, in the case of lending, banking safety factors and the ability of the borrower to repay the loan are usually taken into consideration. However, an atmosphere of competition necessarily leads some banks to overlook such criterion. This is what happened in the late 1970s and the early 1980s when there was feverish competition in the banking sector, even though the national economy was smaller than it is now. The competition led to the bankruptcy of some banks, the restructuring of the capital of other banks and financial

institutions, and a general weakness in the financial structure in yet other financial corporations. By and large, such a situation confirms the serious dangers resulting from the escalation of feverish competition. Bank managers should take this into account when they decide on the credit policies which determine the terms of lending.

The question of deposits is another problem facing the banking sector. Current bank deposits are about JD 5,800 million, including JD 2,600 million in foreign currency. This means that the funds that for the most part can be given as loans are the funds deposited in Jordanian dinars, about JD 3,600 million. Since lending has already reached JD 3,600 million, it means that all deposits have been lent, in addition to part of the deposits held in foreign currency amounting to some JD 100 million to JD 200 million (the new policy of the Central Bank of Jordan allows banks to lend funds in foreign currency).

It is evident from the above that the total lending of the banking system is equal to the total deposits of the public. Therefore, the talk heard earlier about huge liquidity at the banks was based on a wrong understanding of the facts about the banking system.

It should be pointed out here that the growth of deposits in the last two years has not been encouraging. Deposits grew by no more than 4% last year, while the announced rate of inflation was 6%. Even if we assume that the correct rate of inflation was 6%, it means that savings are negative and that additional investments that are oriented towards economic growth cannot be made.

Banks are willing to lend some of their private funds, or shareholders' rights. However, as a question of principle, these should not be lent, as they are tantamount to the protective shield that enables banks to absorb shocks and face risks. As a matter of principle, it is the shareholder, not the depositor, who should incur the main risk of lending. Nevertheless, lending grew at a greater rate than deposits, and banks were approaching the "red line" by lending shareholders' rights. This is a

question to which special attention should be paid, particularly in light of the current structure of deposits.

The insufficient growth of deposits could be due to two reasons. The first reason is that some depositors at Jordanian banks are residents of the West Bank; the Jordanian banking sector played the role of protector of the deposits of West Bank residents under occupation. The same partially applies to the Gaza Strip. However, residents of the occupied Palestinian lands now have new opportunities to invest their deposits locally as new banks have emerged. This is perhaps the reason that there has been some capital flight from Jordan to the Palestinian areas, having a short-run negative effect on the growth of deposits. This is a temporary situation which could be gradually corrected, although it constitutes a real danger to the growth of lendable deposits whether in the long or medium terms.

The second reason for the insufficient growth of deposits in the last two years is the traditional concern for the Jordanian dinar. Since 1989, many people were apprehensive about the collapse of the Jordanian dinar and therefore changed their savings to foreign currency accounts. There was thus a partial dollarization of bank savings. Although these savings are partial, they are large in relative terms, amounting to 39% at present. One year ago they were 35%, and two years ago, they were 33%. This clearly indicates a trend toward greater investment in foreign currency, a trend associated with the liberalization of the monetary restrictions, which constituted a healthy phenomenon. Had these monetary restrictions been not loosened, there would have been capital flight to foreign banks outside the country.

If there has to be dollarization in savings, it should be in the interest of the country to keep this kind of savings with Jordanian banks, particularly since such savings are now lendable and can consequently be pumped into the channels of economic development.

Intervention by *Dr. Umayyah Tuqan* on the Amman Stock Exchange

I want to thank Mr. Jawad Hadid for his intervention, which dealt with very important subjects. As the official in charge of the Amman Financial Market, I will speak about the capital market and will make some remarks on the banking system.

At the outset, I would like to say that there are two major channels in the economy through which savings are transformed into investments. The first channel is the banking system, which was discussed and explained by Mr. Hadid. The second channel is the capital market. Unfortunately, we have in our press journalists and columnists, and even some government officials, who are unaware of the fact that the Amman Financial Market, or the capital market, has a role to play in economic development, although it is the second channel for the flow of savings into investments.

There is lack of clarity in our country on this question. Even private companies in our country resort to the banking system to finance their projects, either by borrowing or by obtaining credit facilities and do not try to issue bonds to acquire the capital needed for financing their projects.

The second method of capital formation then is the issuance of shares to be offered for public subscription. Whoever buys the shares is actually lending to the company or is a partner in its ownership.

Within this context, there is a great deal of similarity between the banking system and the capital market. The functions of the two systems seem to be interlocked. A seminar was held in Cairo recently whose main focus was on whether the banking system and the capital market are competing with each other. In other words, the question is posed, if a country has a good stock market, is this good or harmful to the banking system?

The conclusions of the seminar asserted that the two channels supplement each other. If the banking system prospers, it will follow that

the capital market will prosper also. I hope that this point is clear, particularly to our press.

A second question is: Does the capital market really contribute to the financing of investment, and what is the size of its contribution? The answer is yes, of course. A look at the 1993-1995 figures reveals that well over JD 200 million was formed in the capital market. This sum represents the capital of the new companies formed since 1993 and whose capital was paid in by shareholders.

On the question of lending, it should be noted that the amount of lending should be less than the amount of deposits, and there should be a balance between the two figures. If this is an indication of anything, it is a sign of maturity of the Jordanian capital market. Still, there are gaps or mistakes which should be corrected, including the formation of holding companies on the basis of erroneous perception. However, the conclusion we have before us is that the Jordanian capital market is an active market which has contributed to the financing of new projects at a value of JD 2,000 million in the last three years.

My third point is related to interest rates. The question here is, what is the effect of interest rates on the capital market? Mr. Hadid has explained how competition within the banking system has narrowed the differential between lending and deposit rates. This is a phenomenon which makes some banks vulnerable to risks they have never before experienced. Mr. Jawad also said that the strong competition leads, in one way or another, to a temptation to ignore the banking safety criteria. I believe that those who give into this temptation in order to attract new clients or make new investments should have to bear the consequences of their actions. If they run into trouble and end up being turned out of a healthy banking system, this is the right thing that should happen. One occasionally hears of an American bank announcing its bankruptcy, the result of failed policies by the management. In fact, every wrong policy will sooner or later produce bad results for those who initiate it.

On the question of competition and whether it is a good or bad thing, I think that competition is good under all circumstances and in all

cases. Competition is in fact part of the answer to a big problem that exists in Jordan and in developing countries in general. Competition will certainly harm the weak parts of any structure, and this is the inevitable end of things that are built on wrong foundations or things that have not matured yet. We should keep in mind that Jordan is heading towards further liberalization and competition, and this should be associated with efforts to improve the standards of services and to upgrade the quality of manufactured commodities. Although this will raise the cost of production, it will also eject the weak parts in the system. Poor or weak companies will not be able to compete unless they have competent management and unless they introduce the necessary reforms at the right time.

Clearly, we are discussing these problems from purely technical aspects. But we should not ignore the fact that there are political and social problems alongside the technical aspects of the problems. It is our duty to draw attention to the way that should be followed to ensure that the national economy reaches a certain level of productivity and competitiveness. The bodies concerned should be aware of the social problems that may ensue. We can find in the experiences of other countries master plans which have tackled such situations. There is nothing that justifies the non-adoption of the proper and healthy economic policies. Each healthy policy has a price, which can be bartered for positive results. We should be careful to adopt healthy policies that are oriented towards raising per capita income and providing further employment opportunities. Such policies will necessarily cause a certain degree of suffering for certain categories or certain units of the banking system.

On the question of interest rates, I must say that interest rates are certainly one of the major indicators in any economy. A nominal interest rate is equal to the real interest rate plus inflation, or the price level. We are talking here about the real return on investment, or the real interest rate. When we want to finance a certain project, we have to take into account that the proceeds or revenues of the project should be equal to the real cost of the funds that have been borrowed, which is not over 3% to

4% in any country. If we assume that the real proceeds or revenues are static in general, i.e. 3% to 5%, the rise of the inflation rate to 10%, for example, means that the borrowing was viable.

In the industrial countries, the higher the inflation rate, the more the borrower benefits and the lender is hurt. Generally speaking, countries with high inflation rates have low deposit rates, because it is more profitable for the depositor in this case to purchase land or real estate.

If we observe the level of prices in Jordan, we will notice that every time the inflation rate goes up, there is a corresponding shift in deposits from one sector to another. Thus the returns or revenues change with the continual change in the elements of dynamism. Most economic analysts assume a static, not a dynamic, model, and this probably explains why results have been poor despite 30 or 40 years of serious and hard work. Of course the results were poor, because the inputs were wrong and because such analysis largely ignored the elements of dynamism.

Commentary

Mr. Jawad Hadid

The relationship between the capital market, the development process and the services offered by banks for development is an important topic. I had earlier asserted the point that investment banks should not accept deposits or use them for loans, but should create the instruments of the capital market, which basically consist of stocks and bonds. The securities market is needed for medium-term and long-term financing, in other words, for creating capital, whether through the direct purchase of stocks or through bonds. Bonds are usually offered by investment banks in international markets directly to the investors. A depositor may withdraw his deposits to invest in bonds.

But here in Jordan, the securities market has not grown sufficiently, either in the primary or secondary markets, and its contribution to the attraction of savings was insignificant. I believe that there are several reasons why this is so. The main reason is that people and banks prefer liquid funds. Furthermore, the Central Bank of Jordan is lenient in allowing banks to withdraw their deposits, even the deferred deposits, from the Central Bank, in return for a small penalty, 1% to 2%. Consequently, the entire savings market became a market of liquid assets. The same thing applies to bonds. The Central Bank of Jordan is willing to retire the 10-year bonds it issues once every six months.

What we need is a real market for securities. What we need is not to retire bonds but to restrict their exchange for liquid funds to the Amman Financial Market only. We also need a real market for deposits, a market that can respect the duration for which the deposits are kept, i.e. that will draw a distinction between demand deposits and long-term deposits. Although local liquidity is divided into deposits, money supply and near-money supply, in practice they all fall into the category of money supply because deposits and securities can be turned into liquid funds almost immediately.

As for the impact of the interest rates on the capital market, it is easy to notice that the volume of investment is falling while interest rates

are rising. It is noteworthy that the new capital invested in 1994 was below the level of capital invested in 1993. In 1995, the capital invested was less than the capital invested in 1994. In other words, there is a negative relationship between the rise of interest rates and the volume of new investment.

What remains for me to say is that competition is the right and healthy thing. What I talked about earlier was feverish, unhealthy competition. What we need in fact is banking professionalism. Unfortunately, however, it is the Central Bank of Jordan that is dictating the rules of professionalism to banks, instead of allowing the management of the banks to apply their own high standard of professionalism in carrying out their banking operations.

THE ROLE OF THE JORDANIAN BANKING SYSTEM IN LIGHT OF THE LIKELY CONSEQUENCES OF REGIONAL AND INTERNATIONAL DEVELOPMENTS ON THE NATIONAL ECONOMY

Abdul Kader al-Duweik

Introduction

In recent years, the Arab region has undergone a series of rapid transformations which have left their impact on the economic activities of the countries of the region. The Arab banking system was one of the sectors which has been affected by these changes and transformations. The most important of these changes and transformations are the following:

(a) The launching of the peace process and its likely repercussions on the acceleration of the development process and the initiation of local and regional development projects.

(b) The end of the Gulf war and its economic and financial impact on the countries of the region, including the financial requirements of reconstruction.

(c) Liberalization and openness among States and the conclusion of cooperation agreements among the various economic blocs, with the consequent removal of barriers and the liberalization of commodities and services, including banking services.

(d) The adoption of economic reform programmes by a larger number of Arab countries.

(e) The technological revolution in computers and in communications.

The international banking sector has also witnessed some rapid changes and transformations, which are detailed below:

A. THE GLOBALIZATION OF THE FINANCIAL MARKETS, THE
FREEDOM TO TRADE IN FINANCIAL AND BANKING
SERVICES, AND THE REMOVAL OF BARRIERS

Financial markets are currently characterized by openness, liberalization and the lifting of restrictions that formerly curbed banking activities, particularly in the advanced markets of the industrial countries. This policy of liberalization and openness among these countries was adopted following their accession to the agreements of the World Trade Organization (WTO), formerly known as GATT (the General Agreement on Tariffs and Trade) or following their entry into agreements with international economic blocs. This has led to the following:

(a) New competitors to the banking system have entered the market. These competitors consisted of non-banking institutions that began to carry out numerous activities which formerly had been carried out by banks alone. Among the new competitors were savings and loan associations, financial companies, investment banks, insurance companies and mutual funds.

(b) Commercial banks began to do business in non-traditional domains, such as underwriting, trading in stocks and securities, serving as financial consultants and managing financial portfolios for clients, offering insurance and debt securitization services, dealing with new financial instruments such as SWAPS, options, margin trading, and asset management. New risks have also appeared, such as credit risks, fluctuations in interest rates, diversification of the sources of funds, and increasing interest in the concept of total quality. The concept of profitability became one of the factors characterizing successful banks. This has meant a transformation of banking operations into a concept of universal banking.

(c) International banks rapidly expanded in a number of international markets and carried out cross-border operations in these markets without let or hindrance. This has provided the banks with great opportunities but has also made them vulnerable to changes taking place

in these markets. The market could no longer be monopolized by certain national banks or other institutions.

B. THE DEVELOPMENT OF THE INTERNATIONAL BANKING
SYSTEM AND THE APPEARANCE OF NEW
FINANCIAL SERVICES AND INSTRUMENTS

Advancements in technology and the increasing use of computers in banking operations have led to the following:

(a) New banking services and financial and investment instruments. Banks began to compete among one another to innovate new services to offer to their more sophisticated clients, whose requirements have become more complex. Innovation in this respect became one of the most important aspects of competitiveness and an effective means to increase profitability. Traditional banks that have not carried out any innovation or introduced new services have found themselves retreating.

(b) The efficiency and speed of bank operations were enhanced, and banks could serve a larger number of clients in less time and at lower cost. Bank branches have become sales offices for the banking services. The increased automation led to a proportional increase in the use of the ATM, which provided a series of expanded services. Banking from home, banking by phone, and various electronic banking systems were introduced with a consequent increase in bank revenue from commissions and fees. Meanwhile, the interest differential, or the difference between the lending and borrowing rates, was decreased.

(c) Securitization operations have expanded. Securitization means that through a certain mechanism, the bank transfers some of its assets to securities and sells these securities to investors in the form of issues covered by the guarantee of the assets themselves. Securitization was intended to provide an opportunity for the largest possible number of investors to invest in development projects and to attract further investments to cope with the various requirements of development. It was also intended to highlight the ability of the banking system to provide the

long-term and short-term financial instruments to cope with the needs of the upcoming investments.

C. THE CRITERION OF CAPITAL PROFICIENCY AND THE INCREASING NUMBER OF MERGERS AMONG LARGE BANKS

Banks in the United States, Europe and Japan have had to raise their capital proficiency or voluntarily merge so that they could:

- (a) Benefit from the advantage of the large-size bank.
- (b) Increase their rates of growth, expansion and profitability.
- (c) Minimize the risks associated with banking operations.
- (d) Cope with changes in the world of banking.
- (e) Cope with the requirements of investing in advanced banking technology in the coming phase.

D. THE ARAB AND JORDANIAN BANKING SECTOR IN THE COMING PHASE

If we are to improve the performance of the Arab and Jordanian banking systems under the aforementioned conditions of change, bank managers will need to promote the concept of the institutional bank that is more committed to the rules of a sophisticated banking industry and that is more responsive to change and more capable of enhancing capital proficiency to meet the capital proficiency standards set by the Basle Committee.

If Jordanian banks are to play a meaningful role in the process of comprehensive development, particularly now that Jordan has entered the phase of peace and has begun preparations in all fields to address the new circumstances and the realities of the next phase with a high degree of efficiency, and if these banks are to be able to respond to the dictates of the phase, in particular the requirement that they keep good relations with

the remaining sectors of the economy and that they be the prime movers of investment, they should prepare themselves thoroughly to encounter the challenges with a strong and solid attitude based on scientific study.

Jordanian banks must increase their efficiency and competence more than ever before. They should also enhance and activate their role in the various developmental fields and provide the necessary funding for the local projects that will be initiated. Furthermore, the strong competition which is expected for the banking market in the region and the extension of the activities and branches of the banks outside their national borders, particularly in light of Jordan's intention to accede to the World Trade Organization (WTO), compels Jordanian banks to enhance their competitive capabilities so as to retain their share of the local banking market on the one hand, and to acquire a reasonable share of the banking services needed by the projects expected to be launched in the region, on the other.

To be able to cope with these challenges and developments, Jordanian banks should deal with them with all due seriousness. Within this context, the Jordanian banking system should take the following issues and matters into consideration:

- (a) The capital of banks should be strengthened so as to raise the capital efficiency in accordance with the standards set by the Basle Committee. This in turn would enhance the competitive power of Jordanian banks, who, as is well known, have begun increasing their capital so as to enable themselves to cope with the size of operations expected in the coming period. The Central Bank of Jordan has announced a number of incentives and advantages to these banks that seek to consolidate their capital through merging with one another.
- (b) Banks should adopt strategic planning as the base of their work, because the successful banks are the ones that are the most efficient in strategic planning based on the principle of Management by Objective.

(c) Banks should continue their administrative development and updating, particularly the training and improvement of the human resources working in the banking system. Personnel should be chosen with care and should possess specialized technical capabilities in the work of banking. They should also have up-to-date knowledge of the medium- and long-term financial investment instruments in use in the international banking industry and should be able to utilize these developments for the promotion and advancement of banking services. Furthermore, banking personnel should be trained in how to deal with and satisfy the expectations and needs of clients and investors and should also receive any training needed to keep them abreast of trends in international banking. The success of the banking system in training its personnel will enable it to deal with the international banking market at the same level of efficiency and sophistication that is characteristic of the largest international banks.

(d) As the technological revolution in banking has now embraced the various international banks in the different countries of the world, the Jordanian banking system should keep pace with this banking technology so as to strengthen its competitive position and to provide complete databases on its clients and on the local, Arab and international markets. The branches of each bank should be linked through a direct communications network, and the branches of the banking system should be also directly linked through a unified communications network. Furthermore, the headquarters of banks should be linked with the international financial centres and markets, so as to expedite communications between the Jordanian banking system and the international banking markets around the world.

(e) Currently existing banking services should be promoted and new banking services should be introduced. These banking services should utilize the available banking technology to update the instruments used in international financial and monetary markets so as to enable banks to cope with all the needs of the coming period, particularly as regards the following:

- (i) Methods should be devised to attract medium- and long-term deposits and savings that can be used for medium- and long-term financing, i.e. the issuance of deposit certificates, the securitization of debt, the issuance of bonds and the promotion and consolidation of consolidated loans and leasing through which the funding needs of the large developmental projects that will be initiated in the coming period could be met.
- (ii) The idea of launching mutual funds should be encouraged, because these could attract the largest possible amounts of savings from those willing to invest in such funds in Jordan and abroad in preparation for employing these funds in various developmental projects.
- (iii) Issues of stocks and bonds in the primary market should be managed, together with providing a guarantee for coverage. These issues should be promoted and marketed through a network of local and international branches and through the networks of relevant correspondent banks around the world. Such a step would certainly strengthen and expand the base of investors in development projects as well as promote the reversal of capital flight.
- (iv) Strategic planning should be utilized to examine the local and international markets and to explore investment opportunities. Banks should also be prepared for any likely changes and should deal with these changes efficiently and confidently. Promotional plans should be introduced, and these plans should utilize ongoing contact and the creation of continuous channels of communication with financiers and investors in Jordan and abroad. Banks should also utilize their branch networks outside Jordan and the networks of their correspondents around the world to introduce to them the investment opportunities and incentives that exist in

Jordan and to encourage them to fund or invest in projects to be established in the country.

- (v) Jordanian banks should move in the direction of operating as universal banks, including the provision of private banking services and the creation of specialized units in the management of client assets. Thus the banks should become directors of investment for their clients and investors in accordance with the regulations that would be laid down by the Central Bank of Jordan.
- (vi) Research and data centres within the banking system should be strengthened and promoted, with the aim of providing information and data that could help bank managers to make the appropriate decisions in relation to their work and that could also help clients and investors to make sound investment decisions. Banks should supply clients with information on investment opportunities and any changes introduced to the investment laws and regulations in Jordan. These steps would certainly expedite the process of comprehensive national development.

In closing, I would like to say that the role of the private sector in general and the banking system in particular will grow with each year, in light of the future developments expected to take place in the Jordanian economy. I hope that the Jordanian banking system will manage to perform its role effectively and efficiently.

Commentary

Mr. Jawad Hadid

Mr. Abdul Kader al-Duweik has made an interesting presentation on the theoretical and practical aspects of banking and one that included very important elements reflecting the aspirations of a Jordanian banker regarding what the future of banking should be.

Naturally, the talk about the development of human resources, securitization, and the model bank is a description of an ideal situation. We should take into account, however, that this requires a natural cycle of evolution before it can materialize. Monetary and fiscal policies need to be upgraded, and we should have stable and constant growth. Restrictions should be eased to the point where banks could have freedom to make investment decisions and to create new instruments without upsetting safety criteria. However, as things now stand, everything is subject to government decisions. The bureaucratic factor in the performance of the government machinery is still very strong, and unless official intervention is minimized, I do not believe that we can enter into the fields mentioned above. Every small matter still needs official approval, sometimes involving the minutest details. You can imagine how things are when larger matters are involved.

What we need is monetary, fiscal and banking legislation that is open and liberal enough that the appropriate grounds for the desired development could be laid down.

THE LIKELY EFFECTS OF REGIONAL AND INTERNATIONAL DEVELOPMENTS ON JORDAN'S FOREIGN TRADE

Dr. Ahmad Qassem al-Ahmad

Introduction

The Jordanian economy is a youthful economy and depends primarily on the services sector, which accounts for some two thirds of the gross domestic product (GDP). Despite the small contribution of agriculture to GDP at present, Jordan is still viewed as an agrarian country. For years, the Government has been trying to increase the contribution of the industrial sector to GDP through its efforts to build a strong industrial base created by the activation of local savings and the encouragement of local and foreign investment. For this purpose, the Government has enacted several laws aimed at encouraging various types of investments and has upgraded the laws regulating all the activities of the national economy.

Despite the success the Jordanian economy managed to achieve in recent years, it has had to cope with unexpected events, in view of the country's location in the midst of the turbulent Middle East. For well over half a century, the Middle East has been suffering from a state of instability and recurrent wars between the Arabs and Israel over the Palestine issue; these wars have led to successive waves of immigration. There were also wars fought among the countries of the region, including the first and second Gulf wars. The second Gulf war led to the forcible return to Jordan of hundreds of thousands of Jordanians working in the Gulf and had a devastating effect on the Jordanian economy despite the intensive efforts made to overcome the consequences of the war.

In the past decade, Jordan has also suffered a devaluation of the Jordanian dinar, whose price retreated by 60%. The Jordanian economy continues to suffer from high rates of unemployment, a high dependency ratio, and a high rate of population growth—considered one of the highest rates in the world.

In view of the fact that Jordan depends on aid, grants and loans from abroad because of insufficient local resources to cover its needs, foreign debts accumulated, reaching a maximum of \$11.7 billion and then dropping to \$7.5 billion by the end of 1993. By the end of 1995, foreign debts further dropped to some \$6 billion as a result of government policy that introduced structural adjustment programmes.

With the conclusion of the peace treaty between the Hashemite Kingdom of Jordan and the State of Israel on 26 October 1994, the Jordanian Government revoked all the laws involving the boycott of Israel. The Government revoked the Economic Boycott and Ban of Trade with the Enemy Law No. 11 of 1995. It also decided in the same year, with some exceptions, to cancel the requirement that an importer have an import license issued by the Government before being allowed to import goods from abroad. These measures were taken as part of the economic liberalization policy and to strengthen the role of the private sector in development. In line with the title of the present paper, we will focus on the current status of Jordan's foreign trade and the factors expected to affect this sector in the future in light of the changes that followed the Gulf war, the liberalization of the international economy, the increasing trend towards the formation of regional blocs, whether on the level of the North American continent, the European Union, South-East Asia, the Black Sea region, or finally the Middle East and North Africa. We will also focus on Jordan's current trend to conclude partnership agreements with the European Union and the Mediterranean basin States, including the Arab countries which do not actually have shores on the Mediterranean. Our discussion will also deal with the proposed establishment of a free-trade zone in 2010 as well as the new developments that resulted from the accession of most world countries to the World Trade Organization (WTO) and the ensuing effects on the economies of the States joining the agreement, as well as on Jordan.

A. THE FOREIGN TRADE SECTOR IN JORDAN

Foreign trade activities in Jordan are an outcome of various other economic activities. Foreign trade both influences and is affected by these various activities; it is truly a mirror reflecting all the activities in any

economy. Foreign trade, which has been important since ancient times, has been gaining increased significance at present because of the rise in the volume of trade among nations, the multiplicity of human needs and requirements, and the increasing number of commodities entering markets.

Foreign trade in Jordan plays an active role in the national economy. The various economic sectors in Jordan depend on different imported commodities, whether these are used in production, processing or consumption. Jordan's exports have grown noticeably, and the State encourages exports because of their positive influence on the balance of trade and the balance of payments. Until recent years, the products of the mining industries were the major commodities being promoted in foreign markets, the State is still engaged in marketing activities aimed at gaining new markets. The trend has intensified in the last five years, as the number of industries increased. Jordan now has well-established pharmaceutical, foodstuff, ready-made clothes and other industries. Recent statistical data, particularly data published in 1995, show that national exports grew by 26.5% and re-exported goods by 17.5%. The trade deficit in 1995 was 1.1% less than it was in 1994. For the first time, the value of exports was more than the value of imports in the same year.

1. Exports

The good performance of Jordanian exports in the last two years, particularly in 1995, and the encouraging preliminary results of the export activities in the first months of 1996, was due to the availability of the necessary funding, as well as to the fact that some Jordanian commodities were granted preferential treatment and to the serious efforts made by the private sector to open new markets in Eastern Europe, the European Union countries, South-East Asia and the United States, with Jordan exporting high-quality products to the countries of these regions. Furthermore, the number of companies seeking to obtain ISO certificates was on the increase.

The increase in imports was due to the application of customs tariff reductions, which was expected by importers, at the end of 1994. These

reductions showed a decrease in imports in 1994 by 3.8% compared with 1993, but a rise again, in 1995. Table 1 shows the indicators of foreign trade in Jordan.

Table 1. Foreign trade indicators

	Year				
	1991	1992	1993	1994	1995
<i>Growth rate (percentage)</i>					
Foreign trade	(2)	23.3	104	0.4	13.9
National exports	2	5.9	9.1	14.8	26.5
Imports	(0.9)	29.4	10.8	(3.7)	9.6
Re-exported commodities	83.5	13.6	(11.3)	16.1	17.5
<i>Per capita share (JDs)</i>					
Foreign trade	630.4	748.6	796.2	762.6	837.8
National exports	163.4	166.0	175	191.8	234.1
Imports	467.0	582.0	621.2	570.8	603.7
Re-exported commodities	47	51.4	43.9	48.6	55.1

Source: Central Bank of Jordan, *Annual Report 1995*, No. 32, p. 94.

National export data show that the increase in exports included vegetable and animal oils, potash, fertilizers and phosphates. Arab countries are listed as the major importers of Jordanian commodities, as Jordanian exports are primarily focused on Iraqi markets; ranking next as importers of Jordanian products are the European Union, Eastern Europe, India, Turkey and Taiwan, which are major importers of Jordanian phosphates. Re-exported commodities are playing a pioneering role in Jordan's foreign trade, particularly since some countries, Iraq for instance, are importing their goods via Jordan.

2. Imports

Imports in 1995 increased by 9.6% compared with 3.7% in 1994 according to official government figures. The increase in imports was due to a number of factors, including the end of a state of anticipation when the Government released its list of customs tariff reductions at the end of 1994. Furthermore, there was a natural increase in population, an expansion in construction and the launching of new projects.

The increase in demand focused on processed commodities of chemical raw materials, natural preparations, mineral fuel and lubricants. There was likewise a rise in the value of imports of transport equipment and machinery, followed by foodstuffs and live animals.

Imports of alcoholic beverages and tobacco declined in 1995 compared with 1994. Imports of several other commodities declined as recently established plants in Jordan began producing these commodities and selling them on the local market.

The decline in the import of certain manufactured commodities was associated with an increased demand for raw materials and intermediary products used in the manufacturing industries.

The geographical distribution of imports indicates that the countries of the European Union, particularly Germany, are the main exporters to Jordan. This is followed by the Arab States, particularly Iraq, a main exporter of crude oil. Imports from Eastern Europe declined, but imports from Turkey and South Korea rose. Jordanian imports from the United States maintained the previous levels.

B. PROBLEMS OF THE JORDANIAN FOREIGN TRADE SECTOR

Although the foreign trade sector plays a vital role in the Jordanian economy, it nevertheless faces a number of problems. The most important of these are the following:

(a) Investors are not responsive to the Government's endeavours to increase the productive capacity of the Jordanian economy with a view to achieving a qualitative leap forward for the national economy.

(b) The customs tariff system is still vulnerable to bottlenecks through the phases of its application in terms of the following:

- (i) The complex nature of the temporary admission and duty drawback system.
- (ii) The disparities in the customs tariff duties.
- (iii) Estimation of duties is often based on personal judgment because of the lack of information about the prices of imports.
- (iv) Lack of specific criteria for determining customs tariff rates.

(c) The measures and procedures involving the entry and exit of goods into and out of the free zones are complicated.

(d) Information about foreign markets is lacking, in particular information on the system of most-favoured-nation status granted to Jordan by a number of industrial countries.

(e) The marketing of Jordanian products, particularly industrial products, is restricted to the local market and neighbouring markets.

(f) The Jordanian market has poor marketing potential.

(g) Jordanian industrial products still do not meet ISO standards.

(h) The virtually complete dependence on inputs. Statistics indicate that the imported inputs of the chemical and pharmaceuticals industries amount to 70% of total inputs. Imported inputs totaled 67% in the engineering industries and 63% in foodstuff consumer commodities.

Despite the foregoing problems, the Government has been trying since the initiation of the first and second economic adjustment programmes to remedy structural imbalances and to cope with the problems of poverty, unemployment, foreign debt and the chronic deficit in the balance of trade.

The Jordanian Government adopted several such measures in 1995. It modified sales taxes and expanded the tax base to include certain services and additional commodity items. It also amended the Income Tax Law by allowing more exemptions. The Government also reduced customs tariff rates and approved a law for the encouragement of investments and another law for the encouragement of investments by non-Jordanians.

In the area of foreign trade, the Government is continuing talks on an Association Agreement with the countries of the European Union. It is also continuing talks with the World Trade Organization (WTO) with the aim of acceding to the WTO agreement. The Government has concluded bilateral agreements to activate earlier trade agreements with Arab and friendly countries. The developments that can be expected to affect Jordan's foreign trade sector in light of the unfolding regional and international developments are detailed in the following paragraphs.

C. JORDAN'S ENTRY INTO THE WTO

The new international developments involving foreign trade since the conclusion of the WTO agreement—and Jordan's desire to accede to the agreement—will affect Jordanian products, exports and imports.

Although Jordan will have access to expanded markets, the competition will be strong, and Jordanian exports will certainly be negatively affected.

There will be an increasing supply of imported goods. Protectionism for local goods will be reduced gradually until it completely disappears after a set time, according to the provisions of the agreement.

Jordanian products will be affected by the increased costs associated with adherence to ISO standards. Jordanian products must therefore be improved in quality so as to attract buyers, whether in local or foreign markets.

D. THE ASSOCIATION AGREEMENT WITH THE EUROPEAN UNION

Jordan entered into negotiations with the European Union to amend the agreement it concluded with the European Union in 1977. Since last year, Jordan and the European Union have held four rounds of negotiations to conclude an Association Agreement as part of the European Union's new trend to conclude partnership agreements with all the States on the Mediterranean.

The Agreement, expected to be signed before the end of 1996, will give Jordan further privileges to export its agricultural and industrial commodities to the countries of the European Union. In fact, the goal expected to be attained by the beginning of the next century or by the year 2010 is the establishment of a free-trade zone between the countries of the European Union and the Mediterranean countries, including Jordan, similar to the free-trade zones already set up with other countries of the Mediterranean basin and Eastern Europe. The agreement will have some negative effects in the short-run. However, it will provide Jordanian products with future opportunities of wider access to markets and better terms of trade than the cooperation agreement signed in 1977.

The new Association Agreement will be more flexible and easier to apply, particularly that the European Union will help Jordan overcome certain obstacles that obstructed the access of Jordanian products to EU countries.

The principle of cumulation of origin is another method that allows Jordan to increase exports of its products to European Union countries. According to this principle, Jordan, Palestine and Egypt are regarded as one zone *vis-à-vis* procedures related to exports and imports. Jordanian

goods will be considered to be of Jordanian origin, even if some of the industrial processing has been done in other countries of the region.

Under this principle, Jordan will be allowed to export its goods to EU countries at low customs duties if its contribution to the cost of production is at least 20% (12% for Palestine and 5% for Egypt). Jordanian industries that will benefit from this principle are the mineral, pharmaceutical, engineering and leather industries, while the commodities that will be negatively affected are the cigarette, alcoholic beverage and other industries. The Europeans want the three countries to form a free-trade zone with each other so that they can benefit from the principle of cumulation of origin. At the signing of the agreement, it will be possible to contain some of the negative consequences, in particular the consequences that will ensue during the transitional period allowing Jordan to adjust its economic policy gradually. Among these consequences are the following:

- (a) Reduced customs revenues and an increase in the country's budget deficit.
- (b) The risk of capital flight will increase.
- (c) Unemployment and poverty rates will continue to be aggravated.
- (d) Additional investments will be demanded to raise the quality of Jordanian industrial products to enable them to compete in European markets.
- (e) There will be increased imports and pressure on the country's foreign currency reserves.
- (f) Some Jordanian industries will face real difficulties as a consequence of a reduced level of protection.

E. THE PEACE TREATY BETWEEN JORDAN AND ISRAEL

The Jordanian-Israeli peace treaty is one of the most important regional events that can be expected to affect the foreign trade sector in Jordan. Article 7 of the peace treaty speaks about the economic relations between the two countries and states that all aspects of discrimination and restrictions standing as obstacles to the achievement of normal economic relations will be removed, including the elimination of the Arab boycott of Israel. It also states that economic cooperation agreements will be concluded, including agreements on trade, the establishment of a free-trade zone, investments, banking, industrial cooperation, labour and others. A bilateral agreement has already been concluded on trade, and lists of the commodities to be exchanged have been included in the agreement.

It should be noted here that there are important factors which will decide the volume of trade between the two countries, among them the following:

(a) The enormous size of the Israeli economy compared with that of the Jordanian economy. Data published in 1992 indicate that Israel's GDP was \$60 billion and annual per capita income was \$11,600 while Jordan's GDP was \$5 billion and its per capita income was \$1,300.

(b) Israel's trade is more diversified and advanced, its markets are bigger, and its ability to compete is much better than Jordan's because of its commitment to ISO standards and its responsiveness to the requirements of international markets.

(c) The economy in Israel utilizes sophisticated technology in a much better way than does Jordan. This has given the Israeli economy a dynamic strength in gaining foreign markets.

Upon the conclusion of the bilateral agreements, including foreign trade agreements, between the two countries, the commodities that Jordan will export to Israel and vice versa were identified. The agreement gave certain commodities protectionist coverage for a specific period of time.

Some people believe that Israeli commodities are in a better position to compete and that consequently they will overwhelm Jordanian commodities. In this view, Israel would enjoy a surplus in its balance of trade. Furthermore, Israel has the advantage of being associated with the free-trade area of the United States and the European Union.

Regardless of whatever expectations we may have, what is definite is that the markets will be opened to the commodities of the two countries. Consequently, Jordanian agricultural and industrial commodities will face strong competition. Each sector will be affected by the disparate standards of living, prices and wages and by the differing customs regulations and prevailing levels of technology in the two countries. Needless to say, the Israeli economy enjoys a dynamic ability to build relations with the Western world and has been doing so for some time now, much earlier than the Jordanian economy. Furthermore, Western countries have granted many privileges to Israel.

Trade between Jordan and Israel will be accompanied by tourist activity between the two countries.

Jordan's transport sector, including land and air transport and (in the future) maritime transport, as well as transit and re-export trade will be affected, particularly since Israel seeks to play a major role in transit trade that passes through its Mediterranean ports, such as Haifa port, to serve routes extending to the northern and eastern parts of the Arab world (including Iraq) and Turkey; such trade would in many cases pass through Jordan.

Jordan's foreign trade sector will be clearly affected, whether trade is conducted through the port of Aqaba, or via airports, roads or railroads, as a result of the peace treaty signed on 26 October 1994.

As a result of the termination of the Arab boycott of Israel, the Jordanian economy will find itself face to face with a more advanced Israeli foreign trade sector, and one which enjoys a substantial government subsidy, good management and foreign markets, which have

now become traditional markets for the Israeli economy. Therefore, more market research is needed, and sufficient flexibility should be forthcoming when dealing with foreign markets. Furthermore, Jordanian industries should continue to work for ISO certification so as to be able to compete and grow.

F. THE ECONOMIC AGREEMENT BETWEEN JORDAN AND PALESTINE

The peace process will have varying results with respect to the three parties concerned—Jordan, Palestine and Israel. There are many who are calling for the establishment of a free-trade area among the three.

The Jordanian Government has signed an economic agreement with the Palestinian National Authority. The agreement specified the volume of the trade and the goods and commodities that will be allowed to be imported from Jordan and vice versa. However, this agreement has not yet been applied in the desired way, since the peace process has still not been completed, and a just and comprehensive peace in the region has not been attained.

In any case, the Palestinian market in the West Bank and Gaza Strip should prove its presence in the Arab markets. Consequently, Jordan will have better opportunities to export its products to the Palestinian territories. Israel, however, continues to oversee Palestinian trade as it crosses the border, which serves to block the promotion of trade between Jordan and Palestine.

Furthermore, the agreement concluded between Jordan and the Palestinian National Authority on 7 January 1994 proposed the establishment of a free-trade area in the Jordan Valley. There are also chances for expansion in the tourist sector that would activate the foreign trade sector in terms of tourist commodities and traditional tourist handicrafts.

It could be said that the Jordanian and Palestinian markets should be heading on a course of integration and that future dealings should be conducted on the premise that they are a single market.

G. THE FREE-TRADE AGREEMENT BETWEEN JORDAN AND EGYPT

The policy of the Jordanian Government continues to be based on openness and dynamism. Jordan aspires for its economy to become a model to be followed in the Middle East region. It is therefore seeking to establish economic and trade relations with most neighbouring countries. A free-trade agreement was recently concluded between Jordan and Egypt; it included the gradual cancellation of customs duties and other fees and taxes as well as the cancellation of non-commercial registry books. The agreement will have positive effects on trade between the two countries and at the regional level. It could perhaps herald the beginning of broader inter-Arab regional cooperation. It may also herald the beginning for the re-activation of inter-Arab agreements. The agreement is expected to improve the conditions of the two countries and reinforce their position in dealing with international economic blocs, which in turn would lead to new joint investments, the creation of new employment opportunities, and an increase in trade and movement of goods and commodities between the two countries and the countries of the region. Furthermore, the model agreement concluded between the two countries may expand in the future to include other countries.

H. JORDANIAN-SAUDI ECONOMIC COOPERATION

Official delegations were recently exchanged between the two countries. Moreover, agreement was reached to activate the joint Jordanian-Saudi committee. A delegation of Saudi businessmen was to visit Jordan to examine the possibility of rebuilding the base of cooperation in the various economic fields.

I. JORDAN'S RELATIONS WITH THE GULF STATES

Despite the cool relations between Jordan and the Gulf States after the second Gulf war, recent months have seen relations restored to normal. Bahrain, Qatar and the United Arab Emirates began to import a number of Jordanian commodities, particularly agricultural produce. It is noteworthy that relations between Jordan and Oman did not suffer greatly as a result of the Gulf war. The new situation will certainly reflect positively on the activation of foreign trade between Jordan and these countries.

J. IRAQI-JORDANIAN TRADE RELATIONS

Iraq is a major trading partner of Jordan. Iraq and the United Nations recently signed an agreement whereby Iraq would be allowed to sell oil in order to purchase foodstuffs, an agreement that will contribute to the reactivation of trade between the two countries, particularly trade in food commodities and medicines. Iraq may import its commodities via the port of Aqaba, thereby creating an active transit trade. The economic relationship between Jordan and Iraq is a strategic one, and it is in the interest of both countries that it continue to be viewed as such.

Naturally, the facilities that are affected by the trade sector, such as the free-trade areas, the Gulf of Aqaba, the transport sector and the services sector, will also be affected by the new developments at the regional and international levels. We hope that these developments will leave a positive impact that could be utilized in the interest of the national economy of Jordan.

Chapter Six

Current Realities and Future
Prospects of the Tourism Sector
in Jordan

Dr. Habis Samawi

Prospects for the Tourism Sector
in Jordan

Manfred Haack

Sustainable Tourism:
Some Useful Lessons
Louis d'Amore

CURRENT REALITIES AND FUTURE PROSPECTS OF THE TOURISM SECTOR IN JORDAN

Dr. Habis Samawi

Introduction

International tourism is a rapidly growing industry—in 1950, there were an estimated 25 million international tourists, as opposed to some 567 million tourists in 1995. Income from tourism rose from \$2.1 billion in 1950 to approximately \$372 billion in 1995. Both developing and developed countries of the world are competing to attract the largest possible number of tourists. The economies of some countries, including Spain, Italy, Cyprus and Tunisia, have even become dependent on tourism.

Jordan has sought since the 1950s to put itself on the tourist map. However, the occupation of the West Bank in 1967, as well as various other developments and crises in the Middle East stood as an obstacle in the way of attaining this goal. Tourism plays an important role in development and in activating the Jordanian economy and accounts for some 11% of the country's GDP. In Jordan, tourism is viewed as an important base of the economy because of the revenues and hard currency it brings into the country. Such revenue amounted to well over \$600 million in 1995, with 1,074,000 tourists visiting Jordan in that year. Tourism also helps create job opportunities and contributes to the operation of certain developmental projects. Furthermore, tourism has social and cultural significance and above all is a learning experience.

Jordan enjoys a number of natural, cultural and historic features that are of interest to tourists. In terms of its natural landscapes, the country is a diversified outdoor museum. The Jordan Valley region, which extends from the north to the south of the country, is a rich habitat of plants and has fresh and salt water resources, as well as mineral hot springs. The area is one of Jordan's sunny winter resorts, featuring the salt waters of the Dead Sea, with their well-known therapeutic properties. Aqaba is another winter resort and a destination highly attractive to tourists.

Besides the Dead Sea and Aqaba, Jordan has mineral springs which have not yet been fully utilized, such as those at Ma'in, Himmah, North Shunah, Zara, Afra and Barbaiteh.

Parallel to the Jordan Valley are the eastern heights, with plains reaching some 1,200 to 1,500 metres above sea level. The eastern heights draw tourists in summer. The various elevations have differing types of scenery; the mountains are covered with forests. The most important towns in the eastern heights are Ajloun, Dibbin, Ishtafina, Zai and Dana.

The desert is the third region. It accounts for about 81% of the total area of Jordan. There are places of picturesque beauty in the midst of this desert, such as Wadi Rum and the Azraq oasis.

Jordan is the site of many ancient civilizations whose cultural landmarks and magnificence have lasted up to our day. Among such landmarks are the ruins of the three kingdoms of the Edomites, the Moabites and Ammonites that can be found in Basira, Sala', Dhibyan, Karak and Amman. There are similar Greek ruins in Jerash, Umm Qais, Tabqat Fahl and Iraq al-Amir. Nabataean ruins can be found in Petra, Umm al-Jimal and Wadi Rum, and Roman ruins can be found in Jerash, Umm Qais, Tabqat Fahl, Petra, Amman and Quwailbeh. There are Byzantine ruins in Jerash, Umm Qais, Tabqat Fahl, Quwailbeh, Madaba, Nebo and Petra. The Arab and Islamic periods are represented in the al-Mashta, Harraneh, and Amra palaces in the desert; and Ayyoubi, Mamlouk and Ottoman ruins can be found at the Karak and Ajloun fortresses and at Azraq and Aqaba.

There are also sites which are indicative of modern Jordan, which dates from the founding of the Emirate of Transjordan. These sites have been significantly developed during the reign of King Hussein. They are witnesses to the cultural and economic progress the country has achieved and include the National Museum, the Martyr's Monument, Hussein Sports City, the various Jordanian universities, model farms in the Jordan Valley, specialized hospitals, and various types of industrial facilities. All these sites are a centre of attraction for tourists.

The following are the characteristics of the tourist potential in Jordan:

- (a) The sites of antiquity are spread throughout the country. Some of the ruins are manifestations of the Greek, Roman, Byzantine and Islamic civilizations. Many ruins have been restored.
- (b) In many cases, a single site will afford an overview of the development of civilizations. In Amman, for example, one can see the ruins of the Ammonite, Roman, Byzantine and Islamic civilizations.
- (c) There are unique sites, such as Petra, which have no counterpart in any other place in the world.
- (d) Some tourist sites are used for medical treatment purposes, such as Ma'in, North Shunah, Himmah, and the Dead Sea.
- (e) There are natural tourist sites not effectively utilized, particularly the winter resorts of Aqaba, the Dead Sea and the Jordan Valley and the summer resorts of Ajloun, Ishtafina, Dibbin and Zay.

I. THE GOALS OF THE PRESENT STUDY

This study seeks to formulate a future perspective for the development of tourism in Jordan by focusing on the realities governing tourism in Jordan and the most important problems now facing the tourist sector. Among the most prominent of these goals are the following:

1. Integrated tourist regions should be set up, including the Aqaba region, Rum, Petra, Kerak, Madaba, the Dead Sea, Amman and northern Jordan. The multiplicity of these regions would enhance touristic diversity and would encourage a longer stay by tourists coming to the country.
2. Infrastructure at the sites, such as roads, water, electricity and telephone and sewerage networks, should be developed.

3. Integrated tourist services, such as hotels, restaurants, shops and resthouses, should be provided in all the tourist sites.
4. Jordanians should be encouraged to enter the profession of tourism; this could be accomplished by opening specialized tourist training centres at tourist sites and other places.
5. The establishment of traditional handicraft industries at the tourist sites should be encouraged.
6. There needs to be a focus on the concept of sustainable tourism in Jordan, in particular since the environment surrounding the tourist sites is fragile and requires astute management.
7. A progressive increase in the numbers of tourists in the various tourist markets needs to be achieved throughout the year, and in addition there needs to be a drive to extend the duration of stay of tourists, with the aim of increasing the revenue from tourism.
8. Ideas to cope with the coming phase need to be drawn up, since Jordan and the Middle East region are entering into a new series of developments as the region enters the phase of peace.
9. All the opportunities made available by tourism need to be fully utilized, through the marketing of Jordan within the global tourist community. Likewise, the tourist sector needs to be integrated into the other economic sectors, such as agriculture and industry, as opposed to existing as a discrete sector.

II. THE SPECIAL FEATURES OF THE TOURIST MOVEMENT IN JORDAN

Figures published by the Ministry of Tourism for 1995 showed that 1,073,549 tourists visited Jordan in that year, an increase by 25.1% from 1994. Tourists come to Jordan from various markets, such as the Arab Gulf, which accounted for 52.7% of all tourists visiting Jordan in 1995, followed by the countries of the European Community, which accounted

for 23.9%, the Americas, which accounted for 9.6%, Israel, with 9.6%, and the countries of South-East Asia and the Pacific Ocean, which constituted 4.5%, as shown in table 1.

Table 1. Number of tourists visiting Jordan, 1994 and 1995, according to country

Region	1994	1995	Percentage change	Percentage 1995
United States	58,095	83,853	44.3	
All the Americas	69,878	103,346	47.9	9.6
Britain	38,055	44,959	18.1	
Germany	34,235	44,804	30.9	
Italy	27,501	29,274	6.5	
France	24,766	30,075	21.4	
All Europe	192,176	255,496	32.9	23.90
Saudi Arabia	457,591	452,860	(1)	
Gulf States	553,050	566,561	2.4	52.7
Israel	10,767	100,079	829.5	9.3
South-East Asia and Pacific Ocean	31,739	48,067	51.4	4.5
Total	857,610	1,073,549	25.1	100

Source: Ministry of Tourism and Antiquities. Statistics Department.

Jordan still has far to go to reach the standards already achieved by tourist-oriented countries such as Tunisia, Egypt, Turkey and Israel, particularly in terms of infrastructure and tourist services. Hotel capacity is one important indicator of how seriously a country takes its tourist operations. In 1995, there was a total of 8,586 hotel rooms in Jordan, compared with 17,234 in Syria, 62,200 in Israel, 65,131 in Egypt, 160,000 in Tunisia, and 171,450 in Turkey. This explains the weak tourist income in Jordan compared with other countries (table 2).

There are no accurate figures or records about where tourists coming to Jordan go or stay or how long they stay. However, the records of the Antiquities Department indicate that some 337,221 tourists visited Petra in 1995, an increase of 68.2% over 1994. There were 283,397 tourists who visited Jerash in 1995, an increase of 56% over 1994.

Table 2. Status of tourism in Jordan compared with other countries in the region, 1995

Country	Number of tourists (millions)	Tourist income (millions of JDs)	Number of hotel rooms
Jordan	1.07	600	8,586
Syria	0.75	825	17,234
Lebanon	0.4	710	11,451
Egypt	2.8	2,700	65,131
Tunisia	4.1	1,500	160,000
Turkey	6.5	5,021	171,450
Israel	2.08	2,554	62,200
Cyprus	2.1	1,850	34,260
Morocco	2.6	1,168	121,400

Source: World Tourism Organization, Statistical Department, 1996.

Research conducted by the author indicated that the tourist's average duration of stay in Jordan was 3.8 tourist nights, which is short if compared with Egypt (8.8 nights) or Tunisia (11.2 nights). As for the objectives of the visit, 61.2% of the tourists questioned said that their main goal was to visit sites of antiquity. Another 17.2% said they wanted to visit the country's religious sites, 26.1% said they wanted to enjoy nature, 12.1% said they came to Jordan for medical treatment, and 6.1% said they wanted to acquaint themselves with the life of the Middle East.

Table 3. The number of tourists who visited sites of antiquity in 1995, by month

Month	Petra	Jerash	Madaba	Karak	Amman	Aqaba	Umm Qais	Ajloun	Wadi Rum
January	16,262	13,950	300	4,200	2,450	525	7,800	3,150	5,368
February	141,103	10,800	700	4,250	2,850	600	7,750	3,050	6,212
March	38,550	33,200	950	9,000	6,650	1,170	58,324	9,450	10,847
April	43,050	44,450	1,900	12,700	10,221	650	53,469	15,600	2,453
May	36,700	31,999	1,400	8,750	5,633	800	18,400	12,100	9,102
June	20,250	17,900	600	2,200	2,298	250	10,600	7,050	3,544
July	19,750	20,848	750	3,600	2,450	700	2,879	10,550	2,411
August	22,950	27,000	1,050	5,350	2,430	1,150	3,400	12,500	3,695
September	22,650	2,100	627	6,550	3,650	498	8,463	8,500	4,093
October	73,200	26,650	607	8,500	7,200	875	9,350	7,150	9,270
November	35,450	20,400	closed	53,500	5,150	1,165	7,750	4,950	7,109
December	25,299	15,200	closed	3,450	3,350	1,070	6,550	3,300	3,867
Total	337,221	283,397	8,884	73,900	54,332	9,453	194,735	97,350	67,971

Source: The Ministry of Tourism and Antiquities, Statistics Department.

The study showed that the impressions of the tourists about their visits to Jordan were generally satisfactory (81%). Only 42% said they were satisfied with the sanitary facilities available, and only 44% were satisfied with the standard of services. Around 66% were satisfied with the tourist guides, 66% were satisfied with the level of cleanliness, 32% were satisfied with the information and tourist maps provided, 67% were satisfied with the parking facilities, 95% were satisfied with safety and security in the country, and 85% were satisfied with the historic importance of the country.

III. TOURISM ATTRACTIVENESS

Since it was founded, the modern State of Jordan has been dependent on its cultural elements as a way to attract tourism. Lancaster Harding's truism has been quoted many times: "Jordan is an open-air archaeological museum." However, the archaeological sites are not the only thing that Jordan can depend on in marketing itself as a tourist destination. There are other touristic elements in which Jordan is rich and which could appeal to the tastes of tourists. Studies conducted by the World Tourism Organization show that archaeological and historic sites attracted just 12% of the international tourist travel. Thus tourism should be diversified in order to attract the largest possible segments of tourists. Among other types of tourism for which Jordan is known are religious tourism, tourism for medical treatment, nature tourism, tourism for scientific and research purposes, tourism in conjunction with attending conferences, tourism for geological purposes, desert tourism, tourism to winter and summer resorts, social tourism, cultural tourism, water tourism, environmental tourism, and shopping tourism.

Tourist services in Jordan are mainly focused on the cities of Amman and Aqaba, which account for 85% of the country's total hotel capacity, 92% of the total number of travel and tourist offices in Jordan, 77% of the oriental souvenir shops, 73% of tourist restaurants, 90% of tourist guides, and 95% of the total number of car rental offices in Jordan, as shown in table 4.

The concentration of tourism in specific geographical areas deprives the remaining tourist sites of the development opportunities that are generated by tourist travel. Tourism cannot exist without services, and these should be available at the various tourist sites so that the developmental advantage of tourism could be utilized. Some would-be tourists to Petra who cannot stay overnight there would rather cancel their trip; the fact that Aqaba is close to Petra does not solve the problem for them.

Table 4. Geographic distribution of tourist services in Jordan for 1995

Area	Hotel capacity (rooms)	Tourist offices	Souvenir shops	Tourist restaurants	Tourist guides	Car rental offices
Amman	5,852	293	100	254	375	142
Aqaba	1,453	45	42	16	--	5
Petra	531	4	--	3	21	--
Irbid	172	13	1	40	--	6
Zarqa	55	9	1	7	1	--
Madaba	--	1	7	3	7	1
Karak	104	1	--	8	--	--
Ajloun	88	--	--	3	2	--
Dead Sea	100	--	--	3	--	--
Ma'in	142	--	--	1	--	--
Himmah	37	--	--	1	--	--
Jerash	--	--	32	6	5	--
Others	52	5	2	26	3	--

Source: Ministry of Tourism, Trades and Professions Section.

We can also observe from table 4 that there is a great shortage in tourist services in Jordan. When we compare the hotel capacity in Jordan with similar countries that are tourist destinations (table 2), it becomes evident that there is a very great difference between Jordan's hotel capacity and that which exists in such countries as Tunisia, Egypt and Syria.

The concentration of tourist services in the Amman and Aqaba regions does not serve the interest of tourism in Jordan. Therefore, sites such as Petra, the Dead Sea, Madaba and Jerash began to be more actively promoted in the last two years. If this step succeeds, the distribution of tourist services over the various geographic areas of Jordan will end up being much fairer.

IV. THE FUTURE OF TOURISM IN JORDAN

After the above review of the status of tourism in Jordan, one might say that if we are to face the future in a better way, we should adopt new tourism policies in order to keep tourism as one of the major tributaries of the national economy and as a key to development and a major employer. To benefit from Jordan's enormous tourist potential, we should promote tourism to Jordan to the various tourism and travel agents who come to see the country from the different tourism markets. We should also strive to provide tourists with every possible comfort and convenience so that they return home satisfied with their experience in Jordan. The policies detailed below should be adopted, to promote tourism to Jordan.

1. *Promotion and encouragement of local tourism*

Local tourism is the base for the advancement of the touristic process. No country can take a qualitative step forward in promoting itself as a destination of the international tourist unless it promotes and encourages its local tourism first. Unfortunately, this type of tourism is neglected in Jordan. Therefore, I suggest that local tourism become a major goal in Jordan's tourist strategy, which could be achieved through the following:

(a) Tourist services that are compatible with Jordanian tastes and the local standard of living should be created. Tourism should be available to all citizens, whether their income is high or low.

(b) Educational campaigns to promote tourism should be launched to create a tourist culture and mentality. The various media

should highlight the importance of tourism and the need to treat tourists well. Activating local tourism would shorten the high seasons of tourism, particularly at times of crisis. Furthermore, the advancement of local tourism would help to bridge gaps between tourists and the local population.

(c) School trips should be organized to tourist sites to enhance student awareness about tourism.

(d) Tourist facilities that would be attractive to Jordanians, such as swimming pools, exhibitions, shopping centres, sports, cultural and recreational clubs, and zoos, should be built.

2. *Enhancement of tourist services with regard to quantity and quality*

Tourism is judged in any country by the size and diversity of the services provided. If we compare tourist services provided in Jordan with services in neighbouring countries, such as Syria, Lebanon, Egypt, Israel, Tunisia and Turkey, the conclusion we will reach is that Jordan has the lowest level for each type of service. Even in terms of tourist numbers and revenues from tourism, Jordan ranks last. To be able to attract large numbers of tourists, Jordan must create tourist areas with integrated services in all the tourist sites, not simply in Amman and Aqaba. Integrated tourist services need to be provided in Petra, the Dead Sea, Madaba, Ajloun, Umm Qais and Jerash.

The following should be taken into consideration when such tourist services are established:

(a) These services should be diversified so that they can satisfy a broad spectrum of tastes and income levels.

(b) Integrated tourist services should be provided in all tourist areas.

(c) An environmental and cultural aspect should be introduced into these services.

(d) Public cleanliness, specialized management and the art of dealing with people should be emphasized.

(e) The prices of tourist services should be suitable for the different categories of tourists.

3. Completing the infrastructure

Infrastructure in all tourist sites should be completed, and this should include the following:

(a) Road networks leading to the tourist sites should be improved, including the roads to Iraq al-Amir, Umm Qais, the northern Ghor and Quwailbeh.

(b) Signs should be fixed along all roads leading to tourist sites.

(c) Basic services, such as parking lots and health facilities, should be provided in each of Petra, Jerash, Umm Qais, Madaba and Kerak.

(d) There should be telephone, electricity, water and sewerage services in all the tourist sites.

4. Tourist training centres

Jordan should encourage the opening of specialized tourist training centres and colleges in order to provide the needed manpower, which ideally should come from the local inhabitants of each area. Tourism is useless if it depends on non-Jordanian labour. To date, however, the necessary training institutions are not available. We should encourage the opening of institutions at the tourist destinations that are also centres of population, such as Aqaba, Petra, Madaba, Amman, Jerash and Irbid.

Jordan plans to build some 4,000 hotel rooms in the next three years, creating at least 5,000 jobs in the process. In view of the significance of the tourist factor, we should encourage high-level tourist education instead of intensive, short-term training.

5. The better utilization of tourism

The tourist sector should be viewed as supplementary to the remaining economic sectors, not separate from them. In other words, the development of tourism should not take place at the expense of the other sectors, such as agriculture, but should complement them. At the present time, the Jordanian economy derives only a very limited benefit from tourism, since most of what is offered to the tourist is imported from abroad. The impact of tourism on Jordan is still very low compared with other countries. We would like to make the following suggestions regarding how Jordan could derive greater benefits from tourism:

1. We should promote agriculture so that this sector could be utilized in the service of tourism such that at some point in the future all the food and drink offered to the tourist are locally produced.

2. We should not depend on incoming labour but on local human resources.

3. We should encourage the opening of traditional industries in the various tourist sites similar to the Bani Hamideh society and the society of Jerash ladies. The goods exhibited at the oriental souvenir shops should come from local sources and should be worked by Jordanian hands.

6. Tourist data and information

Jordan needs to provide accurate tourist information and data. So far, we have had to make do with inaccurate data. Needless to say, in such circumstances, we cannot plan for the future in a realistic fashion. In this connection, I would like to propose the following:

1. We need to develop accurate figures on the number of tourists visiting Jordan and on the duration of their stay in the country.
2. We need to have reliable data on average tourist spending, broken down by nationality.
3. We also need to develop accurate data on the number of tourists visiting each of the various sites and on average spending, including spending on accommodation, for each of these sites, again broken down by nationality.
4. We should conduct periodic studies on the degree of tourist satisfaction with the standard of the tourist services provided.
5. There needs to be data available on the hotel occupancy rates throughout the year.

7. Tourism in the era of peace

Peace has brought security and stability to the region, and this is regarded as a prerequisite for tourism. In 1995, there was a major increase in the number of tourists visiting Jordan, estimated at 25% more than the year before. In the coming years, there will be larger numbers of tourists visiting Jordan. Consequently, we should fully prepare to receive this increasing number of visitors and to provide them with the services they will need. We should provide the trained manpower required, enact the necessary laws and draw up the needed regulations for a successful tourist business.

V. CONCLUSION

The era of peace that Jordan is currently experiencing will dictate that it change its perspective on tourism. Jordan is receiving larger numbers of tourists than before, which means that new tourist markets are open to it. However, the countries of the region that are already well-known tourist destinations will engage in sharp competition to attract tourists. If Jordan wants to depend more on tourism, it cannot afford to

ignore the question of local tourism. Furthermore, the Ministry of Tourism should play a more effective role in the promotion of marketing operations and the opening of tourist training centres. It should also oversee and supervise tourist operations in a more efficient way. Moreover, infrastructure tourist services and other services should be developed. Tourism should be better utilized by depending upon local products and trained local manpower. Finally, tourist investments outside the cities of Amman and Aqaba should be encouraged.

All indicators are that the tourist sector is confidently progressing on its way to becoming an important item in Jordan's balance of payments, as large amounts of revenue are generated by tourist and visitor spending. The progress achieved in the last three years is an indicator that the pace of growth will continue. This growth can be sustained thanks to the existence in Jordan of all the elements that are necessary for a successful tourism sector and to the initiation of basic services and tourist facilities to serve visitors and tourists, which were formerly not available.

Jordan is currently witnessing an important transformation that is oriented towards making full use of the various types of tourism. In the past, tourists restricted their visits to the country's cultural, historic and archaeological sites. However, we are now witnessing the beginnings of other kinds of tourism, including medical tourism, beach tourism, conference tourism, religious tourism, and the tourism that takes place in conjunction with visits paid to families residing in Jordan. Meanwhile, the scope of tourism is expanding, to embrace all parts of the country, and can be expected to grow even bigger as the development process continues to unfold.

We are confident that the efforts made to raise the efficiency of services at Jordan's tourist sites—as well as to update the approaches employed to introduce tourist and historic sites to tourists and to preserve and properly manage tourist sites—will provide an atmosphere that will encourage tourists to stay in the country for longer periods of time and that will attract larger numbers of tourists to Jordan. Needless to say, increased investment in tourism would bring about an increased number

of personnel working in this field and would in turn enhance awareness of the importance of tourism as an economic factor of production. If these aspirations and hopes are to be attained, however, the Middle East region will first have to arrive at a state of comprehensive peace.

PROSPECTS FOR THE TOURISM SECTOR IN JORDAN

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Tourism, a potentially key industry for turning Jordan's economy around, could become a high value added branch of the growing services sector, providing the labour market with sophisticated and reasonably remunerated jobs. But on the other hand, tourism could also take place as a temporary wave of uncontrolled growth focusing on mass tourism, which would rapidly lay waste to Jordan's attractiveness as a tourist destination.

Now is the time to decide whether to use Jordan's natural resources as a source of long-term prosperity or to sell out cheaply for a quick profit.

I would like to plead the case for choosing the first option, which would have the following two major objectives:

1. Earning foreign exchange under favourable terms of trade and contributing to the balance of payments.
2. Generating growth in the area of highly skilled jobs as well as encouraging the establishment of new private enterprises.

Four principles underlie these objectives:

1. Jordan's natural and cultural attractions should be sold for as much as the market will bear.
2. These attractions should be recognized as unique, irreplaceable resources, and maintained as such.

3. Occupations in tourism-related services should be redefined, and small and medium-sized private enterprises in all areas of tourism should be promoted.

4. The high value added services of the tourism industry such as planning, contracting, product design, marketing, and distributing, as well as financial and insurance services, should be kept under Jordanian management.

The following briefly outlines these principles.

The first principle simply means quality instead of quantity. Jordan should avoid all schemes of mass tourism—which can only lead to disaster in the end—and instead focus its attention on target groups which are interested in high-quality tourism and willing to pay for it.

These are individual tourists in general who require either a tailored package programme or various options from which to choose at every stage of the trip.

Not necessarily falling into the category of individual travellers but belonging to the high-quality segment nevertheless are cultural and environmental tourists.

Single females travelling alone are a target group which has been ignored by the ordinary tourism business as well as by the luxury-tourism sector. An Islamic country with a cosmopolitan outlook and with a reputation for hospitality could occupy this niche of the world tourism market.

Another target group consists of business travellers who would like to extend their business trips to include several days of vacation. This should be considered in the context of ambitions to expand Amman's role as a conference and convention city.

These specific target groups could be attracted by unique experiences if these are offered in the proper way, and—once they get to

Jordan—can be encouraged to spend freely if an appealing variety of truly excellent services is made available to them.

Excellent service means first and foremost personalized service. This usually cannot be expected from large five-star hotels, but it is a well-known strategic strength of smaller-scale, locally run accommodations. If these are to be geared to the market niche we have in mind, they would have to be staffed by highly qualified individuals. A comprehensive scheme of customer-oriented services should further include nature trails, cultural events, sports facilities, shopping areas, and first-class Arabic restaurants.

The main incentive, from the Jordanian side, in providing this wide array of choices is the balance sheet of high-quality tourism: the difference is obvious between the extremely thin profit margins extracted in the business of mass tourism and the healthier margins generated by tailored programmes of individual tourism.

The second principle is closely related to the first one. High-quality tourism requires a sensible limitation on the use of its resources. This is originally a marketing principle, but it meets the demands of ecological conservation as well.

Jordan's main attractions are its natural beauty and its historical landmarks.

The Nabataean city of Petra, one of the world's most important sites of cultural heritage, needs both restrictions to preserve the irreplaceable antiquities and a sensible improvement of the tourism facilities in the modern town. Sprawling agglomerations of oversized hotels crowding the surroundings with large groups of tourists are contrary to the spirit of the place. The daily number of visitors must be limited, and attempts to increase employment and generate income should focus on the associated services in the sense of: "What is there to do after the walk through the Siq?"

The Dead Sea area could become a preferred destination for medical tourists, including people suffering from skin diseases. Becoming a health and recreation centre would first require changing the shore's appearance as a rubbish dump and second opting for small but comfortable private hotels instead of uniform tourism malls.

Umm Qais is a good example of a unique cultural attraction with the potential to serve high-quality tourism. The site's well-presented archaeological treasures could attract cultural tourists if access were made easier and if the local environment were upgraded. The wrong approach would be to give priority to a large hotel complex in relation to which the breathtaking Roman, Byzantine, and Islamic antiquities would be downgraded to Disneyland-like accessories. The historical uniqueness of Umm Qais should be supported by a revitalization of the old village with demonstrations of old crafts and trades, fashions and lifestyles.

Several projects to transform the sleepy Aqaba area into a main tourism destination are also adapting unsuitable models of large vacation centres, which are notorious for the industrialization of tourism. On the other hand, the obvious possibilities provided by Aqaba's immediate access to the four countries on the Gulf have by no means been exhausted. Cruises of the Gulf, frequent ferry links with opposite shores, and other typical harbour entertainment and facilities are not available at present.

Wadi Mujib with its breathtaking landscape would be an ideal candidate to be included in a national-park scheme. This would pursue two courses at the same time, preserving the natural resources and making them available for unobtrusive tourism. To dress Wadi Mujib as a Jordanian national park would require nothing more than opening well-marked scenic roads and viewpoints, constructing limited accommodations and visitor centres, and employing park rangers, whose salaries could easily be covered by the entrance fees charged to visitors.

The national-park scheme would be appropriate for Wadi Rum, for the desert castle area near Azraq, and probably for Umm Qais as well.

The third principle relates to the most important objective of the whole issue of revitalizing Jordan's economy, namely to increasing employment. High-quality tourism is a labour-intensive industry. The first step for turning this underdeveloped sector into an engine of job creation is to transform the underdog image of service jobs. High-quality tourism requires thoroughly professional service aimed at providing the customer with efficient assistance at all phases of his itinerary. The unskilled waiter, for example, should be replaced by a knowledgeable *culinary advisor*. Officers behind the hotel's reception desk need to be *welcoming directors*, changing their bureaucratic behaviour to a more winning demonstration of typical Jordanian hospitality.

A second step along this path would be to draw up new occupational profiles such as *individual tourist's assistant*, *cultural and environmental advisor*, *professional city guide*, or a Jordanian variant of *park ranger*. This task could be carried out by a vocational training centre or an academy for tourism-related occupations.

A third step could be to create a unique Jordanian style of accommodation in the tradition of the oriental caravanserai, represented by small but comfortable hotels which are operated by cooperatives or other forms of private entrepreneurship.

The fourth principle focuses on such tourism-related services as designing and developing advanced tourism products, contracting for the individually tailored itineraries, and targeting the most valuable customers with sophisticated micro-marketing. The lion's share of these high value added services to support and augment the more simple components of transport and accommodation should not be handled by foreign travel agencies. Such services should be considered an integrated part of Jordan's tourism industry, preferably to be carried out by Jordanians.

Finally, high-quality tourism needs international networks for advertising, marketing, and booking and contracting, which could be tied together through Royal Jordanian offices and Jordanian embassies. In

addition to a chamber of tourism, it is necessary to establish various independent bodies, responsible for all tourism-related issues at the local, national and regional levels.

SUSTAINABLE TOURISM: SOME USEFUL LESSONS

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This conference happens to coincide with the celebrations of Jordan's golden jubilee of independence, and it comes at a time when Jordan has realized great achievements in many spheres. Jordan has become a centre for democratic dialogue, public freedoms, political pluralism, respect for human rights and social reform. It has made great strides in education, health and social services, just as it has in its ability to provide clean drinking water, sanitation, and electricity to its people. Jordan is now positioned to become a regional model of sustainable economic development, and the tourism industry has the potential to play a leadership role in achieving this goal. Jordan has a window of opportunity through which it may capitalize on the peace dividend, which is bringing about greater travel to the region, expanding transportation linkages and attracting investment.

The Middle East, although it has a small share of global tourism, as the Minister correctly pointed out, was the world's fastest growing region for tourism this past year. Arrivals to the region as a whole increased by nearly 12% and tourism receipts by nearly 30%. The Secretary General of the World Tourism Organization, Antonio Enriquez Savignac, speaking at the General Assembly of the Organization this past October, said, "With a favourable political and economic climate, the Middle East region can significantly increase its share of global tourism." He noted that "the Middle East region is wealthy with the history of human civilization. It contains some of mankind's most important cultural sites and monuments, it boasts areas of natural beauty, and it is rich with the cultures of many peoples." And—I might add—a very warm, welcoming and hospitable people, which is an extremely valuable asset to keep in mind.

We might begin by asking: What is sustainable tourism? The definition I like is one by the World Wildlife Fund:

"Sustainable tourism is tourism and associated infrastructures that, both now and in the future:

- (a) Operate within natural capacities for the regeneration and future productivity of natural resources.
- (b) Recognize the contribution that people and communities, customs and lifestyles make to the tourism experience.
- (c) Accept that these people must have an equitable share in the economic benefits of tourism, which must be guided by the wishes of local people and communities in the host areas."

I would like to discuss here a strategic approach to sustainable tourism. The strategy for sustainable tourism must involve a participatory and cyclical process of planning and taking action, to achieve environmental, social, cultural and economic objectives in a balanced and integrated manner.

The International Union for the Conservation of Nature (IUCN) has had some 10 to 15 years of experience in countries around the world with regard to sustainable tourism development, and from this experience, and from a review of countries around the world, they put together ten lessons of sustainable tourism; this is what I would like to share here.

The first lesson is that strategies are sustainable development processes, not just plans or projects, although they do include plans and projects. The strategic process of sustainable tourism development provides for forums for discussion and a context for discussion, as well as the development of a collective vision. It provides for a framework to give shape to the process of negotiation and consensus-building. Even people of common interests, with a common vision, will have some differences. Finding out how to go about discussing these differences to reach consensus and how to plan with people to carry out research and

achieve development is a means of developing and focusing on a common set of priority issues and opportunities and developing a mechanism for developing organizational and institutional capacities required for sustainable tourism development. The ultimate product of the strategy is the attainment of its objectives—economic, social, cultural and environmental. The immediate and short-term products are the actions it sets in motion to achieve those objectives.

The second lesson involves the need to move away from distinct phases: there should be no separation of the development phase and implementation phase. Sustainable tourism is a cyclical process where implementation begins from the start and continues throughout. The emphasis should be on capacity-building, and the process gains momentum when visible progress occurs. There are different layers and sectors of implementation—within government, within industry, within non-governmental organizations and also within local communities. There is a wide range of actors needed to achieve what I refer to as "critical mass", so that visible outcomes and significant impacts are evident. Benefits increase as plans turn into action, and as implementation is guided by review and revision. The further implementation of the process is steered by the lessons learned in the review. With each turn of the wheel, the benefits have greater scope and impact.

The third lesson is that strategies should build on existing initiatives and processes. Ideally, the process is one which is evolving, ongoing and mutually reinforcing. The objective is not to create a new or separate sustainable development process, but to build on and improve existing programmes and processes. Fresh initiatives should be linked to the continuation of past processes and should not duplicate, ignore or undermine them; rather, they must be clearly identified as an extension or a component of the past processes. Existing processes can be improved, particularly through partnership building within government, as well as among government agencies, the private sector, NGOs and local communities. Through this kind of partnership, synergies can be realized—again, this is what I refer to as critical mass.

The fourth lesson is critical to long-term success: the process must be integrated within economic decision-making, both across and within sectors. It should be part of the mainstream of national priorities. Tourism, as the previous speakers indicated, fits very well into overall national goals, as I understand, and these include sustainable development, self-sufficiency, export-promotion, social equity, and employment. There is a need to influence the main economic agents of change and to fully engage government economic agencies, such as finance, planning, and economic development as well as private sector networks of business and industry. It is important to incorporate principles of sustainability into policies that will have an effect on the decisions of both the public and private sectors. One of the things that could be talked about in the negotiation period is the idea of a code of conduct for sustainable tourism, or guidelines for sustainable tourism.

The fifth lesson, which has also been emphasized here, is that strategies should be locally made and nationally owned. There should be reliance on national capacities to develop and implement strategies, building these capacities where it is desirable through national partnerships for investment, knowledge transfer, marketing and human resource development. If necessary, less ambitious strategies to build capacity should be formulated. What is important is that the capacity-building precedes the actual development.

More important than rapid growth in tourism is for planners to have the proper vision and to take the proper steps in the direction of that vision, with benefits realized by Jordanians and by the various local communities of Jordan.

The sixth lesson is that strategies must be truly strategic in focus. They should concentrate on priority issues; among those that have been mentioned are management training and development. There should be very specific micro-marketing, and I like the concept that was introduced by Mr. Haack. Likewise, as already indicated, there is a need for public awareness, focusing on key influences of the issues and areas with leverage, something that I call the "80-20 principle". In just about any human endeavour, you will find that you can achieve 80% of the results

with 20% of the effort. These areas need to be identified and focused on. However, flexibility is needed, so that it is possible to adapt to changing circumstances.

The seventh lesson is participation, which means open collaboration and responsibility. Achieving sustainable development requires engaging all of society, not simply government or industry. Strategies need to include a wide range of players working together and sharing responsibility, from policy makers down to the grass-roots, including NGOs and local communities. The intended implementers of this strategy must participate in developing the strategy and making the decisions leading to adoption. The initial participation at the "input" and "idea generation" stage should be even broader. This would ensure that the strategy is appropriate and that the people feel a sense of ownership.

The eighth lesson is that communication should inform, raise awareness and change behaviour. Strategies need to go beyond a one-way flow of communication (newsletters, consultation meetings), to a two-way flow of communication leading to a process of community development and a behavioural change based on listening, understanding, empowerment, and mobilizing society. These are critical to building consensus on goals, priority issues and appropriate key actions.

The ninth lesson is that capacity-building is key. Capacities need to be built for sustainable development among institutions. Previous speakers referred to education and also to information systems and mechanisms for cross-sectoral integration—the integration of environmental, social and cultural issues and goals and programmes—and how to weave all these together. The necessary concepts for integrating these different dimensions call for training and education and for human resource development; community development is key. As you enter into the business of discussing these processes, you will have differences of opinion, and in some cases, different objectives with regard to the government sector and the private sector. The question is, then, how can you resolve these differences in a harmonious way, so that you can continue working as partners towards a common vision?

The tenth lesson involves monitoring and evaluation, a stage which is quite often forgotten. Strategies have to be adaptive. The outcomes are uncertain because of changing circumstances, social conditions and environmental contexts and because of the introduction of new technologies. Therefore, monitoring and evaluation should be an integral part of the strategic process from the start, so that responses can be shaped to changing conditions and results. The monitoring process also provides for the opportunity to learn and to reflect. It helps parties to remember the results that count. Indicators should be simple and appropriate to local conditions. Monitoring and evaluation itself should also be continually refined with each stage of the cycle.

The most important area to consider in the strategic process is first and foremost the tourist, and, as my colleagues have suggested, the priority in Jordan's case should be on a high-quality tourism experience, one which will strengthen the tourist's appreciation of the sites and areas visited. This can be brought about by providing the tourist with accurate information and with appropriate explanations of what he is seeing. It is also important to bear in mind the special travel needs of youth, mature citizens and the disabled. In this regard, the host population is an important factor; tourism that is sustainable over the long term depends on tourism developing in harmony with the host community, which is entitled to have its lifestyle respected and which is also entitled to be consulted on an ongoing basis. Local attitudes and cultural and spiritual values have to be taken into account when developing a strategy for tourism. The host community likewise deserves to receive encouragement for local entrepreneurship and to supply the manpower to fill the jobs that come with the tourism development of the community.

Maintaining Jordan's natural, social and cultural diversity, as well as the unique heritage of Jordan and the country's aesthetic values, will help create a strong base for the tourism industry.

The next consideration is conservation, with regard both to renewable and non-renewable resources. The volume of waste needs to be reduced, by reusing and recycling; for Jordan, this is particularly true with regard to energy and water. One thing I would like to emphasize is the

necessity of requiring any concern that wishes to construct a hotel to sign an agreement stating that it accepts its environmental responsibility. Tremendous advances in hotel design and construction have been made in the recent past making it possible to save energy, save water, and recycle, all the while involving the active participation of the hotel staff. When a hotel is built in Jordan, it is critical that it adhere to these kinds of guidelines.

In using resources sustainably, businesses should begin to think of natural resources as assets to be harnessed for their contribution to society and should at the same time strive to protect the resource base so that it can be used by future generations.

The final item is responsible marketing. I like Mr. Haack's concept of micro-marketing—finding specific targets in the global marketplace, the cultural tourist, the nature tourist who will come and appreciate the true value of what is here in Jordan. This type of tourist happens to be the one who has a higher rate of expenditure. Attracting the right tourist is also critical in setting the proper host-guest relationship that I referred to earlier. Marketing should heighten awareness and appreciation on the part of the potential tourist to Jordan for what to expect from the country and should also engender respect for the local history, customs, traditions and natural features of the area. Marketing efforts need to be honest and should not create unrealistic expectations.

In October 1994, my institute organized a conference in Montreal, which was called "Building a Sustainable World through Tourism". I am proud to mention that Queen Noor was the honorary chairperson of that conference. We brought together more than 200 case-studies of what we considered success stories of sustainable tourism from around the world, and I would like to tell you that one of the best models I have seen anywhere exists right here in Jordan. I am referring to Taybat Zaman. The story behind it is remarkable. In Taybat Zaman we have the ultimate in environmental ethics—the recycling of an entire community, and an approach to development that includes ownership by the former residents of the community. In fact, the residents, working together, built the

development and now operate it. We spoke also of preserving Jordanian traditions, lifestyles, and arts and crafts, and the Taybat Zaman project has all of that. It is something that Jordan as a country can be proud of, and I am sure, that every person that is part of the project is very proud of it.

In summation, sustainable tourism will require a vision that provides benefits for the people of Jordan and their community and will also require the preservation and enhancement of Jordan's precious cultural heritage, as well as the protection and enhancement of the environment and a spirit of cooperation with other countries in the region.

I would like to close with our institute's Creed of the Peaceful Traveler:

Grateful for the opportunity to travel and to experience the world and because peace begins with the individual, I affirm my personal responsibility and commitment to:

- (a) Journey with an open mind and a gentle heart.*
- (b) Accept with grace and gratitude the diversity I encounter.*
- (c) Revere and protect the natural environment, which sustains all life.*
- (d) Appreciate all cultures I discover.*
- (e) Respect and thank my hosts for their welcome.*
- (f) Offer my hand in friendship to everyone I meet.*
- (g) Support travel services that share these views and act upon them and . . . by my spirit, words and actions.*
- (h) Encourage others to travel the world in peace.*

Chapter Seven

Requirements for Restructuring
the Jordanian Economy
Dr. Jawad al-Anani

Commentary
Dr. Khalil Hammad

REQUIREMENTS FOR RESTRUCTURING THE JORDANIAN ECONOMY

Dr. Jawad al-Anani

Introduction

The subject of the present paper—requirements for restructuring the Jordanian economy—is intriguing for me, as it is a sphere for which there is hardly an entry or an exit. In approaching the topic, it seemed, to a simple optimist like myself, that the most reasonable option was to approach the issues under consideration first through classifying them. I have sought to assess Jordan's potential for restructuring its economy not as a condition demanded by external elements, but as an integral part of the country's political, economic, social and demographic evolutionary process. I have based my treatise on two assumptions: first, that there is no need to include the most recent massive fluctuations that have influenced change in Jordan, such as the first and second Gulf wars, the peace process, the economic adjustment programme and so forth, which have been sufficiently tackled and analysed elsewhere; and second, that structural adjustment for Jordan is a must and need not be further discussed.

Based on these two assumptions, I have resorted to tackling four outstanding issues in the Jordanian economic structure, namely: immigration; the cohesion of the social structure or fabric; investment in human resources; and economic ties to other Arab countries. Although a first-hand analysis of such elements hardly produces sufficient motivation for Jordanians to endorse change and structural adjustment as being necessary, I have, nonetheless, laid out six areas which could be focused on to effect the required change in Jordan. These are: the role of women; agreeing on an economic model based on a market economy and open-door policies; review of the educational and training systems; consolidation of the principles of justice, equality and equal opportunities for all; stabilization of the country's foreign policy to prevent economic fluctuations resulting from foreign-policy inconsistencies; and last but not least, restructuring private sector institutions so that they can function more effectively with less support and protection than before.

I. IMMIGRATION

No community in the world can isolate itself from international developments. Even small islands have their impact on and are influenced by such developments. Jordan has been among the most exposed countries in the world to external impacts over the past 50 years, both demographically and geographically.

While Jordan sometimes witnessed geo-demographic expansion, at other times it contracted geographically while having to face up to sudden population increases of great proportions. Demographic inflows together with a diminishing geographical area have transformed Jordan, a country with no pronounced ideological bent or central planning, into a welfare State that had to cater to the urgent needs of a seemingly endless stream of have-nots. This has remained a prevalent feature of Jordan's financial and monetary policies. Hence, the best part of the aid the country received, or did not receive, had a great deal to do with this relief mission. It only requires a cursory look at the impact of the events of 1948, 1967, 1975 (Lebanon) and 1990 (Iraq) on Jordan to see how the country has regularly had to cope with this problem. The government's role grew stronger as well in the 1930s during the Great Depression, when it became the main source of subsistence for great numbers of people. This resulted in a greater and clearer social role for the Government, a situation which enabled it to spread its influence over various parts of the country and consolidate its political standing.

Jordan's economic history has invariably been greatly influenced by those seeking refuge on its territory. The country cannot be seen as having been economically attractive, but rather as a safe haven for those who fled their homelands for fear of political, religious or even ethnic persecution. These found it convenient to settle in a hospitable Jordan that had a markedly easy-going population on the one hand, and a conspicuously absent strong central government on the other. This led immigrant minorities to resume the economic practices with which they had been familiar in their country of origin. Thus, Circassians and Chechens specialized in growing cereal crops, whereas Bahais started citrus groves. Armenians brought in photography and mechanical works, and

Palestinians and Syrians tended to practise trading and industrial activities. Following the establishment of the Emirate of Trans-Jordan with the arrival of the late King Abdullah Bin al-Hussein in 1921, the new ruler undertook to turn Jordan into a model of Arab renaissance and revolt. He began gathering Arabs of all trades and walks of life—Lebanese doctors, Palestinians for public administration, and Syrians as well as Hijazis—to contribute to building up modern institutions in the emerging State. Jordan thus presented, since its very inception, a living example of a multi-ethnic and multi-racial melting pot.

But the greater impact, and the one that brought about a transformation in Jordan's social structure, did not originate in forced immigration from distant lands, but rather in the devastating wars on its border with Palestine, the land which shared with Jordan not only the injustices of the British Mandate, but also the River Jordan and a deep-rooted social and economic partnership as well common interests and destiny.

In 1948, 1967 and 1990-1991, Jordan experienced waves of immigrants: first the refugees, next displaced persons and then the returnees forced out of the Gulf countries following the second Gulf crisis. These waves of immigration were enormous by Jordanian demographic standards, and it was extremely difficult for the country to cope with their impact, particularly that of 1948, when Jordan had to bear the brunt of a great inflow of immigrants while simultaneously crippled by the limits imposed by its meagre infra- and superstructures, by its lack of resources and revenues, and by its lack of experience in the management of massive displacement. For this reason, the creation of the United Nations Relief and Works Agency (UNRWA) and its emergency programmes was a godsend for Jordan in its striving to face up to the great challenge. By 1954, when the new naturalization law was approved following the merger of the two banks of the Jordan River, Jordan was able to assimilate the newcomers. In 1967, there was large-scale immigration associated with loss of territory and a cross-border war of attrition, but this time, the displaced were not citizens of another State but were Jordanian nationals. Hence, although the burden was very heavy, it

could be shouldered, particularly when a large number of the displaced returned to the West Bank and Gaza Strip once they found out that it was possible to go back. The fact that many of the displaced had relatives and friends in Jordan who offered them temporary shelter was another factor that made it possible to manage the situation. In addition, a good proportion of the displaced actually moved from West Bank and Gaza Strip refugee camps to others in Jordan. UNRWA continued offering assistance to these on Jordanian soil as it had formerly when they were in West Bank camps. But the main reason for Jordan's ability to deal with the situation was that it was far more developed and capable than it had been in 1948.

In 1990-1991, the situation was different. Again, the displaced persons were Jordanian citizens, mostly of Palestinian origin, who returned home to Jordan as a result of an Arab-Arab war that culminated in a regional conflict of international dimensions; many of these people returned to homes they owned or rented. But their urban demands were obvious, as their way of life in Kuwait and other Gulf countries had familiarized them with Western consumer patterns and extensive dependence on modern conveniences. It became clear that Jordan's available facilities and services would not be adequate to meet the heightened demand on schools, hospitals, telephone lines, offices, housing, transport and all other aspects of modern living. Such pressures urged both the public and the private sectors to seek immediate outlets to handle the new shortages, which were sufficiently addressed within a relatively short period of time. Many new companies were registered, while construction and building activities boomed and increasing numbers of private schools and universities, hospitals and medical facilities were established. Commercial complexes and residential buildings multiplied apace, while new commercial services and patterns were introduced for the first time in the country. Contrary to the massive 1948 and 1967 inflows of displacees, the impact of the 1990-1991 return of Jordanian expatriates offered considerable leverage to the Jordanian economy, which had been ailing badly since 1988.

This third and last wave resembled in many ways the influx into Jordan of great numbers of Lebanese families seeking to escape the

Lebanese civil war in 1975-1976. At that time an estimated 80,000 people, for the most part businessmen, middlemen and services personnel, entered the country. Most of these sought to make use of what they saw as an open economic climate and a relative abundance of services in Jordan for their businesses and their financial, commercial and banking mediation activities. For them, Jordan was a convenient platform. Moreover, the majority of those coming from Lebanon had the impression, wrong as it turned out, that the civil war would not last long. But the war went on, and they discovered that Jordan's services structure was not developed enough to enable them to carry out their work in a speedy and effective fashion. There was heated talk at the time over whether Amman could replace Beirut as a business centre, but when the war lingered on and Jordan failed to fill the services gap, many businessmen moved their activities to other business centres, such as Cyprus, Athens, Bahrain, the UAE, London or Paris. Thus, although Jordan failed in 1975-1976 to offer the infrastructure needed to keep up with growing demand for services, its response to the 1991-1992 demand was much more timely and effective.

Why was this so? The answer lies, we think, in Jordan's growing ability for adjustment and restructuring. This was manifest in the great difference in infrastructure development levels between 1979 and 1991.

Jordan began implementing its first five-year development plan in 1976, but nonetheless, infrastructure services, including water and electricity grids, roads, bridges, sewerage, and cement and iron works were still underdeveloped by 1976. Fifteen years later, infrastructure facilities and services were good enough to service a large-scale construction and building expansion with little or no difficulty. Another reason for the new development was that a self-financed private sector undertook the 1991 expansion, whereas the new 1976 projects had been designed, financed and executed by the public sector, which had to seek foreign finances and resort to long-term arrangements. A third aspect of the 1991 influx was that returnees from Kuwait and other Gulf countries depended mainly on their own assets and savings for carrying out their enterprises, which was a qualitative addition to the Jordanian economy.

The Gulf returnees had skills and expertise comparable to those of the Soviet Jews immigrating to Israel, except for such advanced fields as nuclear and electronics technologies. Unlike the Jewish immigrants, who depended greatly on State finances collected from world Jewry and on American credit guarantees, the Jordanian returnees from the Gulf could in many cases fend for themselves. Hence, it is intriguing to note that Jewish immigrants are generally considered an asset while Gulf returnees are labelled a burden on the Jordanian economy.

II. SOCIAL COHESION

Since the 1930s, Jordan has witnessed a unique pattern of social mobility that resulted in the absence of a rigid class system, except for certain families long known to be commercial agents or who accumulated wealth through the British Mandate's quota system. Most Jordanians come from families that differ little in their incomes, education or social status. Jordanians still remember the days when the concept of freedom and social distinction carried a horizontal rather than a vertical implication. Continual immigration and better opportunities for education helped sustain a potential for social mobility for individuals; this mobility depended largely on personal merit and on ability to serve one's community whether in the private or public sector.

A school teacher formerly enjoyed an elevated social status. People would seek his advice in their daily matters; he maintained his position because his income was generally four times that of an ordinary labourer and because he devoted his time to enlightening their children. Social distinction was largely based on a system of worth which was strongly reflected in people's incomes. Thus, teachers, doctors and later on engineers became the cherished social model. Gradual urbanization of lifestyles and increasing demand for education multiplied the numbers of those seeking to join such professions. Continuous rural migration to urban centres, and the prevalence of the formal orientation over the informal rural orientation in social life, opened new opportunities for people to improve their standard of living which were further enhanced by new chances for improvement abroad. Against such a background of smooth social dynamics, alien political trends that were mainly based on

imported ideologies rather than locally originating political thought evolved. Education was a key source of political awareness; and because Jordan did not generate its own political thought and intellectual models, unlike the case with Egypt, Syria, Morocco, Lebanon, and Palestine to a certain extent, all political thought—including communism, modern Islamic trends, Syrian nationalism, Ba'athism (Arab renaissance) and Nasserism—came from outside Jordan. This could only lead to controversy between the ruling political system in Jordan and the upholders of these ideologies. This resulted in the disruption of democratic life in Jordan on more than one occasion. Moreover, it eventually seemed that the only sides to the conflict were the regime on the one hand and political parties on the other.

Thus, we can see, without entering into details of political party life in Jordan, that social cohesion contrasted to a certain extent with political conflict. While social harmony originated in Jordan's internal environment, political conflict was to some extent imported. Hence, Jordan did not lose much of its flexibility, as political struggle made it necessary to prevent external political polemics from becoming active locally. In this way, Jordan's economic policy was based on the welfare society, but within attainable limits. Despite its scarcity of resources, Jordan could for some time provide its citizens with a commendable standard of living. The regime could also protect itself against attempts at changing the system, in contrast to the case of neighbouring Arab countries. Welfare policies and government subsidization of services and commodities continued to characterize the Jordanian economy even after the oil boom, the main political result of which was continued sterilization of democratic life in Jordan. So long as the welfare role could be maintained, the State found it convenient to keep a forceful central grip over national politics. With the end of the oil boom and the eruption of social upheaval in the southern part of the country in early 1989, all doors were flung open to demands for democratic revival, which were duly responded to by the King. The return to democracy coincided with two other significant developments, the first of which involved the faltering of foreign aid resources and Jordan's entry into a difficult economic

adjustment phase. The second was the eruption of the Gulf war and the consequent initiation of the peace negotiations.

It can be said that the transformations Jordan has witnessed since 1988 are probably equal, in terms of the scope and intensity of their impact on the local front, to those encountered by Jordan over the preceding 40 years combined.

If we take into account the political model that governs Jordan's foreign policy decisions, we can see that its main concern is to contain the domestic impact of incoming influences. The outcome of such influences is taken into consideration when foreign policy decisions are made, an attitude usually adopted by countries with a limited and open economy. Hence the external impact on the Jordanian economy has started to subside over the past three years in favour of the internal economic cycle. Such a development has called for a high level of technical and managerial ability to deal with economic cycles that have not really matured in Jordan. Complaints about World Bank and IMF terms imposed on the country have invisible negative implications, indicating that Jordan has disregarded internal transformations in its economic assessment, thus making the task of handling the economic cycle more complicated. For this reason, it is noteworthy that some reevaluation of the internal and external factors that influence the Jordanian economy should be reconsidered in favour of the former.

We can mention one example of such transformations: investment decisions are no longer in the hands of individuals but are mainly linked to decisions made by the institutional investor. This is currently evident in the deliberate and manifest contraction of the liquidity of the Jordanian economy as a result of the Central Bank of Jordan (CBJ) decisions aimed at stabilizing the exchange rate of the Jordanian dinar against foreign currencies. This was unheard of just a few years ago (1976-1980), when the Jordanian economy faced an annual inflation rate running at over 15%. At that time, the CBJ pressured banks into cutting their credit expansion; at the time such pressure was less effective than it is now. It should be pointed out here that the banks' change of attitude has come about from the lessons of 1989 and 1990 and the Petra Bank experience,

not to mention those of other banks that almost went bankrupt. Another instructive experience in this regard was the banks' failure to restore much of their bad debts, the results of which were a mandatory increase in their reserve ratios and a decrease in their distributed dividend rates.

In consequence, recent external and internal political developments, together with democratic transformations and the redefinition of the State-citizenry financial relationship, have rendered economic cyclical fluctuations greatly dependent on the investment cycle, thus making the task of containing the impact of negative cycles a domestic rather than an external task. The relationship between consumption, savings and investment, and the interaction of these with extant pricing systems have become the criteria for measuring policy success, in containing crises, dealing with cycles, enhancing development, and balancing the distribution of gains and losses. It is no longer true that foreign aid will be sufficient to address the imbalances and deformities of the economy; such aid will only be useful if it is applied in conjunction with the appropriate corrective and adjustment policies.

III. INVESTMENT IN HUMAN CAPITAL

A main feature of the Jordanian economy is that waves of immigration, a scarcity of job opportunities, and the Palestinian tragedy have turned education, a mobile tax-free asset, into a tempting investment. A frustrating experience with all other material forms of savings and investment and an overwhelming feeling of political and economic insecurity made scientific achievement and expertise a solid, mobile and accumulative asset that is more feasible and cost-effective than any other type of investment. Moreover, a Jordanian society with few class distinctions rendered educational achievement the main vehicle for climbing the social ladder, thus enabling the educated to achieve financial stability and a prominent social position.

Owing to certain circumstances and a generally weak infrastructure, investment in education seemed in the 1950s to favour Jordanians of Palestinian origin. Because of the loss of their land and property and the

hardships associated with their immigrant status, these were more motivated to actively seek a better education. Moreover, both urban and rural Palestinian residents had learned about the advantages of a good education, which guaranteed a comfortable living and a higher social status in pre-occupation Palestine. A third reason for the education rush was that most Palestinian refugees settled in areas close to city centres where better services were available. Support offered by UNRWA and other international and regional agencies to refugee camp services was of great help in this regard. Increased job opportunities for the educated, which were becoming available in the emerging Gulf States, as well as in other Arab countries, reinforced the Palestinian fancy for education, which became an integral part of Palestinian life and household economy.

Seeking a better education was not confined to any particular strata of Palestinian society. Pursuit of an educational opportunity for boys, and then for girls as well, soon became a family concern and a basic need. Thus, expansion in all fields of education, at all levels, took place at a rapid pace and became a prominent feature of the Jordanian economy. People immigrated to educate their children, to build houses and purchase real estate as a way of saving or investing for the education of their children. Educational institutions and facilities expanded both vertically and horizontally to contain an ever-increasing population of education-seekers. With the arrival of the oil boom, a good choice of college and major came to be viewed as the prelude to securing a well-paid job.

Nonetheless, complaints began to mount to the effect that education in Jordan was more concerned with quantity than with quality. What concerns us most here, however, is the impact of investment in human capital on Jordan's ability for economic structural adjustment. It goes without saying that a better-educated population is more responsive to enlightened change. Still, there need to be some basic channels established between education and structural adjustment before we can analyse such a relationship fruitfully. These channels are: a desire for change and an understanding of the prerequisites of change; the pursuit of democracy and equality; and a certain degree of urbanization.

With regard to the desire for change, it is obvious that it is abundantly available among the younger generation. The Jordanian population has invariably been a young one, with an average age of not more than 25 years. A majority of 60% of the population is under the age of 20. But certain social characteristics prevent the younger generation from exploiting their numerical majority. First, the large size of an average household gives parents a higher say in family decision-making. A second feature is the high unemployment among young people and a high dependency ratio; having no meaningful economic card to play, they are cut off from an important path to influence in family and business affairs. A third disadvantage is the weak influence of females in communal life despite their proportionally large representation in the labour market and in the pool of educated citizens, not to mention the population.

Democracy and equality among citizens are another significant channel for change. In fact, Jordan has traversed a long path towards this objective. Nonetheless, the outcome of elections and the establishment of new political parties have not so far aroused young people's interest or succeeded in attracting them. The legalization of political parties in the early 1990s has not produced any large new parties. There is basically a single party, and it is opposed to the current structural adjustment policies, in which it sees nothing but "a symptom of the maladies that have stricken the nation". It offers no alternative model and contents itself with preaching and abstractions, while resisting the restructuring process. The remnants of the communist, socialist, Ba'ath and nationalist parties tend to resist structural adjustment and keep pointing out its high social cost. Newly founded parties, even those far from being based on clan membership, have adopted slogans close to those of other parties in an attempt to broaden their membership base. Parties with a tribal base have sought to identify themselves with official structural adjustment policies in an attempt to give themselves a veneer of modernization.

A close examination of the clan-oriented position will arrive at the conclusion that this position has no real interest in change, especially when it comes to the influential "old guard", who, unlike the younger

generation, has a lot to lose. Structural adjustment would entail open-door foreign trade policies, an abolishment of subsidies, better tax-collecting, merit-based employment in the government sector and other policies and measures that could put an end to favouritism. I, for one, do not believe that such changes would be in favour of certain population groups or governorates at the expense of others. They would actually terminate mediation between tribe members and the government, a process usually monopolized by the more powerful among the Jordanian tribes. In brief, opposition to change is almost unanimous, as Jordanians of Palestinian origin have adapted to the status quo after failing to present their case except by raising the issue of inequality between Jordanians and Palestinians. Persistence in pursuing such an approach will only raise the other side's fears and open doors to conflict. Meanwhile, structural adjustment and change will eventually benefit people from various social groups, the younger generation in particular. These have not yet produced a political or economic representative that reflects their presence and impulses, and this, in my opinion, is a basic stumbling block in the path to change for Jordan. Despite the fact that the government of Mr. Abdul Karim Kabariti has introduced itself as a youthful government, it is still too early for us to pass judgement on whether it has succeeded in garnering youthful support and promoting the younger generation's cause.

The third channel linking education to change has to do with the fact that Jordan's achievements in extending infrastructure networks and facilities, including schools, to all parts of the country, has made possible a large-scale expansion of trading and mercantile activities throughout the country. Thus, we are now seeing that Jordanian society is urban with regard to its consumption, but rural with regard to its means of production. Thus, while per capita consumption in all its forms has increased, production, even in the case of large shareholding corporations, still lacks professionalism and is run with a patriarchal mentality and not through the application of modern administrative techniques, the appropriate distribution of labour or the creation of good vertical and horizontal communication channels. For this reason, the production system depends on government financial support for failing companies, and such companies are only revamped or liquidated after a long and costly period of procrastination has elapsed. The public payroll is bloated with

unnecessary employees; disguised unemployment is common. Many companies in the private sector, on the other hand, have found it convenient to trade favours with well-positioned officials to shield themselves against governmental surveillance of their activities; the government looks the other way, even when the question of examining the status of such companies becomes a pressing need, for fear of the high financial and administrative cost of reorganization.

On the consumer side, it is obvious that Jordanian households have generally accustomed themselves to certain consumption patterns that can hardly be done away with. Parliamentary elections help show the limits of how much people are willing to bear in the framework of an adjustment programme. Numerous Lower House deputies, together with some party leaders, have repeatedly warned that a rise in bread prices or water rates could instigate a massive protest movement similar to that of April 1989. Those rejecting change and restructuring have now come to endorse a destabilization "cry wolf" approach to encounter the adjustment drive, thus putting a ceiling on the restructuring and deregulation policies that affect consumption or investment.

As regards savings, it is now clear that investment on the part of individuals has regressed considerably against institutional investment, especially under the current monetary reform policies, which continuously suck liquidity from various economic channels only to freeze it in the vicinity of financial, banking, insurance, savings and investment institutions. This situation is further aggravated by the fact that the investment institution's behaviour is typically pro-cyclical, with such institutions often withdrawing their credit outflow in times of economic recession and blooming again with economic recovery. This is particularly true of the current trend. A look at the people in control of the country's financial institutions shows that most of them are elderly and tend to procrastinate and avoid risk; credit is extended only to those who are capable of repayment and are, like the lenders, risk-averse. The restructuring of investment is facing vigorous de facto resistance.

IV. ECONOMIC RELATIONS WITH OTHER ARAB COUNTRIES

While the rate of inter-Arab trade does not exceed 9% of the total volume of foreign trade of the Arab countries, Jordan's trade with other Arab countries stands at over 20% of the country's commodity imports as well as exports. If we add to this Jordan's services traded with the rest of the Arab States, the total volume rises to nearly 25%, due in the first place to Jordanian expatriate remittances. Evidence also indicates that capital movement between Jordan and other parts of the Arab world is relatively high. That is why Jordan's economic ties with other Arab countries still account for 50% of the country's foreign currency revenues; this is compared to 80% in the period 1979-1986 as a result of the 1979 Baghdad Arab Summit decisions, a mounting increase in Jordanian Gulf expatriate remittances and Gulf loans to Jordan and imports from the Gulf. The aforementioned rates have dropped considerably since the Iraqi invasion of Kuwait in 1990.

Over the past 30 years, Jordan's economic relations with individual Arab countries have fluctuated considerably, and have for the most part been determined by the degree of warmth in political relations, with these instantly translating into cross-border measures affecting the movement of both people and trade. Another reason for inconsistencies was the state of the economies of other Arab partners, which would open up their markets in good times and shrug their shoulders to protocols in bad times, as well as delay payments, obstruct Jordanian exports or raise fees and tariffs on Jordanian personnel, goods and services. A third reason for such fluctuations in commerce was the need for Jordan as an outlet for the economic pressures that other Arab countries went through. The Iran-Iraq war, United Nations sanctions against Iraq, the ban imposed on the Syrian private sector's purchase of the US dollar, sheep smuggling across Jordan, and the settlement of over 70,000 Lebanese civil-war escapees in Jordan are good examples of this aspect. The most striking example of such a relationship is manifest in the Jordanian-Palestinian relationship following the 1967 Israeli occupation of the West Bank and Gaza Strip. Up to 1993, Jordan invariably served as the means for taking care of the balance of payments deficit of the occupied territories.

The aggregate deficit in the Jordan-Palestine balance of trade over the period 1968-1992 was around \$2.2 billion, whereas the Palestinian balance-of-trade deficit with Israel reached \$6.5 billion, the difference for which was made up for through Palestinian labour inside Israel, remittances from Palestinians working in the Gulf and Jordan (via the latter), and certain Palestinian exports to Jordan and some other Arab countries. Over this entire period, the Jordanian and Palestinian economies were closely interlinked and almost identical with regard to per capita income as well as GNP.

It is against such a background that we should pose the question of whether Jordan's economic relations with the Arab world could motivate and encourage the structural adjustment of its economy. In principle, we think, such relations could do so to a certain extent. Trading and investment ties with Gulf countries will pressure the Jordanian producer into more openness, better organization and higher efficiency and quality. Globalized joint investments and those directed toward the Israeli economy will require a similar development. It is safe to say that Jordan's Arab and international economic relations will favour structural adjustment. The good old days of free aid and grants are over, and the State budget can no longer shoulder the burden of the current subsidization pattern. A look at the current budget of Jordan reveals that over one third of government expenditures go to subsidies. If we add to that the underpricing of staple foodstuffs, water and energy, the real volume of subsidies will prove to be as large as the budget itself. If water pricing were equivalent to the actual cost, a cubic metre of water would be sold at 350 fils, thus raising water revenues to JD 320 million, compared with the JD 12 million currently generated!

V. WHAT THEN?

A close examination of the basic factors impacting on Jordan's economic structure shows that a state of ongoing change prevails, although this does not necessarily indicate that the situation is ripe for far-reaching change in the country's socio-economic structure. Despite the

high rate of demographic mobility, the influential role of services in Jordan's overall economy and the absence of social-class orientation, the overall picture does not indicate that Jordan is a country that would happily welcome renewal or adjustment of its structures. Nonetheless, certain aspects of Jordan's social and economic history could help in getting the better of elements that obstruct the tide of change. Following are a number of structural adjustment elements that could help in tilling the Jordanian soil to prepare it for new seeds to be sown:

1. The role of women as an effective element for change should not be underestimated. Not only have women exerted pressures in favour of change, but urban consumerist trends and education have made employment of women favourable. In the 1950s, female education was a controversial issue, and in fact, this issue was not settled until after 1967, not long after which women began to take up traditionally female work or part-time jobs. At that time, enhancing female participation in modern professions was a main task to be accomplished. When religious considerations stood in the way of women in their endeavour to join professions requiring mixing with men, many women began observing the religious dress code (*hijab*) to overcome this barrier. In a relatively short time, Jordanian women entered professional areas that were until recently considered the *terra sancta* of men. Women have turned out to be both a symbol and a means of great societal change in Jordan. This shift in the role of women has played a significant part in the decrease in the birth rate, the fertility rate and the average family size, and an increase in average income. The rate of emigration has also decreased, whereas the average marriage age, for both males and females, has risen, as have divorce rates.

No doubt, pressures for restructuring the Government, changing the country's senior leadership, and increasing the participation of women in legislative life, in non-governmental organizations and in political parties could be a good way to enhance the movement to renew and structurally adjust the Jordanian economy.

2. Conceptualizing a developmental model for Jordan was not an easy, or even possible, job in the past. Like other third world countries, Jordan

inherited its administrative system, territories, property and enterprises from the old European colonial order. Some new governments of States emerging after World War II were not altogether pleased with the colonial heritage, and they confiscated the assets and wealth of landlords, merchants, and industrialists which were accumulated under colonial rule. This led to the substitution of a national and foreign private sector with a new generation of army officers, bureaucrats and *nouveaux riches* who built fortunes by manipulating the public sector. The result has been a persistent gap in the organizational administration, which some countries have failed to bridge up to the present day. Jordan, meanwhile, has been an obliging pupil of World Bank models, which have been modified and reoriented to grow in Jordanian soil. In a study I conducted, the Jordanian development model manifested obvious closeness to the Harrod/Domar model according to which growth rates are determined by capital productivity and savings rates.

Since productivity is identified and determined externally by macroeconomic dynamics, it follows that growth rates are largely dependent on the availability of domestic and foreign financing. Thus, if we could assess the volume of domestic finances, the remainder would be in the form of aid and loans offered to the treasury upon its own guarantees. Once the pros and cons of this model became evident (building up structures vs. taking on foreign debt), Jordan had to enter the domain of restructuring and adjustment, with a need for foreign finances emerging, due to lower local saving levels and debt repayment, which were the driving force behind the adjustment imperative. However, the time has more than ripened for the question to be asked: Are we in need of a new socio-economic model? The answer is yes. The private sector should be given full chance to assume a leading economic role, and government spending should be rationalized. The new model must be built, systematically adhered to and referred to in all our future policies.

A well-defined model, once it is constructed and acknowledged as a working guide, will be the ideological framework that groups all sectors of the Jordanian society and defines the fundamentals of future economic activity. The construction of such a model on a solid economic, social and

political base, and the developing of it to address people's aspirations for justice, equality and equal opportunities for all, will furnish a solid foundation for the restructuring process, for negotiations with concerned world parties and for defining development priorities.

3. The educational and training system needs to be revised in two stages, a short-term stage to introduce a continuous educational and training programme and a long-term stage aimed at revamping the overall educational system. It is proposed that the first stage focus on skills needed badly by the Jordanian economy or skills that would give Jordan a competitive edge. These areas include the textiles and ready-made garment industries, the leather industry, and chemical industries. Maintenance engineering, tourism, medical services and supporting medical professions, education and training, marketing, financial management, automotive repair services, social services and rehabilitation are other productive areas.

Other more advanced skills could be developed in the fields of: electronics maintenance; electronics production (certain fields); providing advanced computer, communications, information and media services; radio and television production; and engineering consultancy.

Hence, short-term training should focus on developing skills and know-how among the younger generation to improve their potential for finding jobs both domestically and abroad. The Jordanian labour market is small by all standards and does not exceed 1 million, with over 120,000 of these unemployed. However, the problem can be tackled and solved.

Over the longer term, the overall education system should be restructured to lay special stress on fundamental subjects, particularly mathematics and physics, and also on improving the student's linguistic abilities, while giving due attention to civics. All these areas should be revised with a view to enabling youth to deal competently with whatever future developments may unfold.

4. Government benefits and services need to be redirected, to reach all citizens equally and not to favour certain population groups at the expense

of others, whatever the justification or motive. Justifications for discriminatory behaviour should be openly discussed in the framework of constitutional democratic institutions, where they should be written into law. Unless there is an official end to discrimination in the public sector, pretexts for expanding favouritism will remain, thus urging one or another party to seek to redress the grievances of the segment of population it purports to represent, and in the process creating new grievances that could ultimately bog the entire society down in a quagmire of corruption and perceived injustices. Efforts to bring about democracy in Jordan should deal with the issue of justice, equality and equal opportunity for all in a candid and sincere manner. A feeling of personal security, along with job and investment stability, are all necessary for building the country's economy.

5. Fluctuations in Jordan's foreign policy are understandable as reactions to other parties' encroachment upon its well-being. Its small size has invariably tempted its larger neighbours, but Jordan is now a more capable country than was previously the case, and it should set its foreign policy accordingly in order to maintain the respect of its neighbours. For this reason, a well-defined and sufficiently clear foreign policy of internally consistent positions would produce a more stable and durable economic relationship with Jordan's Arab neighbours. This is a topic requiring elaborate discussion, but still, I believe that consistency in Jordan's foreign policy is among the leading reasons behind the stability of the country's external economic relations, both regionally and internationally. The country's siege mentality, as well as the prevailing feeling of smallness in comparison to others, should be done away with to make room for a self-confident approach based on a sense of dignity and sovereignty.

In this context, the stability of the Jordanian-Palestinian relationship will continue to remain a crucial factor for maintaining domestic stability and giving decision makers the support they need to carry out structural reform without encroaching upon any party's rights. A policy shift in favour of the private sector could frighten those working with the public sector and those benefiting from its huge size. Therefore, a smooth and

gradual transformation should take place in Jordan, and the damage to the interests of those working for government bodies and enterprises needs to be minimized; such people should be reassured about their families' well-being and future. Opening avenues for Arab and foreign investment under appropriate and easy terms may greatly ease the trauma of transformation being suffered by those working in the State sector. Many of them could obtain better salaries by joining foreign companies, thus bringing about a parallel improvement in the living conditions of those working for Jordanian companies and triggering a massive but smooth exodus of government employees towards the private sector. In this way, Arab and foreign investment could make up for the role played in Jordan by the Gulf countries in the 1973-1984 oil boom.

6. The private sector should start to recognize the essential fact that the times of protectionist measures, government subsidies and monopoly over the local market are gone for good. We now live in an era marked by competition and exports. Hence, investment decisions need to be more enlightened and better scrutinized and need to be based on professionalism, good choice of location and personnel training. The private sector can no longer appeal to big government for generous help. From now on, we can expect to see many companies open and many others close down, with little regret over their departure. Small- and medium-size investment will be undergoing drastic transformation as private sector institutions go through a period of structural change, management reshuffling and greater mobility to cope with foreign competition, particularly from their Israeli competitors. It should be remembered that the changes taking place in Jordan are not exclusive to that country but are the norm in most neighbouring Arab countries. This represents a sizeable challenge for the private sector.

VI. FINALLY

Structural adjustment of the Jordanian economy is possible. An unwavering political will is needed, however, as well as people ready to help pay for what cannot be avoided.

Commentary

Dr. Khalil Hammad

Introduction

In his paper, Dr. Jawad Anani said that there are six fields which can be emphasized in order to bring about the required change in Jordan: namely, the role of women; agreement on an economic model which depends on market economies and openness; revision of education and training systems; emphasis on the concepts of justice, equality and equal opportunities for all; a stable foreign policy to prevent the economic fluctuations that would result from an unstable foreign policy; and, last but not least, restructuring of the private sector institutions and their acceptance of less support and protection than they have been accustomed to receive.

In this comment I shall deal with these six topics, adding two others by which it may be possible to produce structural change: restructuring internal migration and population concentration in Jordanian governorates; and structural changes in response to the Jordanian-Israeli peace treaty.

PREREQUISITES OF STRUCTURAL CHANGE FOR THE JORDANIAN ECONOMY

A. ACTIVATION OF THE ROLE OF WOMEN IN JORDANIAN ECONOMIC AND SOCIAL LIFE

Women in Jordan have made many strides forward in economic and social life and have become partners to men in all types of work. There is one female minister in the present government, one female member in the Lower House of Parliament and two in the Upper House. This was motivated by the Jordanian woman's strong desire to participate with men in every activity. In this aspiration she was supported by an open and educated Jordanian society and by legislation that does not discriminate between men and women in rights and duties. The Jordanian woman has various unions, associations and governmental organizations that take care of female affairs in rural areas, the badia (desert), and urban areas.

Literacy in Jordan amounts to about 82%, one of the highest rates in the world. The 1994 *Human Development Report* of the United Nations Development Programme (UNDP) stated that 14% of administrative and organizational work in Jordan was done by women during the period 1980-1989. The report also pointed out that 75% of expectant Jordanian mothers received prenatal care during the period 1988-1990 and that between 1985 and 1990, 86% of them gave birth under medical supervision.

A report of the UNDP on the Women's Conference held in Beijing from 4 to 15 September 1995 emphasized: that no country in the world treats women on an equal footing with men; that discrimination exists everywhere; and that injustice against women is practised in all fields in terms of employment, salaries, health, education, and participation in political and economic affairs, despite the fact that the value of the housework done by women amounts to \$11 trillion, which does not appear in the national accounts of the international economy. The UNDP deplored the chronic inequality in salaries, pointing out that women's salaries are 30% to 40% lower than men's. This calls for conducting a study to compare men's and women's salaries in Jordan, in order to put the matter under close scrutiny and highlight the problem as a preliminary step for further study leading to proposals for suitable solutions. The report also revealed that 1.3 billion people in the world live in absolute poverty and that 70% of these are female. A study on the problem in Jordan is needed, to show the ratio of Jordanian women who live under the threshold of poverty compared with the total number of Jordanians in the same situation. This would serve as a preparatory step for analysing the problem and proposing appropriate solutions.

The UNDP *Report* showed that the overall average of women in legislative assemblies worldwide is around 10%. It amounts to 30% in the Scandinavian countries and drops to 19% in Asia and to 10% in Latin America, and does not go beyond 4% in the Arab countries. Only 6% of ministerial positions in the world are held by women.

The findings of Jordan's 1994 general census of population and housing revealed a population of 4,095,579, comprising 2,134,885 males

and 1,959,696 females (48% of the total population). Given that women are the sisters and mothers of men, we can recognize the importance of calling for a structural change in the status of Jordanian women and for enhancing their participation in economic and social life, as this would involve a rise in production and a removal of the wrong done to women.

Jordanian women are in need of greater efforts on the part of governmental and non-governmental bodies, aimed at enhancing the status of women. Women are working for the removal of injustices suffered by their fellow women; this work is going forward within the democratic system, constitutional life and female-oriented and international institutions in an endeavour to enhance women's contributions to all suitable fields of human activity.

B. AN ECONOMIC SYSTEM, OR DEVELOPMENT MODEL, IN JORDAN

The structural change that is required by economics is to put into practice the market or price system; that is, a given commodity must be sold in the market at a price reflecting the social marginal cost per produced or sold unit of the same. This means that the market system and consumer sovereignty will prevail and that production should therefore be carried out by the private sector; the government must correct the market deformities through incentives and legislation that facilitate the operation of the market system.

Indeed, the issue of transferring companies either wholly or partially owned by the State to the private sector is the most important topic of the day. It is only through privatization that the structural change needed in the Jordanian economy can be brought to pass. Privatization aims, among other things, at furthering the effectiveness or productivity of the invested currency and at increasing governmental revenues through selling the government's share, either wholly or in part, or entering into contracts for managing or leasing government-owned enterprises. Other means, such as BOT, BOO and BOOT, are used as well. Privatization removes heavy burdens previously shouldered by governments and opens

the door for competition in commodities formerly controlled by the State. To my mind, what is said about the disadvantages of privatization—such as concentration of wealth in the hands of a small minority or a rise in unemployment owing to the laying off of older workers and their subsequent loss of such benefits as health insurance and social security—are groundless reasons when there is sufficient political will and determination to face the requirements of our age. The Government can lease its institutions or make contracts with other parties to administer them. It could gradually sell a part of its shares over a five-to-ten-year period and thereby avoid a great deal of routine work and abuse of governmental positions. As for the workers' rights, it would be possible to utilize the returns from the sale of stocks to establish an institution or fund to protect workers in privatized firms until they are absorbed into appropriate jobs.

This developmental model, or economic system, must be safeguarded by legislation to prevent and curb monopoly, even government monopoly. How can the unrelenting losses of Royal Jordanian Airlines be explained? How can the Telecommunications Corporation remain unprivatized, while two years have elapsed since I applied for a private telephone and I am still without the slightest hope of obtaining one in the foreseeable future? When I was studying in the United States and I applied for a phone to be installed in the apartment I rented, the workers who were to connect the service arrived at the apartment before I did and were waiting for me. How long will the telephone service and many other companies remain unjustifiably lagging behind? What is required is capital, the private sector and efficient service.

Furthermore, the required economic system or model should apply the specifications or standards related to the quality of a given commodity, particularly when it is a food, pharmaceutical or chemical commodity. Joining the International Standards Organization (ISO) and abiding by its standards are of the utmost importance if we want our output to be respected and to compete successfully with similar goods in the market.

C. REVISION OF THE TRAINING AND EDUCATION SYSTEM

I agree with Dr. Anani about the necessity of revising our educational system. Over the past two decades, Jordan opened a great many community colleges, whose number rose from four to fifty. The subjects taught include applied health sciences, nursing, computer science, surveying, accountancy and other service professions. But new vocations and dimensions must be added, as he pointed out, with regard to maintenance, clothing, leather and mechanical work that does not require lengthy training periods. It should be noted here that we must look at all work respectfully, provided that it is carried out honourably and assiduously.

As vocational education has expanded, people have progressed and their income has risen along with the respect accorded to them by others. Within this context, we cannot but recall the Islamic heritage, including Quranic verses and the sayings of Prophet Muhammad that underscore the sanctity and honour of work. The prophets themselves, starting from Noah on to Moses and Jesus and ending up with Muhammad—peace be on all of them—worked for a living; they worked hard, in fact, to obtain an income, and this striving brought them the respect of people.

D. CONSOLIDATION OF THE CONCEPTS OF JUSTICE, EQUALITY AND EQUAL OPPORTUNITY FOR ALL

This topic was admirably dealt with by Dr. Anani in terms of depth and frankness. Indeed, I felt his sincerity, candour and earnestness.

E. FLUCTUATIONS OF FOREIGN POLICY AND FAILURE TO LAY DOWN LOCAL POLITICAL TRADITIONS

We do not need to think hard in order to realize how unstable our foreign policy is. If Dr. Anani wishes to justify this instability owing to Jordanian reactions, I must say that this is not convincing to me. Our inconsistency in foreign policy is also coupled with a failure to lay down local traditions. Observe how governments in Jordan are formed: take the

latest three cabinets, for example. In the cabinet of Dr. Majali there were no ministers who were members of the Lower House of Parliament, whose duty it is to watch and question the people in office. Then there was a reshuffling that resulted in a cabinet half of whose members were chosen from the Lower House of Parliament. Finally, two thirds of the present cabinet were chosen from the same source. Well then, is it not time that we move towards the establishment of internal traditions in setting up our institutions and provide ourselves as well as others with a stable image of our domestic affairs?

F. SELF-RELIANCE OF THE PRIVATE SECTOR AND RECOGNITION OF THE REALITIES OF THE COMING PERIOD

Jordan's productive and service institutions must rely on their products' good quality and competitiveness, and consequently protectionism must be lifted. The private sector has depended for too long on receiving privileges and support that are no longer justifiable now that the private sector is in position to steer the helm of the economy.

G. RESTRUCTURING INTERNAL MIGRATION AND POPULATION CONCENTRATION IN THE KINGDOM'S GOVERNORATES

One *sine qua non* of restructuring the Jordanian economy is to control internal migration of Jordanian citizens and their influx into the capital and Zarqa Governorate. Dr. Anani dealt at length with three forced migrations, in 1948 (refugees), 1967 (displaced persons) and 1990-1992 (deportees) and the demographic characteristics resulting therefrom.

Internal migration, on the other hand, is the movement of Jordanian citizens from rural areas and governorates in search of sustenance, services and income-generating jobs. Amman Governorate, for example, has services, good roads and job opportunities both in the capital itself and in the industrial city of Sahab. This type of migration has caused overpopulation in the Amman and Zarqa areas. In Jordan, the population of Amman Governorate amounts to 1.6 million, of Zarqa to 0.6 million, and Balqa 0.3 million, totalling 2.5 million, or about 60% of the total population of Jordan. By the year 2014 the population of the three

governorates will amount to nearly 5 million, given that Jordan's population doubles every 20 years. On the other side, we find that the population of the southern governorates is distributed as follows: Karak 169,000; Tafileh 61,000; Ma'an 79,000; and Aqaba 80,000 people, totalling 389,000 or 9.5% of the country's population.

Restructuring the population concentration would require the creation of institutions and services in the areas from which population is flowing, in order to keep people residing in their respective regions. I am surprised that there are no faculties of medicine, pharmacy, dentistry or veterinary medicine in the southern governorates. Why should people from south Jordan take the trouble to travel and incur the costs of travel and housing in order to study at the universities in the central and northern parts of the country? Why would the Government not work to place science, medicine and pharmacy in the south, especially since Aqaba Governorate has become a noted tourist attraction? Why are industrial cities that suit the environment not established there to keep people in their home regions?

Indeed there is an urgent need to transfer services and science and technology to all areas of the country and thereby prevent the governorates of Amman, Zarqa and Balqa from being converted into city-States.

H. STRUCTURAL CHANGES IN RESPONSE TO THE JORDANIAN-ISRAELI PEACE TREATY

With Jordan's signing of a peace treaty with Israel, it has become mandatory to modify and adapt many activities that prevailed under the state of preparedness for and expectation of an Israeli aggression. This means that the Jordanian economy needs to be converted from a war to a peace or civil economy with all that this process entails in terms of reallocation of resources from a war utilization to a peace utilization. This involves the production of civilian commodities, of course, and reallocating resources here means reallocating material and human

resources in a manner that helps in producing goods and services, raising national income and promoting the people's economic welfare.

Chapter Eight

The Economic Role of the State
in the Liberalization of the
Economies of Arab Countries

Dr. Taher Kanaan

Dr. Khaled al-Wazani

Commentary

Dr. Basheer al-Zu'bi

THE ECONOMIC ROLE OF THE STATE IN THE LIBERALIZATION OF THE ECONOMIES OF ARAB COUNTRIES

*Dr. Taher Kanaan
Dr. Khaled al-Wazani*

Introduction

The aim of this study is to examine the economic role of the State in the liberalization of the national economy and in privatization, which are under way in the region, with emphasis on the case of Jordan. The study will examine State ownership of some economic enterprises, the effect of this ownership on these enterprises and the distortions that are reflected in the local market. In this context, the study has been divided into four sections and a conclusion, in addition to this introduction. The first part is a brief review of the concepts pertaining to the role of the State in economic activities, according to various schools of thought. It also examines the development of this role throughout the past and current periods.

The second part deals with the development and scope of the State's intervention in the economic life of Jordan during various periods. The third part discusses the current status of the State-owned enterprises in Jordan, focusing on the forms of government participation, the structural adjustment policies applied to these enterprises and the prerequisites for liberalizing the economy to eliminate the distortions created by government intervention. We will then speak about the strategy that is needed to liberalize the economy and enhance the efficiency of the economic enterprises in the country. The study ends with conclusions that we hope will be of benefit to decision makers and interested observers.

I. DEVELOPMENT OF THE ROLE OF THE STATE ACCORDING TO THE VARIOUS ECONOMIC SCHOOLS OF THOUGHT

Both the classical and Keynesian schools of thought are in agreement that the State has three major roles to play in the economy:

ensuring overall economic stability; rectifying market imbalances; and redistributing income and securing the prosperity of society. As for the policies of intervention to rectify or to avert the collapse of markets—whether these are commodities or services markets, or labour or financial markets or other types—intervention means that the State formulates mechanisms to regulate the functions of the market, or that the State produces certain commodities and services which are called “public goods”. Alternatively, the State may own some industries or services within the framework of natural monopolies. In addition to the three roles mentioned above, another important role for the State was added in the fields of planning, formulating industrial policies and administrative development.¹

Since the nineteenth century, centralized and decentralized governments have played a major role in various economic activities. However, this major role, or intervention, began gradually to subside in the countries with market economy mechanisms and even in some countries where the State tended to play a central role in economic life. Perhaps China, North Korea and Vietnam are the best examples that can be cited in this regard.

Nevertheless, the important thing to emphasize here is that the role of the State in the economic life of any country will continue to be crucial and significant. Even in a free market economy, the idea of neutralizing the role of the State has not been accepted. What is being discussed now are the size and scope of State intervention in the various economic activities. It is no exaggeration to say that the private sector cannot operate without the mechanisms devised by the State to facilitate the former's operations and to enhance its participation in the area of resource allocation and investment. In addition, the legislative and legal framework for the activity of this sector is formulated by the State.

¹ Heba Handousa, “The role of the State: the case of Egypt”, *Economic Research Forum, Working Paper Series, Working Paper No. 9404*, 1994, p. 6.

Furthermore, developing the appropriate environment for the market mechanism to function in the areas of investment, tax policies and other fields depends on the size of the country in question, the scope of its functions and the goals it seeks to achieve from its economic policies. Private sector behaviour is only an outcome of the economic policy produced by the State.

The private sector adapts itself to whatever economic policy trends the State decides on. Within this context, the developmental pattern of the economy of any country is governed by the role of the State, whether in production patterns, structural formation or the size of the government bureaucracy (Abdul Mun'im Sayyid Ali 1995).

State intervention in economic activities can be direct or indirect. Direct intervention can be seen in the form of government participation in production or in influencing the pattern of consumption or investment. Indirect intervention can be seen in more than one form. For example, the government plays an indirect role in influencing the level of consumption through policies of subsidies, and the monetary and fiscal policies applied by the government play an important role in this connection. In addition, the State plays a significant role in mobilizing savings and activating investments as well through the enacting of laws and legislation and the formulating of various mechanisms enforcing legislation.²

In view of the role of the State in the economies of developing countries in general, and the economies of Arab countries in particular, economists engaged in one debate after another on the desired size and scope of government intervention in the national economy. Some economists justified large-scale government intervention in the national economy on the grounds that market mechanisms are incapable of operating effectively in the economies of developing countries. They also argued that the response of the factors of production to the indicators of market mechanisms in some developing countries is very slow and

² Arvid Virmani, “Size and role of government: quality vs. quantity of intervention”, *Indian Economic Journal*, vol. 37, No. 4 (1990), p. 23.

sometimes produces results opposite to those sought. They explain this phenomenon on the grounds that the movement of the factors of production is not easy in view of the homogeneous products and skills, scarce initiatives by the private sector, and weak infrastructure, particularly in the areas of transport and communication.

Advocates of government intervention in the national economies of developing countries also argue that the government role is significant in terms of guaranteeing the fairness of income distribution and the application of social benefits, which are necessarily a product of government participation and which represent a contribution to the prosperity and progress of society.³

In contrast to this view, other observers argue that State participation in economic activities should be restricted to specific areas, such as education, health, defence and security, in addition to the traditional familiar functions which fall within the context of State control of overall national policy. According to this view, the State should not increase the size of its intervention in economic activities.

Such observers argue that the government should not own commercial enterprises and should not sell consumer commodities such as foodstuffs or services, since the private sector is more qualified to operate these services. With regard to many functions, however, it is difficult to say that they should or should not be run by the government.

Evidently, the role of the State in the public sector is no longer compatible with the main objectives of the public sector. The State has owned more and more enterprises. It has also shouldered the burden of absorbing unemployment and restraining inflation. The result was the aggravation of disguised unemployment and a disruption in the price mechanisms in a number of countries that expanded the role of the State

³ Eprime Eshag, *Fiscal and Monetary Policies and Problems in Developing Countries* (Cambridge: Cambridge University Press, 1985), pp. 11-15.

in the national economy. This phenomenon was most evident in the case of the Arab countries.⁴

Practical studies conducted to determine the impact of increased State intervention in the national economy indicate the drawbacks of such intervention. The most important of these findings was that public sector corporations in many developing countries have spent large sums of money that could have been better utilized for badly needed social services, such as education and health as well as other areas. Furthermore, State-owned corporations were given the lion's share of the volume of the credits made available to the economies of the developing countries. The result was diminishing private initiative.

A recent study by the World Bank concluded that raising the efficiency of State-owned corporations, even slightly, would yield tangible results in terms of a reduction or total elimination of financial deficits.⁵

It was in light of the foregoing considerations that the concepts of privatization and a reduced role of the State in the various economic sectors were introduced. Privatization has become an important economic policy factor in developing and developed countries equally. The concept of privatization has gained momentum as many State-owned corporations recorded uninspiring performance while private sector corporations flourished.⁶ Countries around the world are currently reviewing the State role in the national economy, laying emphasis on the importance of privatization in this context.

⁴ Said Najjar, "Siyassa al-istithmar fil-bilad al-Arabiya: al-qadaya al-assasiya" (Investment policies in the Arab countries: the basic issues), in Said Najjar, ed. *Siyassa al-istithmar fil-bilad al-Arabiya* (Investment policies in the Arab countries), Arab Fund for Economic and Social Development, Arab Monetary Fund, pp. 14-35.

⁵ World Bank, *Bureaucrats in Business: The Economics and Politics of Government Ownership* (Washington, D.C.: World Bank, 1995), pp. 1-2.

⁶ Enrico Perotti, "Credible privatization", *The American Economic Review*, vol. 85, No. 4 (September 1995), p. 847.

Privatization was a natural outcome of the process of restructuring and adjustment. Governments discovered that they were intervening directly in economic activities that the private sector could carry out more efficiently, and in a way that would relieve the State of some of its financial burdens. Thus the question here is the scope to which privatization should be carried out and the method in which it should be implemented.⁷

Since 1989, coinciding with the major transformations which the world has undergone—particularly the ideological transformations in Eastern Europe—privatization has become a crucial issue in all countries of the world. The countries most interested in privatization at present are those which had centrally planned systems, and the concept of privatization in the developing countries has been associated with economic liberalization. Transfer to the private sector has become the primary technique for reducing the size of government intervention in the national economy.⁸ In the case of Jordan, the situation is not much different, although the Jordanian economy is mixed. It would be useful at this point to discuss the case of Jordan within the context of the State's role in the national economy.

II. THE DEVELOPMENT OF THE ECONOMIC ROLE OF THE STATE IN JORDAN

The Jordanian economy is traditionally described as a mixed economy consisting of, on the one hand, a private sector composed of small and medium-size enterprises and playing an essential role in the economic life of the country and, on the other hand, a government sector

⁷ Giacomo Luciani, "The question of privatization and the private/public symbiosis", paper presented to the Conference on Economic Development in a Global Context, the American University in Cairo, 1990, p. 2.

⁸ Jean Tesche and Saher Tohamy, "Economic liberalization and privatization in Hungary and Egypt", Working Paper Series, Working Paper No. 9410, Economic Research Forum, 1994, p. 1.

that controls large corporations, either because of the sizable capital needed for investment in such corporations or because of their strategic importance to the economy of the country.

In addition, the political instability that has been a by-product of the Arab-Israeli conflict made the private sector reluctant to make large investments in the country. Needless to say, investment cannot flourish under conditions of uncertainty.⁹ However, the economic pressures that have been bearing on Jordan since the 1980s made it a matter of utmost urgency for the State to seriously consider reducing the role and size of government intervention in the country's economy.

Economic planners in Jordan began giving serious thought to privatization in the second national development plan (1980-1985).¹⁰ In the early 1980s, the government initiated the policy of selling public sector corporations to the private sector. However, throughout the decade, the policy of privatization drifted, and no actual steps were taken in this direction.¹¹

⁹ For more details on this topic, see Wahib al-Sha'er, "Tajrubat al-Urdun ma' al-qita'ain al-'aam wal-khaas wa mustaqbal al-tajruba" (Jordan's experiment with the two sectors, public and private, and the future of this experiment), working paper presented to a conference entitled "The Public Sector and the Private Sector in the Arab World" held at the Center for Arab Unity Studies, Cairo, May 1990.

¹⁰ Margaret Reed, "Institutional prerequisites for privatization in countries with market-based economies: the lessons for Jordan" in Mustafa Hamarneh, ed., *The Jordanian Economy: Problems and Prospects* (Amman: Centre for Strategic Studies, University of Jordan, 1994), pp. 229-244.

¹¹ Reed, op. cit.; Raf'at Fa'ouri, "Itijahaat muwathifi Mu'assisat al-Muwasalat al-Silkiya wa La-Silkiya nahwa takhseesiha fi iqleem al-shamaal fil-Mamlakat al-Urduniyyat al-Hashemiyya wa atharihi 'ala istighlaal al-waqt" (Reaction of employees of the Telecommunications Corporation on the company's privatization in the north of the Hashemite Kingdom of Jordan, and the effect of privatization on the utilization of time), *Majalat al-Idarat al-'Aama* (Journal of public administration), vol. 34, No. 1 (June 1994), pp. 42-69.

Jordan's interest in privatization was heightened by the economic crisis that occurred during the 1980s. The trend towards privatization was further enhanced by the adoption of economic adjustment policies which the Jordanian government started to apply with the help of the International Monetary Fund (IMF) and the World Bank. The three economic adjustment programmes initiated by Jordan were oriented towards giving the private sector a bigger role in the economic activities of the country through privatization, improving the investment climate, and increasing the size of the private sector contribution to GDP.¹² Furthermore, to qualify for membership in the World Trade Organization (WTO), Jordan, like any other country, would have to liberalize its markets and allow for unfettered competition, with no discrimination between private sector and government-owned corporations. The WTO, which replaced GATT, requires members to open their markets, to eliminate trade restrictions and to revoke any type of privileges previously granted.

It allows the continued functioning of State-owned corporations, provided that they are run on a commercial basis, that they carry out export and import operations on a purely commercial basis, and that they do not constitute a reason for the closure of the markets or for the restricting of import and export operations in the countries concerned.¹³ Since Jordan decided to join the WTO in late 1993, it was certain that the State would begin reducing its role in the various economic sectors, to

¹² For more information on this subject, see Basil Jadaneh, "Al-ikhtilaalat al-haykaliyya fil-iqtisad al-Urduni: nahwa siyaasat takyeef wa tathbeet muwajjah li-namu mudtarad" (Structural imbalances in the Jordanian economy: toward adjustment and stabilization policies directed at steady growth), paper presented to a workshop entitled "The Jordanian Economy: Reviewing the Past and Heading towards the Future" held in February 1996 at the Centre for Strategic Studies, the University of Jordan; and Fahd Fanek, *Barnamej al-Tasheeh al-Iqtisadi fil-Urdun* (The economic adjustment programme in Jordan), *Al-Nidaa' al-Jadeed Journal*, No. 19, Cairo (1995).

¹³ Abdel Aleem Muheisen, *Adwaa' 'ala GATT* (Highlights of GATT) (Amman: Association of Jordanian Businessmen, 1995), p. 55.

open the way for the private sector to compete in the various fields in which it could take the initiative.

III. THE STATE'S ROLE IN THE OWNERSHIP OF CORPORATIONS IN JORDAN¹⁴

State-owned corporations are the constituent elements of a public sector operating in the various fields of commodity production, contrary to the well-known governmental services sector. In 1992, State-owned corporations controlled 14% of the total value added of the country's GDP. The State's large participation appears clearly in the extracting industries, water and electricity, transport and communications. In the extracting industries, the Jordanian government owns 41.5% of the phosphate company, 55.4% of the potash company, and 51.3% of the mining sector. However, as part of its efforts at privatization, since 1994 the government has been referring tenders for oil-prospecting operations to private sector companies. It was formerly the Natural Resources Authority that was responsible for all these activities. In the field of energy, the Jordanian government wholly owns the Jordan Electricity Company. It also owns and operates all the thermal stations in the country, with the exception of thermal stations in the governorates of Amman, Zarqa and Irbid, for which stations the government holds no less than 30% of the capital. The government is the only source of water in the country. In the field of transport, the government owns the Royal Jordanian Airlines, the Aqaba Port Authority, the railroads and the Public Transport Corporation. However, the private sector has its own contribution in land transport and is a competitor to the public sector in this area.

The exception is tourist transport; Jett Company, 93% of whose shares are held by the private sector, kept its monopoly until the end of 1994. As for the telecommunications sector, until a short time ago, the

¹⁴ This and the next section were summarized from a paper presented by Dr. Taher Kanaan to a workshop entitled "The changing role and size of the State-owned sector", Amman, May 1996.

State maintained a monopoly over the sector. This service began to be run on a commercial basis only in 1988.

Meanwhile, the private sector in Jordan maintained full control over the agricultural and construction sectors and to a lesser extent over the industrial sector (94%) and non-governmental services (95%).

The government is also a shareholder in the Jordanian Corporation for Investment and in the Social Security Corporation. It participates in varying degrees in certain financial fields, such as the specialized credit corporations as well as in infrastructure services where there is a public benefit. It is noteworthy that these corporations enjoy financial and administrative independence.¹⁵

To date there has been no comprehensive study carried out to evaluate the performance of the State-owned companies in Jordan. However, there is loose consensus that public corporations in Jordan are operating at a low level of efficiency and that their performance is obstructed by excessive bureaucracy, lack of competitiveness, poor incentives, and disguised unemployment. Needless to say, many public corporations in Jordan eventually failed, among them the Jordan Timber Company, the Jordan Glass Company, the Jordan White Cement Company, the Jordan Television Production Company, and Jordan Publishing House.

The capital invested in these companies, which were set up in the 1970s, totalled some JD 35 million. Most of the public corporations which are still functioning are suffering from financial and managerial problems as well as inefficient performance. The energy sector, for example, has chronic financial problems. The telecommunications sector is incapable of meeting the requirements that are dictated by the development of the economy, particularly as these concern the telecommunications network. In the transport sector, Royal Jordanian Airlines has been sustaining large and recurrent losses for a lengthy period of time.

¹⁵ For a list of such enterprises, see Kanaan, *op. cit.*, p. 4.

As part of the efforts to evaluate the status of public shareholding companies in Jordan, a study was conducted on the performance of those companies in which the government owns more than 15% of the shares, compared with companies which are not owned by the government or in which the government owns a very small share. The study concluded that there is a direct relationship between government ownership and poor financial performance.

The World Bank cited this phenomenon in a 1994 report, adding that the companies in which the State invested large amounts of money showed weak growth in their sales, a low earnings to investment ratio, and low productivity. The report said that the reason behind the poor performance was either government ownership or government control or both.

In contrast, the study showed that companies which were not owned by the government, or companies in which the government owned a very small share (meaning it had no say in their management), have attained higher growth rates, earnings and productivity.

In truth, however, it may be that the actual reasons for the failure of State-owned companies are not known at all. It could be argued that government representation in the boards of directors of these companies may give rise to social, non-commercial goals. However, this cannot be regarded as the main shortcoming in the management of government-owned companies. The more serious phenomenon is that government personnel serving on the boards of directors of such companies show little interest in the companies, perhaps because they do not feel that they are working to achieve a specific goal as much as they are carrying out a duty that was assigned to them, namely, attending board meetings.

This does not mean, however, that private sector management is more active. Experience has shown that private sector representatives in some companies are sometimes worse than government representatives. In fact, the conflict of interest in the case of private sector representatives is more evident than it is in the case of government representatives.

Faced with mismanagement, the government was compelled to take measures to rid itself of the larger burdens that are manifest in government-owned companies. This is why the privatization policies, which were initiated in the mid-1980s, are significant. However, steps to implement these policies were weak, slow and unsystematic, and this is probably due to resistance to change. Privatization powers were delegated to government bodies that operate many of the companies which are slated for privatization. It is naturally difficult for these bodies to sentence themselves to be transferred to the private sector. Furthermore, the government is very sensitive about worker lay-offs after such companies are privatized. Parliament deputies also oppose the privatization of large companies that fall under the category of "strategic industries". Nevertheless, the Government has taken many measures to push privatization forward, particularly in the energy and communication sectors.¹⁶

IV. A STRATEGY FOR THE FUTURE ROLE OF THE STATE

The formulation of a structural adjustment strategy in Jordan has been a main preoccupation of Jordanian planners for some time. It became all the more important after Jordan began to apply its economic adjustment programme starting at the end of the 1980s. This is one of the most important issues on which Jordan consults with the IMF and the World Bank, and it is perhaps no exaggeration to say that the people, as well as the parliament, the media and the academic community, are concerned about this question, which has been discussed in various workshops and seminars held in Jordan. As the process of privatization goes on, the future role of the State can be probably summed up in the following points:

(a) Registering public services sectors in the fields of energy and communications as public shareholding companies in accordance with the Jordanian Companies Law. In this connection, the help of a group of experts and specialists is being enlisted to help in the privatization

process, with the aim of selling a large part of the shares of these companies to partners which the State considers to be qualified for such a purpose.

(b) Selling the shares of electricity companies in the various regions of Jordan in accordance with the principles of privatization.

(c) Transferring the Aqaba Railway Company to the private sector by announcing a public tender for the management of the company.

(d) Continuing the privatization of those companies in which the government owns more than 40% of the shares, by selling the excess shares, on the basis of the public interest, to partners whom the State believes are qualified for ownership, taking into consideration the strategic importance of the companies.

(e) Selling or leasing the portfolio of the Jordanian Investment Corporation, as it has been recording recurrent losses.

(f) The shares of the small shareholders in the above-mentioned corporations will be collected and placed in a mutual fund with one of the local banks. The shares will then be floated in the Amman Financial Market.

It seems rational to support the idea of transforming State-owned corporations into public shareholding companies and providing them with good management. The problem here, however, is that this strategy will not be healthy or useful under all circumstances. Here we must differentiate among three types of companies to be privatized by turning them into public shareholding companies:

(a) *Companies that are operating in a competitive market and which are basically public shareholding companies in which the State owns shares but does not control the management, such as government-owned hotels and tourist facilities run by the private sector. These companies are run in accordance with the commercial principles of the*

¹⁶ For further details, see Kanaan, op. cit., pp. 7-8.

private sector. Any decision to sell or not to sell these companies should take into consideration the principle of profit maximization typically adopted by the private sector. Therefore, the Jordanian Investment Corporation should balance between a trade-off of the capital gains produced by the sale in the short run, versus the maintainance of a continuous income flow over the long run. At the same time, the Jordanian Investment Corporation should, as an investor, examine alternative opportunities, since this property can generate huge revenues that the Corporation should seek to invest. Otherwise, it should not sell, as the performance and competence of these enterprises are not at risk of falling prey to "government intervention disease".

(b) *The companies that operate in a competitive market but whose shares are owned mostly by the State and the management of which is consequently controlled by the government. This includes the Jordanian Hotels and Tourism Corporation, 87% of whose shares are owned by the government.* Here we have a good reason for transferring such companies to the private sector, namely so that they will be run on a commercial basis and in accordance with market mechanisms. They would thus be protected from State intervention in their management, which is governed by political rather than economic considerations.

(c) *The companies that operate in non-competitive (monopolistic) markets on government terms, including the enterprises related to phosphates, potash, cement, petroleum-refining and tanning of hides.* Irrespective of the considerations which prompted the State to maintain a monopoly on these companies, they can be viewed as examples of low efficiency. However, this inefficiency is not evident in the phosphates and potash companies because they are competitive in the international export market. The fact is that these companies are operating under a natural monopoly as natural resource enterprises that generate high revenues which conceal the inefficiency in the company itself. We should therefore seriously consider lifting the current monopolistic protection of these companies. In this connection, it must be pointed out that competitive markets should be opened before these companies are run on a commercial basis. Otherwise, transferring these monopolies to the private sector will only mean that the public sector monopoly has been replaced

with a private sector monopoly, a situation that will do nothing to help these companies increase the efficiency of their work.

The strategy which should be followed in this context should take into consideration that the adoption of the policy of privatization should be associated with the liberalization of markets and the rectification of the imbalances under which these companies are operating. The question is not one of preferring the private sector over the public sector, nor is the strategic goal simply to raise private sector participation in the economy, as much as it is to rectify imbalances and remedy the structural distortions that afflict the national economy. Thus the strategy for the future should be long-term and should raise the efficiency of the markets in which Jordanian private and public companies will be operating.

Within this context, priority should be given to the liberalization of the stock market in the country. While the stock market is competitive in many fields, there are still some distortions that need to be corrected, particularly as regards the so-called specialized credit corporations, such as the Housing Bank, the Industrial Development Bank and the Agricultural Credit Corporation. These corporations enjoy certain privileges which on the one hand are costly and on the other hand distort the credit market.

A market mechanism could also be applied to several government services which do not operate according to the principle of supply and demand. Perhaps the goal which we are seeking to achieve here is to attain appropriate earnings from this sector so that it could survive and continue providing its needed services to the national economy. The educational, health and transport services are among examples which could be cited in this regard.¹⁷

¹⁷ For further details on the subject of reforming the government universities in Jordan, see Kanaan, op. cit., pp. 12-13.

V. SUMMARY AND CONCLUSIONS

The aim of this study was to cast light on the State's economic role in the period of economic liberalization that the world is currently witnessing. The study dealt with the Jordanian case as a model for Arab countries. All indications are that we need to enhance the economic performance of the developing countries by remedying the structural bottlenecks and distortions caused by large-scale government intervention in the country's economy.

The main theme of this study is that the question is not one of transformation from public sector to private sector domination, but is rather the liberalization of the economic sectors and the enhancement of their efficiency. Likewise, the question is not whether the State should intervene in economic activity; the issue is but the scope of the required intervention.

Liberalizing the economy and reducing the level of government intervention have become a prerequisite for keeping pace with the international economy. In the case of Jordan, measures should be taken to rectify the distortions in both the public and private sectors. Privatization should have the main goal of enabling the economy to rid itself of all structural imbalances *vis-à-vis* protectionism, monopoly and the closure of markets. Economic planners should take calculated steps to ensure that a non-competitive or managerially impotent private sector does not control the national economy. The various government services should also be dealt with to make sure that their performance does not deteriorate.

The needed economic policies should be able to rectify all aspects of economic activity. Both private and public productive corporations must operate efficiently if they are to serve the country's development objectives. It is also very important to make sure that the private sector can compete, particularly since the international economy is moving in the direction of large-scale liberalization under the leadership of the WTO. It is also essential to introduce adjustment and restructuring measures to government services and to the Jordanian stock market.

All these measures are intended to qualify Jordan to meet the coming period with the minimal negative consequences for the developing world in general and for Jordan and the Arab market in particular.

Commentary

Dr. Basheer al-Zu'bi

Drs. Taher Kanaan and Khaled al-Wazani have discussed the role of the State as envisaged by the various economic schools of thought, namely the classical and the Keynesian schools. Emphasis was laid on the role of the State in creating overall economic stability, rectifying market imbalances, redistributing income and ensuring the prosperity of society. The role of the State was also highlighted in the field of planning, the industrial policy formulation, and administrative development.

The division of labour between the public and private sectors has occupied a special status in the literature of economics and political science. Here I should point out that it was not the classical or Keynesian schools of thought or their followers that first defined the role of the State; this role has been known to mankind for well over fourteen centuries, and researchers in Islamic economics are still highlighting the role of the State and the responsibilities entrusted to it. This role can be summed in the following way: The State deals with economic realities that are based on private property, a system which allows prices to play a constructive role in the allocation of resources, the distribution of income, and the marketing of products, as well as in linking the desires of consumers to the actions of producers. The role of the State is to consolidate social rights and to forestall injustice and unfairness.

Consequently, some believe that the role of the State is restricted to the following:¹

1. To effect a more ideal utilization of economic resources.

¹ Mohammad Saqr, "Al-khutout al-'arida lil-nitham al-iqtisadi al-Islami" (The broad lines of an Islamic economic system), paper presented to a symposium entitled "The Islamic Economy and Development Integration in the Arab World", held in Tunisia from 18 to 21 November 1985, pp. 31-34.

2. To make public expenditures conditional to the attainment of the public interest by making sure that the part of the government bureaucracy in charge of spending is run by competent and honest people.
3. To combat monopoly and to intervene in the market whenever necessary to fix prices under special or extraordinary circumstances or in the case of public services.
4. To regulate commercial advertisements and to formulate standards and specifications for goods and services.
5. To apply a fair wage policy and fair labour legislation.
6. To ensure a fair distribution of income, the equality of opportunity and social security for all.
7. To plan for economic, scientific and social development with the participation of the private sector.
8. To safeguard the country's monetary and fiscal stability and a balance in foreign relations.
9. To achieve the economic independence of the State and social collaboration among the various segments of society.

However, the question which necessarily arises is: Can developing countries achieve economic growth by depending on the market economy?

Following World War II, developing countries entered into a battle for reconstruction and development. They started from a point where they needed a great deal of adjustment to their economic, social, cultural and political structures. All this required the State to play an active role, at least to secure the necessary finances needed for reconstruction and development. This was also what developing countries were trying to do until they reached a point where they were so saddled with foreign debts that they found difficulty moving forward with their plans.

There were views that the private sector should be encouraged to shoulder part of the developmental burden in these countries. This is what happened in Jordan, which was examined by the authors as an applied case.

I agree with the authors that the role of the State has declined within the market economy. It has also declined *vis-à-vis* State regulation of market mechanisms, particularly as regards infrastructure and the legislative and legal framework under which the private sector functions. The authors pointed out that government intervention, as justified by some observers, is a result of declining productivity as measured by the indicators of market mechanisms in some developing countries. I would like to point out here that any such intervention should be accompanied by an effort to raise the efficiency of the government bureaucracy in allocating economic resources.

Drs. Kanaan and Wazni cited results of some practical studies on the failings of government intervention in the economic life of developing countries. It is true that the public sector has consumed large sums of money which could have been allocated to more useful purposes. Developing countries had to spend large amounts of money on building their infrastructure, but the private sector would not necessarily have spent less if it had had to carry out the same job.

Among the factors which led to the failure of the public sector and the adoption of a policy of privatization are the following:

- (a) Lack of clear goals in the case of many public sector enterprises.
- (b) Excessive bureaucracy and disguised unemployment in the government sector.
- (c) Lack of incentives, and low productivity.
- (d) Poor control and follow-up.

(e) Price-setting by the government of the commodities and services offered by public enterprises, such as electricity, water and public transport.

(f) Corruption and nepotism.

I would have liked to see the authors examine these last two points when they spoke about privatization.

I would also like to point out that the trend towards privatization did not arise in a vacuum. Rather, there are certain motives which prompted such a course, and these include the following:

(a) Improving the financial position of the State by reducing the budget deficit.

(b) Improving the balance of trade and consequently the balance of payments.

(c) Eliminating public sector competition with the private sector.

(d) Encouraging investments and giving momentum to economic growth.

(e) Improving the performance of the Jordanian economy.

If the strategy of privatization in Jordan is to succeed, the following should be taken into consideration:

(a) The Government should declare its commitment to applying the policy of privatization and should explain its goals and motives.

(b) A higher committee should be set up to supervise and implement the privatization policy. Committee members should be qualified people from the public and private sectors. Subcommittees should also be formed to examine each corporation separately.

(c) The conditions that would encourage investments, including laws and taxation policies, need to be in place.

(d) The base of ownership needs to be expanded, and efforts should be made to try to attract small investors, so as to preclude the control of privatized companies by large capitalists.

(e) The Amman Financial Market needs to be upgraded.

(f) Each corporation needs to be restructured separately to facilitate the task of funding.

(g) Specialized monitoring units need to be set up to follow up on the activities of privatized corporations.

(h) Privatization policy should be part of a comprehensive economic policy aimed at introducing basic changes to the national economy.

(i) A spirit of healthy competition needs to be created in the national economy.

(j) Every effort needs to be made to attract foreign investments since the local capital available for investment is very limited.

(k) The privatization process should be gradual.

I would like to thank Drs. Kanaan and Wazni for their paper and the effort they have made, and I hope that it will be utilized in the future for more in-depth studies on the role of the Jordanian government in the country's economy and on the appropriate strategy needed to raise the efficiency and performance of both the public and private sectors, so that we can achieve our goals.

Chapter Nine

The Jordanian Economy and
Future Prospects in the Region
Dr. Ibrahim Badran

Commentary
Dr. Fahd al-Fanek

A Palestinian Perspective on
Future Economic Relations
Among Jordan, Palestine and
Israel
Dr. Adel Zaghah

Commentary
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Dr. Jamil Helal

THE JORDANIAN ECONOMY AND FUTURE PROSPECTS IN THE REGION

Dr. Ibrahim Badran

Introduction

Throughout the 1960s and the 1970s and until the early 1980s, the Jordanian economy was able to achieve good growth rates and to carry Jordan to a relatively advanced position in the region, thereby affecting the neighbouring oil-producing countries by actively contributing to their upswing. Jordan was likewise affected by these countries in terms of their oil wealth and the remittances of Jordanians employed in the Gulf States. Economic growth rates in the early 1980s approached 6% per annum and were accompanied by very low rates of unemployment. Per capita income amounted to \$1,650 in 1985. However, as the 1980s dragged on, economic recession started to be felt in many countries of the region, including Jordan, owing to the first Gulf war, the depletion of the region's resources, the obstruction of economic channels and the failure of human resources management, over and above the sequels of the Lebanese civil war, the Arab-Israeli conflict and the Arab splits over Egyptian-Israeli peace. We may add to this the fact that Europe and the United States diverted their attention to the transformations and symptoms of disruption in the Eastern bloc.

During the period 1985-1993, economic growth in Jordan was negative (-5.9%). Per capita income dropped to \$1,190 in 1993. This situation continued until the mid-1990s while Jordan committed itself to financial, though not economic, adjustment with the International Monetary Fund (IMF) and the World Bank. This process has led to the correction of some financial and monetary malfunctions, which reached their peak in 1988 when the Jordanian government had to devalue the Jordanian dinar by about 50%. Actual economic growth was relatively slow, and financial and monetary reform did not keep abreast of the economic growth that was achieved. At present the Jordanian market is witnessing some disturbing phenomena that require the introduction of new momentum to revitalize the market while at the same time utilizing Jordan's various potentials in different areas.

Such phenomena include slow economic growth, rising unemployment rates, continuous indebtedness, meagre foreign investments, high prices, worsening inflation, higher interest rates, slow-moving administrative and legislative reforms, and rising costs of the services and infrastructure that are a prerequisite for investment.

Throughout the past decades, the Jordanian economy has been characterized by a high degree of sensitivity to the political, economic and demographic events of the region, which deprived Jordan of any opportunity to try to anticipate the future and make efforts to cope with events in a timely fashion. In particular the fragility of the local productive basis denied the country the means of dealing effectively with the various crises with which it was confronted.

However, the involvement of the region in the peace process and the signing by Jordan and Palestine of peace accords with Israel has marked a new phase for the Jordanian as well as the Palestinian and Israeli economies. But this phase is still a labyrinth with many tracks and possibilities, and so far, no definite economic form has taken shape. We will now consider the far-ranging and rapid economic and political transformations and changes that are sweeping so many countries today, as well as the international framework that is contributing to them. This may provide us with a reasonable starting point in an attempt to look into the future.

I. THE MACRO-POLITICAL DIMENSION OF THE ERA OF PEACE

It is extremely important to recognize the rapid change currently taking place at the political, economic, regional and international levels. It is also necessary to recognize the underlying causes of this fast pace in order to activate the mechanisms of national and regional economic change by contemporaneously taking place with them. Reference is made below to some of the causes:

1. The modern tools of policy-making are more pervasive, faster and better organized than those in use 30 or 50 years ago; at present, these

tools function simultaneously in both the economy and politics and do not necessarily emanate from the outlook of the regional parties alone.

2. Many of the events and trends constituting the major elements of the era of peace in the Middle East, coupled with the reordering of the region's status after the end of the cold war and the Gulf war, have not emerged suddenly. Rather, they are the outcome of numerous programmes, investments, loans, grants, studies and research conducted by the administrations and institutions of the countries affecting or being affected by the peace process during the past two or three decades. Various international institutions and United Nations bodies have also had an effect on events and trends in the region.

3. The components of the era of peace and the restructuring of the region have for the most part matured and developed as a result of political, economic and historical accumulations built up over the years and are not preplanned as part and parcel of the present period. They can be viewed as being an investment in the peace that will be coming sometime in the future; the effort exerted in the past few years has been concentrated on how to put these elements together and make them operable in the future.

4. The Arab region has been overwhelmed with political issues and movements at the expense of economic reconstruction. It has fallen short of unification—it has failed even to put in place the prerequisites of unity. The Arab region has also failed to build up the institutions of the democratic State or to activate the local or pan-Arab economy. And has failed utterly to manage the interrelations that would underpin a pan-Arab economy. The average economic growth rate of most Arab countries has been equal only to the rate generally achieved by the developing countries and has fallen below the international average.

5. The countries of the region, including Israel (which has not been so careless about the economic side of things), are suffering from continuous exhaustion and failure to cope with their respective social, economic or security problems owing to the no-war/no-peace situation that has

prevailed in the region for two decades and which was preceded by some 30 years of military conflict. All this has been accompanied by slow progress on the path of democracy, pluralism and economic prosperity. This—the forthcoming era of peace and the new context it may provide for the Middle East and the Arab-Israeli conflict—represents a major channel for moving out of the present deadlock and into a new, productive period.

6. The momentum achieved by the victory of the Western bloc in the cold war needs to be utilized by all parties to the utmost and as fast as possible in order to establish new international and regional orders—before a different situation whose character and needs are difficult to forecast would have the chance to emerge.

7. Last but not least—and starting from a conciliatory, pragmatic stand acceptable to all sides—all parties, including the Palestinians and the Israelis, have become fully convinced that the strategic, oil, political and economic stability of the region will never be achieved without a solution of the Palestine problem and the attainment by the Palestinian people of its national rights in a manner acceptable to the organization representing the Palestinian people.

As the Palestine Liberation Organization (PLO) is the sole legitimate representative of the Palestinians and owing to the fact that the PLO is their negotiator and decision maker, its decisions and negotiations have national as well as international legitimacy. In other words, the era of peace will base its stability on its acceptability to the concerned parties, which constitutes a part of the building of and an appropriate background for a new economic structure.

II. THE MACRO-ADMINISTRATIVE DIMENSION OF THE ERA OF PEACE

The era of peace is not simply a political decision to terminate the state of war as was the case, for example, with France and Germany, nor merely the signing of a peace agreement or treaty, as was the case with the United States and Vietnam. Rather, it is a complicated process with

ups and downs, setbacks and reversals as well as intermeshed temporal, spatial, human and sectoral extensions and ramifications. Consequently, the management of this process and the successful construction of a harmonious network of relations superseding the prevalent hostile and destructive network of relations is crucial. In this respect we may take note of the following factors:

1. There is a tremendous objective interrelation between the peace process in its general sense, on the one hand, and the process of economic and socio-economic transformation, on the other hand. Each party should keep the macro contexts firmly in mind and should avoid overattention to minute details or side issues.

2. The period covered so far by the peace process—meaning the treaties and accords signed by Palestine, Jordan and Egypt—marks the start of the new era and, therefore, requires consolidation and mutual trust among the peoples involved.

3. What has been achieved on the Palestinian track in particular—and on the Jordanian, Egyptian and Arab tracks in general—is politically and institutionally significant in terms of the general historical perspective of the conflict, since the foundations of the Palestinian State and economy are being progressively strengthened. The recognition by the Israeli side of the Palestinian people and entity and even a Palestinian State has become one of the facts of daily life and has even become a part of the official discourse of major Israeli political forces, as exemplified by the modification of the Israeli Labour Party programme last April concerning the Palestinian State.

4. All Arab States as well as the PLO have terminated the state of war and hostility with Israel, and negotiations have become the instrument of interaction among the parties. This serves their mutual interests, but it should be noted that Israel should abide by this approach; it must leave off resorting to violence and force and abandon its practice of overreacting, which could lead the area back into a state of hostility and undermine the foundations of peace. A successful peace process is one

which brings real gains for all parties at all times, and not for some at the expense of others. Differences in military, technological and economic potential and preparedness can lead to gains for one party at the expense of the other, which undermines the future of peace.

5. Objectively speaking, peace with Israel should by no means be a substitute or an alternative for sound inter-Arab relations, for we are dealing with a Middle East region which comprises an area that includes the Arab States and Israel, not Israel and a small number of Arab countries.

6. The new Middle East which all parties are trying to build up is not simply a political condition and a utopian vision. It is an economic, social, cultural and human structure and involves a constant movement of people, wealth, science, technology, thought and creativity. It implies a new life for the region, and herein lies the significance of the successful handling of the era of peace. However, it should be said that this has been approached only within the narrowest limits, while the peace process itself has been slow to penetrate into the roots and major parameters of the conflict.

III. REGIONAL CHANGES

Developments have almost come to a standstill on the inter-Arab track. Rather, the focus has been on Arab-Israeli connections in the areas of politics and public relations; there has been no genuine reinforcement of the pan-Arab structure or of inter-Arab economic and political relations, even between those countries with similar orientations.

Some Arab markets are still closed to other Arabs. Inter-Arab collaboration is marginal; inter-Arab trade hardly exceeds 7% of the total international Arab trade, and bilateral cooperation is negligible. Open borders, tourism, joint projects and all that is conducive to a close-knit region are in a state of suspension, awaiting an outside party to address the region's problem issues and reorganize its economic, cultural, political, commercial and tourist relations.

Undoubtedly, if the Arab countries do not act harmoniously, first with one another and then with non-Arab countries, the outcome of the peace process and the regional developments resulting therefrom may not meet Arab expectations. To state it openly, the countries of the Arab region, in terms both of governments and of institutions, are suffering from an internal conflict that oscillates between the old attitude based on each Arab country pursuing an individualistic course and disengaging from any collective commitment on the one hand, and opening up to the future on the other hand with all the required obligation that this would imply towards the new region and international order, as well as towards legislation, government, decision-making, trade, sovereignty and national security and, finally, towards peaceful coexistence among countries and peoples.

The future developments that the era of peace will bring along as a part of the general context of the international order will not be centred on bilateral relations only. Rather, the point of reference here is a regional structure of an area consisting of several States, which in turn should have equal roles to play, that is, the most administratively and economically advanced country should not be given the opportunity to turn itself into the central axis around which other countries would be revolving.

If future developments move in the right direction, towards building a coherent regional system, there is likely to be a reduction in the role of the regime in its oriental sense (that is, the regime having everything under its control). Instead, owing to socio-economic and infrastructure interrelations, a larger role would be given to the different constituent countries and institutions. These changes will encompass numerous new concepts and structures that will have to be accepted, not through passive docility and submission, but as facts of contemporary international life with which we have to positively and actively coexist in order to maximize our gains and minimize our losses. We have to prepare ourselves for such changes not only by resigning ourselves to them but also by creating and developing the ideas, instruments and mechanisms required for making them an integral part of national and regional action.

Hence, building up the economic potential of the country through its free integration and interaction with the region, and not through individualized aid given to it, is a major transformation that needs to be achieved. If it were successfully carried out, it would constitute a national as well as a pan-Arab gain.

This entails, through international and regional obligations, a readiness for programmed opening of the borders to goods, services, capital, labour and investment without scrutinizing the commodity's or capital's identity. Such an orientation may serve inter-Arab relations even if it did not come about via inter-Arab agreements. Moreover, this transformation means replacing the governmental role of controlling economic decisions with a meaningful role for regional non-governmental councils and organizations that embrace various economic activities.

A transformation of this type requires a culture of coexistence rather than clashing. This does not mean dissolution or termination of local or national culture; nor does it mean relinquishing creativity in economic and technological thought with a view to achieving excellence.

Such a transformation would also involve no longer basing national security on the State's regulatory power but on the security of society and the capability to achieve economic and social objectives within a strong framework of democracy, pluralism and freedom. To be sure, the presence of any country and its continued existence within the region will be subject to its ability to remain an active economic component of the region. Of vital importance here are commodity production, services, growth and investment, and not the political aspect alone. The Arab region has already wasted half a century of relations governed by short-term policies and superficial, vacillating action; the existence of one strong party in the region and the absence of international polarizations will mean that small-scale politicking will definitely lead to loss.

Taken within their socio-economic and socio-political contexts, these transformations are highly risky and complicated. To effect them smoothly will require the highest degree of readiness and organized work. Otherwise, they may result in a Middle East more disturbed and unstable

than it was before the peace process. The crucial point of these developments may be that they are not developments emanating from one party against another—except in so far as this latter party (that is, the Arabs) is heedless of or unprepared for what is going on, being preoccupied with insignificant marginal matters. In this respect one important fact should be emphasized, namely that any party with a passive attitude towards history will view all these developments as negative: the Arab side might see the developments as undermining the national and local ego and bent on the usurpation of undeveloped potential and plunder of the economic resources of the area; the Israeli side might see that developments are aiming at the destruction and dissolution of Israel. Meanwhile, with a positive attitude towards history, these developments will be seen as an opportunity for a fruitful onslaught against the future, with the intended objectives achieved in the end. But the crux of the matter lies not only in the stand taken, but also in the mechanisms, means, programmes and political administration used to achieve such aims.

IV. ECONOMIC CHANGES

Unlike all that has been observed in the decades since World War I, and the resulting present configuration of the Middle East, the 1990s and the era of peace have brought with them two politico-economically serious problems that have affected Jordan more profoundly than other countries, since the extensive international and regional aid on the one hand and the Government's civil and military expenditure on the other hand have constituted a basic feature of the national economy since the foundation of the State in 1921.

Problem 1: The collapse of the USSR and the socialist bloc and the disappearance of international polarization with its economic, political, financial, cultural and ideological dimensions, which has broken down certain types of international barriers and which has called off all bets on unrealistic, utopian economic experiments of that bloc.

Problem 2: The second Gulf war and the conclusion of the Egyptian-Israeli and Palestinian-Jordanian-Israeli peace accords and

treaties, and the resulting disappearance of regional polarization as represented by the military, ideological, political, economic and cultural aspects of the Arab-Israeli conflict, and the tremendous economic resources this consumed. This is on one side, and on the other side is the break-up of the economic, military and political structure of Iraq—the country which, together with Iran and Egypt (whose polarization capacities were eliminated through different means), represented a key country in the region.

Intensive efforts at the international, regional and national levels were exerted with the aim of achieving peace. It is the first time in which the political process represented by peace in the Middle East was linked to sectors, projects and activities covering the different sectors of the economy including agriculture, industry, trade, environment, water, energy, infrastructure and tourism.

In Jordan and Palestine, high hopes were pinned in Jordan and Palestine on quick economic prosperity coming with peace, and frustration now prevails as time elapses without any positive tangible economic results—more than four years since the start of negotiations in Madrid, three years since Oslo and two years since Wadi Araba.

There was a general (but not realistically founded) expectation that funds, aid and investment would flow copiously into the region, particularly into Jordan and Palestine, thereby demonstrating the results of peace as desired by the people and preached by some politicians and media people and as hinted at by the industrialized countries. This has yet to materialize. In reality, the era of peace has created, internationally and regionally, a rather strange geopolitical, geoeconomic and geofinancial condition essentially based on a "redistribution" of capital and the economy in a manner that was neither calculated nor expected. This was owing to a change of both players and beneficiaries, and to the fast progress on the political track without needing to pay in advance any economic or financial dues.

Besides this, the disintegration of the Soviet Union diverted large sums of money from the major industrialized powers to the countries of

the former socialist bloc. Because of the formidable size of these, an extremely large amount of European and American funds, effort and attention was called for.

On the other hand, the end of international polarization has made the case for international aid and assistance less compelling to the donor countries. At another level, the peace era itself has removed regional polarization and the remittances associated with it, thereby weakening the justification for financial assistance that was based upon political considerations for purposes of maintaining regional balances. Furthermore, the disappearance of regional polarization, coupled with the consolidation of the peace process, and accompanied by an international trend towards the removal of barriers and the termination of boycotts, means that decisions concerned with monetary and investment flows are now made on the basis of economic considerations rather than political orientations. Consequently, the country more attractive to investors has become the one that is nearer to their hearts, pockets and projects. In this context, it may be mentioned that the transformation of the Palestinian entity into a State means that its economy requires complete rehabilitation, and this has caused the best part of assistance to be directed towards Palestine to revive an economic structure ruined by Israel during 30 years of occupation. In addition, the rise of a Palestinian State would create new investment opportunities—on a larger scale than was previously anticipated—especially in infrastructure and small and intermediate industries. The stability of the Palestinian State is completely linked to the speed and the soundness of rehabilitation as well as to the availability of the needed funds. However, the funds of the Great Powers are limited and are far below the levels expected; offers do not exceed tens of millions of dollars, while there had been talk about amounts in the hundreds or thousands of millions.

The Palestinian issue, which is a common factor in the economies of Palestine, Jordan and Israel, greatly affects and is affected by the political, legal, financial and administrative transformations, owing to overlapping Palestinian and Israeli economies and to the fact that the former is a captive of the latter. Many foreign investors are thus enticed

to enter the region's economy through the Israeli economy, which boasts all the political, technological, administrative and financial appurtenances of the advanced, industrialized economies. If this situation persists, the wide gap between the three economies will remain as it is, given that Israel continues to tighten its control over the Palestinian economy.

At still another level, the second Gulf war has eaten up a very large part of the region's funds, a situation from which Jordan is still severely suffering. Inter-Arab relations meanwhile are plagued by vacillation, polarization and division and continue to face numerous economic and commercial encroachments, which makes it very difficult to derive any benefit from the Arab market. This in turn adversely affects countries with a small market such as Jordan, which very much suffers from the narrowness of the natural markets surrounding it.

What is highly significant is that throughout the last 50 years, despite the signing of dozens of agreements and protocols and the establishment of numerous Arab councils and organizations, no Arab countries, not even a pair of Arab countries, have managed to develop a stable and growing economic relationship. This is due to obvious political and institutional reasons, but also to important economic reasons that may be summarized as follows.

Weak economies suffer by their very nature from limited potential and lack of flexibility and are subjected to fear and hesitation as well as to the restrictions imposed by local administrations and policies. Therefore they are completely submissive to political pressure and fluctuations, a situation not to be found in advanced economies.

This fact should be examined at length by intellectuals, politicians and economists interested in the future of Arab politics, particularly as this relates to Arab unity. The actual economic growth of each Arab country is a growth of its political capacities and a means of protection against whimsical political change, a not uncommon feature in the region's landscape. Hence the pivotal role of any country is defined by the strength of its economic lever. Therefore no one expects—especially now that the age of ideologies has come to an end—that a group of States

could be led by one which depends on aid, which casts about for economic assistance or which fails to activate its social, economic, scientific and technological potentials. And what is leadership in this day and age if it does not specifically comprise these things?

This applies to the region as a whole, for the Arab area, even with the new peace situation, is still fragile and insignificant because of its small economic potential, as the total Arab GNP does not exceed \$500 billion compared with \$1,000 billion for Italy and \$4,000 billion for Japan. With the exception of oil, which is governed by a medley of international policies and strategies, we notice that the area as a whole is very poor in terms of production, interrelations and commercial and capital exchange. It is no more than a mosaic that can be assembled and disassembled almost without any leverage or impact on the international economy.

V. MUTUAL RELATIONS

Looking at the Jordan-Palestine-Israel triangle, we will find that the three countries qualify for a certain type of mutual relations that differ from the possible future state of relations between, for example, Israel and Lebanon, Israel and Syria, Israel and Egypt or Israel and Saudi Arabia, for there are elements of interrelation or linkage, partnership or conflict that will make an examination of the future of such a relation a very complicated but at the same time exciting task. If we start from a static situation representing the present moment, we may refer to the following parameters:

1. The "Palestinian issue" constitutes a common, multidimensional problem in Jordan, Palestine and Israel, including 1948 Palestine. This is a lively and mobile subject in politics, economy and culture which profoundly affects the future of the three countries. And this effect will last until the relation is stabilized and consolidated in a constant, balanced and durable way.

2. The strategic depth of the three countries may be regarded as reciprocal and interdependent, not least in geography, demography, markets, capital and skilled labour. It should be remembered, moreover, that none of the three countries could rest assured that it can create another strategic depth for itself in the region where it can achieve consolidation, commitment and effectiveness.

3. These three countries share basic natural resources that are limited or overlapping or that by nature call for integration, interdependence and cooperation. We mean by this the land, water (including the Dead Sea), environment, energy, arid areas, seashore, land passages, holy places, air space and tourist markets. At the same time there are contradictions and differences of crucial economic significance with regard to the relation that may develop among the three countries, such as the following:

(a) The three economies are neither close to one another nor balanced. The Israeli economy is highly advanced (\$70 billion as against \$6 billion in Jordan and \$3 billion in Palestine).

(b) The Israeli economy is an industrialized, technology-based economy, compared with the agrarian or rudimentary industrial and service economies in Jordan and Palestine.

(c) The unemployment rate amounts to 40% in Palestine and 17% in Jordan, while in Israel it is approximately 9%.

(d) The Israeli economy is linked with international economies in Europe and the United States and enjoys strong financial leverage and marketing relations in contrast to the mediocre status of the Jordanian and Palestinian economies.

(e) Science and technology inputs in the Israeli economy are strong and favourably compare with many industrialized European countries. Such inputs enjoy the support of strong local, bilateral and international institutions and investments, while science and technology inputs in the Jordanian and Palestinian economies are highly limited, with investment in this field being extremely marginal (see tables 1 and 2).

Table 1. Science and technology indicators

	Jordan	Palestine	Israel
Science and technology expenditure	\$6 million	--	\$1100 million
Military industries	--	--	Advanced machinery and electronics
No. of scientists per 1000 population	0.1	0.05	4.4

Table 2. Cultural and social indicators

	Jordan	Palestine	Israel
Illiteracy	20%	35%	5%
Female participation in labour force	11%	9%	34%
Dependence rate	23%	21%	42%
Natural increase in population	3.4%	3.4%	2.7%
Life expectancy	70 years	60 years*	77 years
Population (millions)	4 (1995)	1.7 (1992)	5.2 (1992)

* Estimated.

(f) Both the Israeli and Jordanian economies need additional (expatriate) labour, currently estimated at about half a million people (220,000 in Jordan and 280,000 in Israel); the Palestinian labour force could cover a considerable part of this need.

(g) The high wages in Israel are in contrast to the relatively low-paid labour force in Jordan and Palestine, which needs rehabilitation and

qualification and whose qualitative and quantitative productivity needs to be quadrupled in comparison with the present level.

In retrospect, we observe that Jordanian-Palestinian relations enjoyed a complementarity until 1967, thanks to the unification of the two banks of the Jordan River. With the advent of the Israeli occupation, however, the Palestinian economy was completely severed from the Jordanian economy and from Arab economies in general. Relations between Jordan and Palestine have been confined to three major elements:

(a) Palestinian exports to and via Jordan, these being agricultural exports for the most part.

(b) Labour force and expertise, which usually moved from Palestine into Jordan.

(c) Capital investments in Jordan and Palestine by expatriates working in the Gulf countries.

VI. THE POLITICAL DECISION AND FUTURE RELATIONS

Before analysing the types of economic relations that may develop between the three States within a framework of either *rapprochement* or estrangement to which we referred above, it is necessary to address the issue of political decision; for any scenario of economic relations will be the outcome of a political scenario. However, it should be noted that the present economic reality cannot impose any political scenario similar to that in European relations, for three reasons:

1. Israel's political, military and economic supremacy always causes it—even drives it—to base its stand on purely political reasons, regardless of the economic impact on its partners in the region.

2. The weakness of the Jordanian and Palestinian economies *vis-à-vis* the Israeli economy encourages Israel, with the unfailing support of its friends, to exploit this to its own advantage, so that it may be the central power in the region.

3. Except for the dependence of Palestinians upon the Israeli economy, there are, so far, no real common economic achievements or relations that enjoy freedom of movement, work or strong effectiveness.

In this respect two main issues have to be referred to, a regional issue and an international issue.

A. THE REGIONAL ISSUE

It is true that Jordan, Palestine and Egypt have each signed a peace treaty and peace agreements with Israel, but this has not produced a firmly founded socio-economic reality so far. Policy must be considered not only in terms of its strategic and general contexts, but also in terms of its partialities and short-term tactics and decisions—and many of the phased or daily political decisions are sufficient to foil the socio-political dimension of the peace-building process and jeopardize peace or at least create a situation where each step forward is countered by another step backward. Consequently, a type of stalemate would result, and the economic, social and cultural basis of peace would be thwarted, even if the general context tended towards building up a new and promising Middle East.

Thus, if Israel wishes, for example, to overreact in a limitless and irrational manner, as it has done in Palestine after Hamas operations, or in Lebanon subsequent to Hizbullah operations, the opportunity for forging serious economic ties between Israel and Palestine or Israel and Jordan will be slim and unstable and will have to start from scratch after every new event. This having to start from scratch reflects not only on the psychological and political sides; the investor in Jordan and Palestine will also be affected by daily incidents that shake his confidence in the future of the region, and thus the sufferings of both the Jordanian and Palestinian economies can be expected to continue.

Starting from scratch will also have effects in economic terms, since rash Israeli reactions serve to undermine the economies of its neighbours, particularly that of Palestine, and chip away at the accomplishments

achieved during the quieter periods. The direct and indirect costs to the Palestinian economy of the economic closure of the West Bank and Gaza Strip, for example, are estimated at about \$10 million daily.

B. THE INTERNATIONAL ISSUE

In contrast to the expectations they generated at the beginning of the peace process, the industrialized countries have greatly changed their stand with regard to their role and responsibility towards peace and towards establishing a new state of affairs in the region. These countries made a serious start in activating multilateral negotiations and laying the groundwork for the various tracks to include refugees, water, environment, economic development, tourism and security; they also talked about allocating hundreds of millions of dollars for this purpose. Now, however, everything seems to have receded and faded since the signing of the agreements, so much so, that the aforesaid promises and pledges are rarely mentioned now. It is expected that multilateral negotiations and the joint responsibility of the international community towards making a material contribution to peace-building will die away.

The mistake that could be made here is that the international community will be content with the signing of peace treaties and accords and that the socio-economic side will be abandoned with all its implications of poverty, unemployment and tremendous social gaps and standard-of-living disparities between the conflicting or reconciled parties. In this case, the region would enter into a new type of trouble that could lead to continuous tension resulting from extremism caused by poverty. This will mean that there is no peace or economic cooperation.

In the light of all this, there are three political scenarios which may give rise to three corresponding economic scenarios as follows: radicalism; hegemony; or equality, or equivalence. These are detailed below.

1. *The radicalism scenario*

Although the term *radicalism* is generally used to refer to extremist political or religious parties or movements, it may also be applied to the State, which may overreact in its dealing with events. When the State is extremist or radical in its reactions, it creates and incites further extremism on the part of different political movements. In its political aspect, this scenario is demonstrated by Israel's forgetting or ignoring the possibility that radical Arab or Israeli political movements may commit unwarranted acts of violence. In such a case, Israel will resort to an extreme response based on excessive retaliation that leaves behind civilian as well as military casualties or which may be carried out for domestic political purposes having to do with elections or traditional rivalries among parties or leaders. Following is a summary of the economic relations that may develop under such a policy:

1. The Palestinian economy will suffer from a continuous process of destruction, making it incapable of growth. It will also suffer heavy losses as a result of border closures or banning workers from making their daily commute. Public services will be disrupted as well. This will make Palestine weaker and will widen the gap separating it from the Israeli economy.
2. Local investors in Palestine and Jordan and the foreign investor in either will feel that the region is insecure and that business there cannot be conducted smoothly and that therefore, the time has not come to invest in either country. Furthermore, the radicalism scenario will adversely affect major projects, particularly those pertaining to infrastructure, which is more vulnerable to the effects of closure.
3. When investors are loathe to invest, the problem of unemployment and poverty, especially in Palestine, will be exacerbated, providing a fertile ground for violence and extremism, leading thereby to adverse economic and social impacts on the peace process.

4. Within the scenario of radicalism, any serious movement towards joint tripartite projects will be fraught with obstacles and difficulties. The three countries will go on squandering their resources in the same manner that is currently taking place. Some resources, such as water, are bordering on crisis. As a result of all these things, the radicalism scenario will make it impossible to cope with the crisis in due time. Such a situation is likely to drag the three countries into new conflicts or disputes that will constitute a real obstacle to the growth of national economies in countries with limited resource bases.

In sum, a radicalist political scenario will be conducive to economic destruction and disruption which will truly endanger the entire peace process. This would serve no one's interests, even those of Israel.

2. Hegemony scenario

During the past five decades, Israel followed a triaxial strategy based on military, economic and technological supremacy and has now become a technologically and economically advanced country. Israel's military superiority during the past half century has driven it to expand at the expense of other people's rights and territory, and there is a likelihood that its economic and technological superiority may motivate it to adopt a strategy of economic hegemony. There are a number of factors that may tempt Israel to adopt such an orientation, but we will refer only to the following:

(a) The huge size of the Israeli economy compared with Arab economies, particularly those of Palestine and Jordan (see table 3).

(b) The political, financial and economic relations enjoyed by Israel with the United States and Europe and the possibility of utilizing such relations for the realization of its desired strategy.

(c) The weakness of inter-Arab relations and the limited access of Jordanian and Palestinian products to Arab markets.

Table 3. Basic economic indicators

	Jordan	Palestine	Israel
Real economic growth	6.3% (1985-1994)	9.8% (1988-1992)	2.5% (1985-1994)
Per capita GNP	\$1,390 (1994)	\$1,640 (1991)	\$14,400 (1994)
Unemployment	5%-18%	35%-50%	Below 11%
Indebtedness	150% of national income	--	Less than 50% of national income
Inflation	7%-17%	20%	22%
Foreign investment	Modest (tens of millions)	--	Hundreds of millions
General economic situation	Stagnation	Crisis	Good
Manufacturing industries	15% (1992)	8.5% (1992)	22% of the product (1992)
Capital formation of manufacturing industries (per capita)	\$165, industry \$79, agriculture (1991/92)	\$110, industry \$204, agriculture (1991/92)	\$2,788 industry \$417, agriculture (1991/92)

(d) The technology, scientific research and partnership agreements which Israel has with the United States, the European Community, Germany, France and Japan, which tempt Israel to use them as a basis to promote its strategy of hegemony.

This scenario may not be the stated political platform of any leader or party, but it should be accorded due attention for the following material and objective reasons:

(a) The productive capacity of the Israeli economy and institutions is too large to be satiated through modest economic strategies.

(b) When entering into partnership with a weaker party, the more formidable economic capacity tends, in the nature of things, to become predominant, if not intentionally, at least through the dynamism of events and relations.

A basic objective fact is noteworthy here: namely that the hegemony scenario can neither be realized nor operative unilaterally. Rather, its success depends on what is done by each of the three parties. The challenge facing the two lesser economies in the triangle, therefore, is how they can move and interact so as not to become a part of the hegemony scenario, and so that this scenario may gradually change into the third scenario of equivalence.

To view the subject from the conspiracy theory perspective and consequently to adopt an attitude of either complete surrender or complete rejection would lead to the success of the hegemony scenario, as this scenario is as much a mental state or a political or ethical stand as it is an active dynamism whose contexts, circumstances and justifications are the outcome of the participation of three parties or the failure of one or more of them to participate.

This means that the hegemony scenario is not a predestined fate, an automatic process, or a political decision, but rather the outcome of a socio-economic dialectic between the three countries. The importance of this observation in this context rises from the assumption that the hegemony scenario may be changed, revoked or modified through the following three approaches:

(a) *Proceeding quickly to build up the economic capacity of both Jordan and Palestine via clearly defined national economic programmes.* Such programmes will in fact be the real battle for peace.

(b) *Jordanian-Palestinian cooperation through serious practical programmes far removed from short-term tactics that would deprive both countries of the opportunities to benefit from common positive factors and from the elements of complementarity that exist between the two people and which were severed by the Israeli occupation.* To continue giving preference to political slogans over socio-economic work would heighten the fragility of both economies and place them in a situation where they compete against each other. This would feed the hegemony dynamic, playing into the hands of Israel.

(c) *Emphasizing the Arab economic depth by reprogramming inter-Arab economic and trade relations on new bases and by adopting an open future-oriented vision.* There is no doubt that the success which can be achieved in this field does not depend only on Jordan and Palestine but on the experiences of the Arab countries and their readiness to visualize a future free of the traditional political complexes, delusive rivalries and determined pursuit of short-term interests. This vision for the future also needs to be free of the complex of rejection and resentment that always contributed so greatly to the disintegration of Arab economic interconnections, mediocre and frail as they have always been. The economic dimensions and parameters of the Arab depth cannot be overemphasized (see tables 1, 2 and 3).

Table 4. The human development index in selected countries, 1994

Country	Human development index	Rank among other countries
Israel		19
Jordan	58.2	99
Palestine*	52.0	115
Syria	69.4	81
Egypt	38.9	124
Tunisia	60.0	93
Lebanon	56.5	102
Morocco	43.3	119

Source: United Nations Development Programme, *Human Development Report 1995* (New York: Oxford University Press, 1995).

* Estimated figures.

Transformation from the hegemony to the equivalence scenario would be an extremely difficult and complicated process requiring unconventional and unpoliticized work methods emanating from a creative and practical economic thinking which is not haunted by fear or misgivings.

The danger lies in the possibility of Arab States being dragged into political tactics at the expense of building up a strong and productive economy, effective joint institutions and special agreements drawn up by experts. But if the Arab States continue to follow the same futile political manoeuvres they have during the last 50 years, the hegemony scenario will become an accomplished fact.

Table 5. Basic indicators of human capital formation for a number of countries

Country	Literacy		Per 1000 population		Higher education	Graduates of scientific and technical colleges (%)
	Adults	Minors	Scientists and technicians	Research scientists		
Jordan	80	97	--	1.3	5.6	25
Lebanon	73	93	8.5	--	--	43
Tunisia	65	95	1.4	--	0.9	36
Syria	65	82	3.6	--	0.4	33
Malaysia	78	94	--	0.400	1.4	28
Singapore	--	--	23.6	18.7	5.8	53
Cyprus	--	--	61.6	0.200	--	21
Israel	--	--	0.76	59	5.1	32
World	--	--	22.2	12.2	3.7	30
Industrialized countries	--	--	81	40.5	9.4	35

The Israeli occupation of the last 30 years has almost completely destroyed the infrastructure of the Palestinian economy. To rebuild this infrastructure is a *sine qua non* for the recovery of the Palestinian economy and for providing it with a real opportunity to grow, but in this respect the following questions will crop up: What will be the cost of the infrastructure to be rebuilt? Where can the billions of dollars required for this purpose be obtained? How long will the reconstruction actually take? What is the optimum economic form and size of the infrastructure? On the other hand, can the Palestinian decision-maker view Jordan and its infrastructure as a positive and complementary substitute for the Palestinian infrastructure, especially as interlocked geography and demography make this complementarity and interchange natural? Can an

economy mindset prevail over a politics mindset? Is it possible to divert hundreds of millions of dollars from being spent on an infrastructure of whatever form or shape that will eventually be only a replica of one which is a mere 50 or 100 kilometres away, and spend this amount instead on income-generating productive processes and/or turn it into incentives for investors to develop expertise and skills?

Table 6. The gap between selected developing and industrialized countries (South-North gap)

Country	Per capita GDP		Relative progress	Relative rate to bridge the gap
	Percentage of North, 1960	Percentage of North, 1990		
Jordan	24	16	-8%	-0.27
Syria	26	33	+7%	0.23
Tunisia	18	25	+7%	0.23
Lebanon	-	-	-	-
Cyprus	36	69	+33%	1.1
Malaysia	23	43	+20%	0.66%
Singapore	33	100+	+67%	2.2%
Israel*	40	10	+40%	1.3%
World	-	-	-	-
Industrialized countries	100	100	-	-

* Estimate

It is true that industrialized countries have sung the praises of many infrastructure projects in the region. But it is extremely doubtful that industrialized countries will finance such projects early enough and within a short enough time period without recognizing an actual economic feasibility. Income-generating projects are undoubtedly the backbone of any economic growth, but the role of the infrastructure to serve such projects must not be ignored. In any event, the difficult circumstances by which the Palestinian economy is so sorely pressed mean that, at first, those who are working to build up the economy will have to make do with what is available.

Thus Jordanian-Palestinian collaboration, with all its positive elements on both sides, would be the most convenient course to take. It is the right path for developing a new economic reality capable of facing hegemony. The economic sectors in which mutual cooperation could be enhanced cover virtually every sector.

The future of the economy is linked with the activity of the private sector and the historical, geographical, social, cultural and legislative conditions of the two countries provide an appropriate framework for fruitful partnership, joint investment and collaborative work.

3. *The equivalence scenario*

The equivalence scenario may be regarded as the most humanitarian, realistic and appropriate for promotional and public relations purposes, besides being the most responsive to the aspirations of idealist politicians, thinkers and genuine supporters of and believers in peace. However, this scenario would be the most difficult and complicated at its early stages, owing to the changes which it requires. For one thing, political and ideological changes would need to be made by all parties. For example, each party should institutionally, legally, politically, economically and culturally accept the other as enjoying full rights to freedom, sovereignty and independence without any circumlocution, equivocation and evasiveness, and without resorting to force or to attempts to impose or create a *fait accompli*.

The difficulty in this change lies primarily on the Israeli side, while Jordan, Palestine and other Arab countries have no problems in this respect. There are also economic changes implied in any attempt to establish a coherent economic bloc, as the three States directly involved have some aspects in which they widely differ and others in which they are mutually integrative. The crucial problem here is how the two lesser economies can catch up with the major one without becoming a part of its sphere of influence, and whether the major economy can help the other two grow, as the sequels of any economic disorders in the latter will have political and social complications that will impinge profoundly on the stronger economy.

The model or ideal relation of the complementarity scenario is to establish a bloc similar to the Benelux and which would include Jordan, Palestine and Israel. But the prerequisite for the successful realization of this scenario is that Israel hasten to recognize the Palestinian State, with its full rights and independence, and to accept it as a State to be treated on equal terms and on the basis of mutual interests and not through blackmail or hostage-taking, as is the case at present.

A Benelux type of relation would provide a significant mechanism for resolving the problems of resources and population in Palestine, Israel and Jordan. The resources and population equation in the three countries indicates a tremendous disequilibrium during the coming few years, to the extent that none of them will be able to find a solution for the problem alone or in isolation from the Arab depth. This scenario requires the following:

(a) A final and fixed demarcation of the political frontiers of each party, with a complete, political and unequivocal political recognition of these at the local, regional and international levels.

(b) The opening of the borders to the flow of the three main factors of production—capital, labour and technology.

(c) A political decision to resolve all outstanding issues, including the problems of refugees and displaced persons and the removal of unwarranted social or economic congestion and tensions, and putting an end to the policy of destruction and the practice of allowing opportunities to be lost.

Owing to the great disparity in the size of the economies involved, it is necessary to draw up a schedule, extending perhaps to ten years, over which period an effective and permanent relation of equivalence could be established. We think that it is mandatory to exert an intensive, unrelenting and deliberate effort as was done at the early phases of the European Common Market. This must be done through permanent joint institutions working to harmonize the three economies with one another.

within a suitable political atmosphere. There are obvious common fields where partnership can be forged and which can be started early enough if the first and third conditions listed above are fulfilled (i.e. final and fixed demarcation of political frontiers and a political decision to settle all outstanding issues). Following is a list of the common fields:

- (a) The flow of Palestinian labour into Israel, without linking such flow to extremist actions.
- (b) The development of agriculture in the arid areas through advanced agricultural technology (establishment of an advanced centre in Jordan for this purpose).
- (c) Joint water projects (desalination of sea water and water recycling).
- (d) Joint energy projects (power networks), power stations, oil pipelines and natural gas lines. If networks in Jordan and Israel were linked together, Palestine could postpone the installation of its own electric power system until a later stage and thereby save hundreds of millions of dollars for investment.
- (e) The establishment of an industrial tier or belt in the Jordan Valley after the problem of water has been resolved, with labour and capital contributed by the three countries. Demographic contacts should be kept to a minimum at the early stages.
- (f) Joint projects at the Dead Sea, an especially opportune area, as the three countries share the shores of this lake.
- (g) The establishment of a network of scientific and technological research centres to serve the three countries.

To deal at length with the items of this scenario would fill a great deal of space and take a long time and would be visionary in the extreme. We therefore have to content ourselves with what has been said above. The problem is that the equivalence scenario is highly sensitive to the

political scenario and to how each party views its own political future in relation to the other two and to the Arab region as a whole. This issue has not yet been settled as far as Israel is concerned.

The future may hold new things, but the ideal situation which we aspire to in the region is something similar to the European Union. Will this be attainable within the foreseeable future?

Commentary

Dr. Fahd al-Fanek

The author of this paper, Dr. Ibrahim Badran is an authority on the economy of the era of peace. He is an economist, an energy expert, a political scientist, a research and a peace process coordinator on the Jordanian side, and therefore we might expect him to paint a clear picture of the present situation as well as the possibilities of the future. But the information and impressions with which he has provided us have left us rather confused. Perhaps because the topic he has dealt with is too complicated and ramified to comprehend and master so fast, it is not surprising that hearing his paper presented is more fruitful than reading it.

His introduction revolves around the weakness, crisis and recession of the Jordanian economy during the period 1985-1991, with this reality forming the background for the peace process. Here it seems that the author is suggesting that Jordan dashed off towards peace under the pressure of its economic crisis. If it is true that peace is the way out of the economic predicament, one may think that the Jordanian economy has been driven to a critical point to facilitate the country's involvement in the peace process in accordance with the conspiracy theory.

The paper listed the causes of economic recession in Jordan and included the first Gulf war and the Lebanese civil war among these causes. In fact, the Jordanian economy did not suffer but benefited from these two wars. He also says that the Jordanian Government had to devalue the dinar's exchange rate in the last half of 1988. As a matter of fact the Government was obstinately against devaluation which dictated itself to the market when the Central Bank of Jordan closed the foreign currency window after it spent the last dollar in its coffers to defend the dinar.

In enumerating the causes of the economic crisis and recession, the author, for some reason, did not say anything about the mismanagement of the national economy during the 15 years from 1973 to 1988, including

the topic of internal as well as external indebtedness, let alone the spread of corruption.

In addition he has used showy titles and headings whose implications and details are difficult to explain satisfactorily, such as "The macro-political dimension of the era of peace", "The macro-administrative dimension of the era of peace", "Regional changes" and so forth. Under each title he has submitted ideas, with some of these being in the form of facts and figures, others impressions and still others transcendental things or hidden secrets.

Very often Dr. Badran started from assumptions or statements which he regarded to be axiomatic when in fact they are controversial. He says that "the Middle East which all parties are trying to build up is an economic, social, cultural and human structure." In reality, the New Middle East as an utopian economic and social project is one of Peres's ideas and is not shared by most Arabs. It is even ridiculed in Israel itself.

In this respect—and after 17 years after the signing of the Israeli-Egyptian peace treaty, two years since the signing of the Jordanian-Israeli peace treaty and the Israeli-Palestinian agreement and two years after the official termination of the state of war—will the map of the region change? The alleged Arab-Israeli conflict was a really a conflict on paper 99% of the time. The new Arab-Israeli peace is also a peace on paper. It did terminate a war and has not changed anything on the ground. So far, we in Jordan have not felt that any substantial thing in our daily life has changed for the better or for the worse as a result of the peace process.

I will pause at the essential part of Dr. Badran's paper, that is, the three scenarios: the radicalism or extremism scenario (meaning the extremism of Islamic organizations and the Israeli State); the hegemony scenario, in which Israel would dominate the region in economic terms, because its economy is many times larger than the Jordanian and Palestinian economies put together. Here, the size of the economy is confused with its strength or weakness. The third scenario, the scenario of equivalence, involves mutual respect and equitable dealings.

Naturally, the weak party tends to choose the equivalence scenario. But practical facts and reality will impose themselves. If Israel has the means to achieve hegemony, it is futile to try to convince the Israelis to voluntarily abandon hegemony, and if Israel can behave in an extremist way unstopped by anyone, it will be impossible to convince the Israelis to be moderate.

This being the case, why should we be calling for a new Middle East that will only come about under Israel's leadership, or why should we talk about a tripartite "Benelux" governed by hegemony, particularly when we have an alternative, which is Eruo-Mediterranean partnership?

Peace is a strategic option in which we have a stake. It is peace with normal relations that do not necessarily have to develop into love. There are many countries in the world, and Israel is simply one of them.

A PALESTINIAN PERSPECTIVE ON FUTURE ECONOMIC RELATIONS AMONG JORDAN, PALESTINE AND ISRAEL

Dr. Adel Zagah

Introduction

This paper aims at presenting a Palestinian perspective of future economic relations among the parties to what is termed the Middle Eastern Triangle States, comprising Jordan, Palestine and Israel. The attempt to set forth a visualization of this future arises from the desire to know the possible gains or losses of the form that the economic relations between these three entities will finally take. It seems that there are great fears with regard to this topic among Arab parties of different intellectual and political stripes. But what is taken for granted now is that to discuss the subject is no longer a taboo. Unfortunately, Arab approaches are not coordinated, nor are they based on an Arab strategy in the national sense of the word. It seems that the advent of Israel as a party in this equation has given it a new relative advantage in its relations with its Arab neighbours, for it has become the greatest common denominator.

To offer a conceptualization of the future of economic relations between the Middle Eastern Triangle States may give rise to a number of questions that a researcher must deal with regardless of his philosophical or political viewpoint or national affiliation. In brief, the three questions are the following:

1. What is the present actual situation of the Jordanian, the Palestinian and the Israeli economies?
2. What type of economic relations are there between them?
3. How are these relations arranged at present?

An answer to these questions would provide us with an opportunity to understand the present situation of these countries and would certainly

constitute an important objective starting point for our discussion of the following, more significant questions in this context.

4. What is the Palestinian perspective of the future relations among the three countries?
5. What are the best arrangements to be made for attaining such a perspective?

The present paper is arranged as follows: the first part will deal with procedural matters and general observations, the second part discusses the actual economic situation of the Middle Eastern Triangle States, while the third part consists of the Palestinian perspective of these relations. The paper ends with conclusions and suggestions for Palestinian economic policy.

I. GENERAL REMARKS

To discuss the future is to discuss what the general state of affairs should be. This implies judgements, some of which are governed by the researcher's values and beliefs. We hope to be fortunate enough to appeal to reason and economic calculation rather than to emotions in this respect.

This problem is quite complicated and involved, as we are taking up a subject fraught with numerous doubts and risks, not the least of which are the Israeli parliamentary elections. Moreover, it is impossible to estimate the volume and composition of future trade among these countries if we only use the former trends of such commerce as a benchmark; a new commerce would come into existence after the borders were opened and political relations established among some or all of them.¹

¹ S. Hirsch, I. Ayal and G. Fishelson, "The Arab-Israeli trade potential: methodological considerations and examples", the Israeli Institute of Business Research (Tel Aviv University), Working Paper 7/95 (March 1995), p. 1.

Under the globalization of different economies and societies in the new world order, and in particular in the new division of international labour, the issue of economic survival and ability to adjust to the requirements of this system occupies a special place. This is true of all developmental discussion, not only at the level of the developing countries but also in the case of the advanced industrialized countries. This new variable, which has emerged in the aftermath of the cold war, makes it mandatory for developing countries in particular to revise their former developmental strategies in order to be able to find an economic corner for themselves within the new system of economic relations. The political economy of the Middle East peace process has certainly included such calculations. Although time limitations here do not allow us to discuss the international aspects, it is necessary to point out the most important trends that have accompanied this development:

1. Significant economic blocs have been formed and institutionalized. For the most part, these were built as an attempt to benefit from the large volume provided by the free-trade areas or customs unions of nation-States with various languages and religious, national and cultural orientations. Despite all such variations, these blocs try to safeguard their interests in their own local as well as international markets. The most important blocs are the North American Free Trade Association (NAFTA) which includes the United States, Canada and Mexico, the European Free Trade Association (EFTA) and the European Union (EU), which is also trying to establish monetary unity among Western European countries.

In this field, the Middle Eastern countries are still lagging behind international trends despite some pan-Arab or regional attempts. These have been unsuccessful in overcoming the marginality that characterizes inter-Arab trade relations as a whole or even that between the countries that have taken part in regional councils such as the Gulf Cooperation Council, the Arab Maghreb Union or the Arab Cooperation Council.

2. There is a growing tendency towards free trade at both the global and regional levels. Although this trend is faced with several local and international cases of opposition, the Uruguay Round of the General

Agreement on Tariffs and Trade (GATT), in which negotiations continued for over seven years, scored a significant victory against calls for trade protectionism. Agreement was reached on reducing the rates of customs tariffs to be imposed on all commodities (except oil) imported from developing countries by 30%, to reach 5% only.²

Although economic theory points to the possibilities of achieving economic gains as a result of trade liberalization, while at the same time avoiding social losses caused by customs fees and other barriers, this process will be accompanied by economic losses of a different type. These losses arise from two factors accompanying trade liberalization, i.e. trade creation and trade diversion. Producers who cannot swim with the current may simply go under, as trade liberalization implies more severe competition.

3. On both a regional and international scale, there is a considerable drop in the likelihood of labour export. In some countries, the Arab oil-producers among them, infrastructure has been completed and oil prices have come down. This drop in oil income means lower demand for foreign labour; and wherever necessary, expatriate Arab labour was replaced by South-East Asian workers, particularly after the second Gulf war. In Europe, the United States, Canada and Australia, the demand for foreign labour has shrunk (although in varying degrees), owing to the pressures of local unemployment in those countries. All these variables have led to further pressures on local labour markets in many countries of the region, with all the concomitant social problems, pressures on public finance and pressures on the balance of payments.³

² World Bank, *World Bank Policy Research Bulletin*, vol. 6, No. 1 (January-February 1995), p. 2. In spite of this, textiles and clothing continue to face serious customs barriers in the industrialized countries.

³ For more details, see World Bank, *A Regional Perspective on the World Development Report 1995: Will Conditions of Arab Workers Prosper in the 21st Century or Will They Miss the Train?*

4. Developmental experience in many developing countries shows that the policy of import substitution is no longer useful within the framework of economic international relations, since this policy entails heavy costs in comparison with the expected benefits. In fact, it has led to the rise of isolated industrial islands that have no front or back linkages with the local economy and which therefore cannot serve as a driving force behind economic growth. In addition, import substitution policies would face practical new difficulties because of the international trend towards economic liberalization.

5. Following all that has been said above, the realistic policy aimed at creating export-led economic growth would give encouragement to those industries that have high exporting potential, based on their competitiveness in international markets. A shift towards such policy requires suitable corrective and stabilizing measures in order to enable such industries to carve out the desired niches in the market.⁴

II. REGIONAL ECONOMIES: JORDAN, PALESTINE AND ISRAEL

To develop at a strategic concept of economic relations among the countries of the region requires an acquaintance with their respective economies and economic interrelations. Here we will give an overview of these.

A. JORDAN

During the period 1973-1984, Jordan enjoyed unprecedented growth, due to external factors. Owing to its geopolitical situation, Jordan was able to mobilize foreign assistance and loans and benefited from the remittances of Jordanians working abroad and from the country's exports to regional markets such as Iraq. This fast growth came to an end in the mid-1980s as a result of a sudden drop in oil prices and the consequent

⁴ Economic Research Forum for the Arab Countries, Iran and Turkey, *ERF Newsletter*, vol. 2, No. 4 (December 1995), p. 4.

slowdown in the growth of the region's economies. The rates of economic growth in Jordan greatly decreased, resulting in a crisis that started in 1986 which was accompanied by acute financial deficits in the country's foreign accounts. The Government had to yield to the increasing demands of the crisis in 1989; the foreign exchange rate was freed, the Jordanian dinar was devalued, austerity measures were imposed and the Government embarked on a wide range of structural reforms in the fields of trade and agriculture as well as in the public sector. Despite the outbreak of the second Gulf war in 1991, the Government went on with its programme of economic reform. According to the standards of the World Bank and the International Monetary Fund (IMF), this programme has made some achievements important enough to be described as successful.⁵ Rates of economic growth rose from 1.7% in 1990 to 11.3% in 1992 and 6% in 1993; this level has been maintained for the past two years. Inflation rates dropped to about 4%-5% per year during the period 1992-1994. Despite the large increase in the labour force, the rate of unemployment dropped from 25% in 1990 to 12%-15% during 1993-1994, but has risen to 20% at present. Some of the unemployed have found jobs in Israel, which have become available owing to Jordan's decision to establish relations with this country.

The financial deficit dropped from 18% of GDP in 1991 to about 7% in 1992 and to below 6% in 1994. This development reflects the effect of the economic growth in Jordan during the three years prior to 1995.

The current account deficit also shrunk, from about 17% of GDP in 1991 to nearly 6.5% in 1994. This improvement was due to the remittances by Jordanians working abroad and to the income generated by non-conventional industries, which rose at an annual rate of 14% during the period 1992-1994, over and above a resurgence in tourism returns.

All these positive developments led to a reduction in the balance-of-payments deficit during 1992 and 1993. In 1994, however, foreign

currency reserves suffered a setback owing to the doubts raised among the public about the likelihood of cancelling the circulation of the Jordanian dinar in the Palestinian National Authority territories; however, foreign reserves improved considerably in the latter half of 1994.

On the whole, the strategy of the Government tends now towards bolstering up the private sector and promoting exports, a move which is helping Jordan into a position where it could benefit from the new regional developments and trade opportunities.

The challenge that will face Jordan as the next century begins is to create a dynamic local economy less dependent on remittances from abroad. Because of the narrowness of the local market, it is necessary to have a development strategy that aims at greater integration with the international economy.

Within this framework, Jordan enjoys such advantages as an educated labour force, a relatively well-developed infrastructure (both physically and institutionally), a complex banking sector and an organized financial market. Figuring out how to attract the Jordanian savings that accumulated abroad during the period of prosperity (1975-1984) is one of the most important challenges facing Jordanian policy makers. At the same time, a high rate of public debt and the fragility of the general financial picture have worked to reduce likely investment flows.

B. PALESTINE

The Palestinian economy has unusual characteristics: the industrial base is extremely limited and does not exceed 8% of GDP; and the GDP structure is largely tilted towards services and the export of labour to Israel (before the security closure policy so enthusiastically adopted by Israel, which raised the unemployment rate to about 50% of the labour force in the West Bank and 70% in the Gaza Strip).

Like Jordan, Palestine depends heavily upon remittances from abroad to bolster GDP. Although the capital levels per worker are similar

⁵ IMF, *IMF Survey*, vol. 24, No. 14 (September 1995), pp. 289-291.

to those in Jordan, wage levels in Palestine are close to those in Israel. GDP in Palestine amounts to about \$2 billion, i.e., half of that of Jordan and 4% of that of Israel.

The West Bank and Gaza Strip witnessed high rates of economic growth from the 1960s until the mid-1980s, with real annual growth of 6%. This was due to the size of the comparatively large Israeli market, technology transfer and highly-paid job opportunities in the Israeli labour market. This growth, it must be noted, took place in spite of the extremely restrictive trade arrangements imposed by the Israeli occupation authorities throughout the period of occupation; industrial exports to Jordan were also placed under severe restrictions. Because of the constraints placed upon exports and because of the high wages earned by Palestinians working in Israel, it is not surprising that trade took the form of labour service exports. The proportion of workers in Israel coming from the West Bank and Gaza Strip amounted to 40% of the total Palestinian labour force, who earned much higher wages than those which they would have obtained in Jordan. And because the standards of living in the West Bank and Gaza Strip were generally lower than in Israel, the real wage growth was favourable.

It was inevitable that the Palestinian *intifadah*, the Israeli economic slump and the shrinkage in work opportunities in the Gulf countries, coupled with high population growth rates, would obstruct economic growth trends in Palestine and herald a period of severe recession. It may be said in this connection that the search for a solution to the Palestinian problem was positively affected by this period of recession.

In the final analysis, however, dependence on the Israeli economy constitutes the most significant characteristic of the Palestinian economy and has brought about various consequences:

1. Differences between the respective concepts of GNP and GDP are particularly important, as remittances of Palestinian workers in the Israeli market amounted to one fourth of income in the West Bank and one third in the Gaza Strip.

2. Palestinian foreign trade relies on Israel, the source of most Palestinian imports and the destination of the greater part of Palestinian exports was Israel. The remittances of the Palestinians working in Israel helped to meet the deficit of the Palestinian balance of trade with Israel.

Thus, allowing Palestinian labourers to work in Israel was a convenient and effective measure for all parties, as a temporary and short-term solution. The Israelis benefited from low-paid Palestinian labour for over 25 years, especially in the construction and agricultural sectors and to a certain extent in the services and light industrial sectors, which allowed Israel to keep production costs down and provided Israeli producers with a high degree of flexibility, as they were able to avoid investing in capital-intensive technology.

This also allowed the Israeli occupation authority to maintain very low governmental expenditure levels in the occupied territories, particularly in the field of investment expenditure, as the creation of work opportunities and income for workers coming from these areas took place in Israel and not in Palestine.

For the Palestinians, work in Israel was important because it provided them with jobs, reduced disparities in income distribution and saved them from recession and unemployment for a long period of time. It was, besides, an important factor in economic and population growth.

However, this mechanism has worked to make the Palestinian economy dependent upon that of Israel, weakened the Palestinian infrastructure and reduced the investment structure to a deplorable condition. The country's infrastructure is completely worn out and suffers from a technological backwardness to the extent that reform is inadequate; it must be completely rebuilt. This, needless to say, involves high investment costs which absolutely cannot be afforded by the Palestinian National Authority. In addition, a ban on the creation or development of a Palestinian banking and financial sector forced Palestinian savings out of the country, deprived the Palestinian private sector of the possibilities of local financing and deprived the Palestinians of a monetary control

mechanism, with the movement of price levels in the West Bank and Gaza Strip being affected by their movement in Israel.

This background created serious problems for the Palestinian National Authority, established in September 1993 subsequent to the Oslo Declaration of Principles signed between the PLO and Israel. This Authority adopted a strategy for long-term economic growth that was based on the creation of the physical, financial, banking and legal infrastructure required for the release of the developmental efforts of the active and aspiring private sector. However, this strategy faces important long-term limitations, among them the following:

1. Uncertainty about the final political status of the West Bank and Gaza Strip.
2. Economic dependence on Israel in the areas of trade and labour.
3. Dilapidation of infrastructure, especially as regards roads, power generation and transfer, communications, and water and sanitation; and unavailability of the financial and administrative resources necessary to rebuild it. There is a lack of international financial commitments to fund the ambitious rebuilding programme on the one hand and a lack of commitment by the donor States to observe the funding programme on the other hand.
4. Security closure of the Palestinian territories, reduced employment opportunities for Palestinian workers in the Israeli labour market, and the rise of unemployment to unprecedented rates, which means that the Palestinian National Authority must search for additional sources to finance the creation of temporary jobs to deal with this phenomenon, at the expense of the reconstruction programme. This problem has aggravated the financial restraints operating on the Palestinian National Authority, because it has deprived the latter of revenue from Israel.

The Palestinian National Authority thus faces challenges that are beyond its capacities of work and achievement and that require funding that is beyond the limits of local savings. Over and above this, freeing the

Palestinian economy from its dependence on the Israeli economy constitutes the foremost challenge. It is doubtless that this task would take a much longer period to be completed than would the final solution negotiations between the Palestinian National Authority and Israel, while its accomplishment would need Arab efforts in support of the Palestinians.

C. ISRAEL

Israel's economy is built on a firm industrial basis, which has enabled Israel to diversify its economy and trade. Moreover, it possesses sophisticated technology and has at its disposal larger amounts of capital than Jordan or Palestine. In addition, Israel enjoys preferential treatment within the numerous agreements governing its trade with the countries of the European Union and with the United States.

Israel has passed through various stages of economic development that were subject to many factors, including:

- (a) The ruling party's ideology.
- (b) The flow of foreign assistance from Western Governments and Zionist and Jewish activities spread all over Europe and the United States (particularly the latter).
- (c) The ability to absorb technological developments in general and to participate effectively in these developments in various sectors.
- (d) Frequent waves of Jewish immigration.
- (e) Development of political relations with the neighbouring Arab countries, particularly with the Palestinian people and homeland.

Israel formerly lived completely isolated from neighbouring Arab countries, and for over 30 years a Zionist socialist ideology based on extensive State intervention in the economy prevailed. In the second half of the 1970s, however, State intervention in the economy could not

continue, particularly after the State had accomplished its goal of building a developed infrastructure that was suitable for industrial development. Following a serious economic crisis owing to inflation, deficit in government budgets, losses incurred by *kibbutzim* and *moshavim* (socialist agricultural complexes) and public sector firms, and an increasing foreign debt burden, the Likud Government of Begin came to power. The new Government, believing in economic liberalism, invited the most renowned expert of this economic system, Milton Friedman, from the University of Chicago, to come to Israel (this was after he had put into practice his economic ideas in Chile, which was governed at the time by an ultra-reactionary military junta). The Likud Government attempted to cut the State's role in the Israeli economy and began by selling government companies to the local sector. It succeeded also in diminishing the growth of expenditure on social services, but accelerated Jewish settlement in Palestinian territories, a development accompanied by an absolute, though much slower, rise in the national deficit. This policy of encouraging settlement was not very successful, for it was countered by escalated aggression in Lebanon in 1982, which proved to be very costly from an economic standpoint and which led to the downfall of Begin, who symbolized the change in economic policy.

The year 1984 saw the rise of the Israeli national unity government, at a time when economic crisis in Israel was at a height. The new Government continued with the trend towards minimizing the State's role in the economy, thereby putting an end to what remained of the labour party's economic policy. It also succeeded in cutting the annual inflation rate from over 400% to 16%. A contraction in social services and government expenditure led to a rise in unemployment, which reached 9% in 1986.

In the late 1980s, Israel entered into a state of economic recession; and with the change in the international atmosphere and the outbreak and escalation of the Palestinian *intifadah*, Israel had to search for a political solution to the Palestine question, and to make peace with its Arab neighbours, since its economic policies ran into difficulties, as it became more difficult to obtain adequate financing. When Israel discovered that a large market of over 120 million people was close at hand and that there

was no need for military action to gain control over it, it attempted to penetrate these new markets, as a means of dealing with its financial crisis.⁶ This attempt has a special dimension owing to the following reasons:

1. Israel has the economic ability to handle individual Arab economic capacities in the absence of Arab economic unity.
2. Israeli technological development, particularly in the fields of agriculture and electronics, opens the door wide for a possible Israeli invasion of these markets, which are dependent on imported products to cover their needs in both these fields. In this respect, Israel enjoys a comparative advantage *vis-à-vis* European and American sources because it is located at a crossroad among the Arab countries.
3. If Israel succeeds in this endeavour, it will certainly achieve a breakthrough by arriving at large-scale surpluses, which may enable it to monopolize Arab markets in these areas over and above the production of manufactured goods.

The following table summarizes the most significant economic indicators in the three countries.

⁶ Baruch A. Kipnis, "The East Mediterranean megalopolis: a backbone of a peaceful Middle East", working paper presented to the founding conference of Al-Ma'moun Institute for Middle Eastern Studies (IMSAM), held in Chios, Greece from 21 to 26 August 1995. Prof. Kipnis is a professor of geography at the University of Haifa and has some influence with governmental circles in Israel. The term megalopolis was first used by Gutman (1961) to refer to urban population concentrations in the Northeastern United States. These areas exhibit strong economic relations with one another because of their large size and proximity to one another. They also have excellent lines of communication, in addition to active movement of population, goods and information. The density, strength and diversified system of land utilization (which includes cities, suburbs and small towns as well as rural areas) enable the megalopolis to attain an urban lifestyle on a wide scale. It also functions as an incubator of the inventions and ideas that reflect the post-industrial and post-modern type of life. Kipnis proposes Israel as the cornerstone of the Eastern Mediterranean basin countries.

Table 1. Basic economic and comparative indicators of the Middle Eastern Triangle countries*(US dollars, 1991 current prices)*

Indicator	Palestine	Jordan	Israel
GDP (billions)	2.2	4.1	59.1
Relative contribution of economic sector (percentage)			
Agriculture	35	6	2
Industry	8	17	22
Construction (building)	12	7	10
Services	45	57	65
GNP (billions)	2.869	3.762	58.089
Exports (billions)	0.304	0.881	11.893
Imports (billions)	1.470	2.514	16.906
<i>Comparative indicators</i>			
Population (millions)	1.7	3	4.7
GDP/GNP	0.75	1.08	1.02
GDP per capita	1.271	1.362	12.575
GNP per capita	7.662	17.200	51.497
Capital/number of employees (US\$)	0.141	0.216	0.201
Commercial vulnerability indicator*	0.141	0.216	0.201
Exports/imports	0.207	0.356	0.704

Source: World Bank, *Peace and the Jordanian Economy* (Washington, D.C.: World Bank, 1994), p. 10.

* Calculated by dividing the value of commodity exports by GDP.

III. A PALESTINIAN PERSPECTIVE OF FUTURE ECONOMIC RELATIONS BETWEEN JORDAN, PALESTINE AND ISRAEL

Discussing the nature of the Palestinian perspective of future economic relations among the countries of the Middle Eastern Triangle

constitutes an attempt to search for an optimum trade arrangement which realizes for the Palestinian economy the following strategic objectives:

1. Eliminating the Palestinian economy's dependence on the Israeli economy and transforming the relation in a manner that serves Palestinian interests, from the starting point of independent will, as opposed to unilateral dictation.
2. Recovery of the Arab dimension of the Palestinian economy, not only from the standpoint of a nationalist or pan-Arab affiliation necessary for the start of economic development in Palestine, but also from the standpoint of realizing mutual benefits for the Arab people, as well as economic efficiency; such an orientation would create possibilities for reducing production costs and achieving large-scale surpluses.
3. Making the best possible use of Palestine's trade arrangements with the rest of the world, but particularly the Arab world, so as to make trade the driving force behind economic growth in the country, this being a necessary, though not a sufficient, prerequisite for the achievement of economic and social development in Palestine.
4. Minimizing the sensitivity of the Palestinian economy to international and regional economic fluctuations, since the opportunities to export labour, whether to Israel or to the oil-producing Arab countries, have shrunk. It is necessary, therefore, to turn to the strategy of promoting export commodities and to work toward raising the competitiveness of such commodities so as to secure a credible place in the export markets.

Of course, such aims cannot be easily or quickly realized. It will be necessary to look for new means and to reconsider the measures used so far, while maintaining a sufficient degree of flexibility so that adjustments can be made to international and regional changes on an ongoing basis, at minimum loss. The Palestinians have to engage in a continuous learning process on how to gain access to international and regional markets and how to respond to the requirements of technological development. Over and above this, the Palestinians have to rebuild the

infrastructure of the Palestinian economy and provide the suitable legal, institutional and political atmosphere to enable the Palestinian people to respond to the incentives and opportunities offered to them by the openness to Arab countries and to the world beyond.

The important question now is: what is the best form of economic relations between Palestine, Jordan and Israel to put Palestine on track so that these objectives could be achieved?

To be sure, a reply to such question is neither ready nor easy. Officially, from a Palestinian standpoint, there is no vision for the future of these relations. In fact, there have been only limited attempts on the part of the Palestinians to search for solutions to the problems directly or indirectly related to this question.⁷ The possibilities of economic integration or merger for the Middle East countries as a whole, after peace has been established (or as a crucial factor in achieving it), have created a fertile ground for Middle Eastern studies.⁸ In this paper, however, we will not assess or summarize these studies. Muhammad Abdul-Fadheel, on the other hand, has observed the following on the general trends of such study.⁹

1. With regard to Western writers, there is a high degree of optimism about the prospect of the "peace economy" and the returns on peace. However, many studies have proved to be extremely abstract and have overlooked or concealed the problems related to the possible gains resulting from regional economic merger.

⁷ Jafary, op. cit. and Makhoul, op. cit. See also Muna Johary and Radwan Shaban, "Al-tarteebat al-jumrukiyat al-Filistiniyat al-Israeliyya: Al-bahath 'an al-'adaala fi tawzee' al-iradaat al-jumrukiya" (Palestinian-Israeli customs arrangements: the search for equitableness in the distribution of customs revenues) (Jerusalem: MAS, December 1995).

⁸ Andrew Watson (ed.), *Economic Cooperation and Integration in the Middle East: A Literature Survey with Particular Reference to Egypt* (Toronto: University of Toronto, 1995).

⁹ Ibid., p. 15.

2. Arab writers, on the other hand, generally do not share this optimism and have their reasons for their pessimism.

In reviewing these studies, we find that Dirk Vanderwalle does not see eye to eye with optimistic Western writers; he believes that a comprehensive peace agreement in the Middle East would not necessarily lead to a regional economic merger, although he is of the opinion that, for political and security reasons, this merger is inevitable in the case of Jordan, Palestine and Israel.¹⁰

Subsequent to the ongoing intellectual debate in Egypt, which was the first Arab country to establish diplomatic relations with Israel, Abdul-Fadheel rightly points out that Egyptians believe that the outlines of such peace should first of all be presented under clear-cut political and economic conditions before land is traded for peace.

It appears that the peace process currently under way in the Middle East has acquired such momentum as to make it irreversible, since the costs of dissociation would be high. And there are other Arab States, geographically distant from Israel, which are actively discussing the establishment of relations with that country, particularly with regard to providing gas and oil. Negotiations between the Palestinians and Israel have also started in regard to the final settlement and to working out a permanent arrangement for what has been reduced from an Arab cause to a dispute between the Palestinians and Israel. In this case, the question about the future trade relations between Palestine, Jordan and Israel is a vital question for all parties.

What then are the alternatives provided by economic theory for an alignment of economic relations at a regional level? Theoretically speaking, there are four alternatives available to the concerned parties, as follows:

¹⁰ Dirk Vanderwalle, "The Middle East peace process and regional economic integration", *Survival*, vol. 36, No. 4 (Winter 1994-95), pp. 21-34.

(a) The granting of most-favoured-nation status, according to which the countries concerned undertake not to charge one another higher customs tariffs than those imposed on the imports from countries which are not parties to the arrangement.

(b) Establishment of a generalized system of preferences, according to which the concerned countries levy low customs tariffs on imports from one another compared with countries who are not part of the system.

(c) Establishment of a free-trade area, where all obstacles to trade among the States which are party to the agreement are removed, while a member is left alone to make arrangements concerning its tariffs policy with regard to countries that are not parties to the agreement.

(d) Establishment of a customs union, i.e., a free-trade area with a unified tariff system which is agreed upon by the member countries of the union *vis-à-vis* the rest of the world. Such a system would require a united fund for customs revenues, for distributing the revenues to the countries of the union according to a formula agreed upon in advance.

This last type would apparently be the most practical for the concerned parties, since two of them (that is, Palestine and Israel, though compulsorily for the Palestinians) live within a *de facto* customs union, and it would not be difficult to admit other parties in the future. It seems also that the European arrangement is closest to the Arab experience. Either of the first two arrangements could only be temporary, owing to the global tendency towards a more widespread liberalization than what they offer.

To my mind and according to frequent references in previous studies of regional mergers, cooperation is expected to fail if the gains are not equitably distributed.¹¹

¹¹ See, for example, Albert Fishlaw and Stephen Haggard, *The United States and the Regionalization of the World Economy* (Paris: OECD, 1990), p. 13.

It is well known that in the agglomeration process arising among countries that differ in size, economic resources, productivity levels, living standards, skills, dynamism, and so forth, there is a strong tendency to distribute the largest part of the gains resulting from agglomeration in a way that favours the larger economies. This is common knowledge in both theoretical and practical studies.¹² According to the experience of the European Union, which is a customs union, this problem is partially addressed by funds that have been especially set up for redistributing European Union gains, among the less privileged members of the Union, for example Greece, Spain and Portugal.

In this case, the search for a way to ensure fair distribution of the gains resulting from the rise of an economic agglomeration combining Jordan, Palestine and Israel would constitute the most serious concern. This would require knowing the exact distribution of gains among these countries and would also require negotiations about the mechanisms to be used for redistributing the gains resulting from such agglomeration, and the establishment of a mechanism to settle the differences that would inevitably arise among the members from time to time.

In reality, the economic relations protocol between the Palestinian National Authority and the Government of Israel, which provides for a trade system among the West Bank, Gaza Strip and Israel, represents a hybrid of the free-trade area and the customs union, for while the Palestinian National Authority has the power to define the tariff levied on specified goods imported from Jordan, Egypt and other Arab and Muslim countries, the tariff levied on all other goods will be subject to the currently effective Israeli tariff system. It will also be subject to any changes in this system at any time during the transitional period. From this starting point, this *de facto* "customs union" that Israel has set up is similar to the customs union of southern Africa, which comprises the Republic of South Africa, Lesotho, Swaziland, Botswana and, recently,

¹² Dieter Weiss, "European-Arab development cooperation and the Middle East peace process", paper presented at the Amman Meeting of Former Jordanian Scholarship Holders in Germany, 5-6 December 1994.

Namibia. The Republic of South Africa represents the core of this union, because its own tariff was adopted for the union as a whole and it can change this tariff whenever it wishes. The consent of the other member States is not mandatory, although they have to be consulted beforehand.

In their study (to which we have referred above), Muna Johary and Radwan Sha'ban made this comparison between the two unions¹³. The important question here is, what is the source of the losses resulting from the union?

Such losses can be listed as follows:

(a) The prices of the goods imported to the member countries rise. The general adoption of the tariff system of South Africa protects the producers of this latter State at the expense of consumers in the other member States of the union, by compelling them to pay higher prices.

(b) There is an imbalance in the distribution of industrial production centres among the union countries, as most of the factories are established in South Africa.

(c) The member States of the union cannot make financial decisions related to tariffs, since South Africa exclusively enjoys the right to define and change this tariff.

There are, of course, mutual gains arising from this union. The agreement gives the Republic of South Africa the freedom to introduce its goods to the markets of other members without paying customs duties, and South Africa can also put these countries behind the protective wall of South Africa's tariff, which is characterized by its protection of that country's local industry. This means that the Republic of South Africa makes other member States of the union bear the burden of protecting its own industry. In return, these countries receive a certain share of the customs revenue, which contributes significantly to their governmental

budgets, amounting to over 57% of Lesotho's total revenues, for example.¹³ In addition, these countries have not had to establish customs systems of their own and can freely admit their products into the Republic of South Africa.

However, this union suffers criticism from all parties, from the core as well as from the periphery. The Republic of South Africa for its part claims that a considerable portion of its income goes to other member States of the union. For the other countries, there are various estimates of the losses incurred as a result of their applying the customs tariff system of the Republic of South Africa or of the higher prices in their markets.

Under these circumstances, will a part of the Palestinian National Authority's revenue find its way to the Israeli treasury? This is quite possible and has three sources, which have been summarized as follows by Johary and Sha'ban in their aforementioned study:

1. There are goods sold by Israelis in the West Bank and Gaza Strip which are not manufactured in Israel but imported from outside the country. These can be called "indirect imports"; however, the customs revenues on them are not remitted to the Palestinian treasury, because they have been classified as Israeli goods (although this is not what should have been done).

2. The adoption of an invoicing system when customs revenues are divided between Israel and the National Authority does not count all the Palestinian revenues in full, thereby allowing another part of customs duties that should have been remitted to the Palestinian treasury to slip away. The fact that not the whole quantity imported under invoicing is declared may be responsible for this outflow. As a remedy to this

¹³ R. Davies, The Southern African Customs Union (SACU), "Background and possible negotiating issues facing a democratic government", Centre for Southern African Studies Working Paper Series, University of the Western Cape, Bellville, 1994. Cited in Johary and Shaban, *op. cit.*, p. 14.

situation, Johary and Shaban recommend the use of the total estimate method, for Palestinian imports.

3. "Re-exported goods" are imported by the Israelis, who add to them or slightly change them and sell them to Palestinians as Israeli commodities, which are not subject to duties. It is only fair that customs duties levied on the non-Israeli part of the commodity be transferred to the Palestinian treasury, because the consumption point is Palestinian and not Israeli.

Johary and Shaban estimated the size of this leakage during the period 1994-1996 at \$166 million to \$275 million, or 6%-8% of the GDP of the West Bank and Gaza Strip put together. Such a sum could have covered most of the deficit in the current expenditure account of the Palestinian National Authority. This loss amounts to over twice the Palestinian income tax revenues, and is more than the assistance offered by either the United States or the European Union.

We completely agree with the recommendations of Johary and Shaban for achieving a more equitable division of the customs revenues with Israel, summarized in the following points:

1. Requesting Israel to compensate the Palestinian treasury for the rise in the prices of consumer goods which results from applying the Israeli tariff system.
2. Applying the rules of origin to non-Israeli goods purchased by the Palestinians.
3. Negotiating with Israel to adopt the total estimate method for imports instead of the invoice system, or compensating the Palestinians for the losses resulting from using this latter method.
4. Using the international classification system of the commodities bought and sold from Israel in the unified invoice system to enable the Palestinian side to negotiate for a fairer formula for dividing customs

revenues, and redesigning this invoice so as to clearly show the origin of the commodities bought from Israeli merchants, for the same purpose.

Ja'fary believes that cancellation of the trade restrictions on the flow of Palestinian goods to the traditional export market (i.e. to Jordan and Israel) would double the value of Palestinian commodity exports from the Palestinian territories, which would cut the deficit in the commodity trade balance by 30%; however, trade with Jordan would take a reverse direction, for Palestinian imports are expected to be three times the volume of Palestinian commodity exports to Jordan. This trend can be explained by the difference in the price structure between the Palestinian territories and Jordan, arising from a manifest difference in the production costs, owing to one of the following reasons:¹⁴

1. The difference in the cost of commodity and non-commodity production requirements, which is 12% lower in Jordan than it is in Palestine. This is the case in the pharmaceutical industry, for example, which enjoys another advantage in Jordan, i.e., the expertise acquired in the field of international export and marketing, unlike the Palestinian pharmaceutical industry.
2. The difference in the cost of labour, as well as of other production requirements, which gives Jordan considerable comparative advantages in production costs and consequently in price. In the case of comparable-quality ready-made clothes,¹⁵ the total production cost in Jordan is only 47% of that in Palestine because, first, labour costs in Palestine are double those of Jordan, and, second, because the cost of production inputs in Jordan is less than half of that in Palestine. This pattern of difference in production cost is repeated in footwear; differences in this case are more

¹⁴ Makhoul, *op. cit.*, pp. 4-5.

¹⁵ With regard to cheap- to medium-quality clothing, the Palestinian-made clothing has no chance to compete with Jordanian-made garments in terms of price. The only basis on which Palestinian goods could compete would be quality.

obvious than in clothing, making price differences in footwear higher than they are in clothing.

It seems that these differences in the price structure (including wages and the prices of other production inputs) are causing anxiety to Palestinians: if customs barriers are removed, Palestinian industry will lose its competitive capacity and also a considerable part of its local markets, especially considering that Jordanian importers can bring in good-quality Syrian-made goods and clothes and re-export them at very competitive prices. If a customs union is established in which Jordan is a party together with Palestine, a problem will certainly arise between them about dividing the revenues of customs tariffs levied on such goods.

The establishment of a customs union in which Jordan is a party side by side with Palestine and Israel will undoubtedly bring benefits to Jordan thanks to the possibility of increasing its exports to Israeli markets and owing to the low cost which Jordanian consumers would have to pay for Israeli substitutes for goods that Jordan currently imports from outside the region. This is in addition to the transfer of technology and the chance to benefit from Israeli expertise in exporting to international markets. Table 2 compares between some Jordanian exports and Israeli imports for which Jordan could constitute an alternative supplier to Israel.

Specializing in the already existing Jordanian projects and converting to a two- or three-shift work system will lower Jordanian production costs and enhance Jordan's competitive capacity in international markets.

On the other hand, Israel's aspirations through the rise of a customs union among the three countries exceeds mere accessibility to the small Jordanian market; access to the Palestinian market is not an objective, because this latter market is already accessible owing to the compulsory customs union between Palestine and Israel. In reality, Israel aims at entering into the Arab Gulf markets with their higher income and larger size. It is therefore greatly to be feared that a customs union among Israel, Palestine and Jordan may be used as a political instrument to consolidate the peace process in the region in order to achieve the major Israeli

objective of obtaining access to the Gulf markets. In this process, Israel would benefit from its proximity to these markets and also because it would offer substitutes to goods imported by the Gulf States within a low-tariff trade system.

Table 2. Comparison of selected Jordanian exports and Israeli imports, 1992
(Millions of US\$)

No. *	Sector	Israeli imports	Jordanian exports
522	Inorganic materials	54.0	9.1
523	Other inorganic chemicals	54.2	20.6
55	Perfumes and detergents	123.1	55.3
651	Textile fibres	243.8	8.4
6513	Cotton fibres	90.9	3.1
6612	Steel and iron pipes	303.0	6.7
699	Basic metals	69.6	2.6
732	Civil engineering equipment	116.6	6.6
8219	Furniture and parts	64.8	5.1
8939	Plastic miscellaneous	129.4	14.6

Source: United Nations, *Yearbook of International Trade Statistics*, 1992.

* International commercial classification number.

It seems that in the final analysis the rise of this trade agglomeration among Palestine, Jordan and Israel is inevitable, owing to the international and regional tendency towards the creation of such agglomerations. It is unlikely, however, that this agglomeration will form quickly. Rather, the transformation will be gradual and will witness the rise of free-trade areas similar to the one in the Jordan Valley provided for by the Palestinian-Jordanian protocol, and which was recently inaugurated.

Until then the Arab countries must help the Palestinians to get their products into Arab markets with preferential arrangements that allow Palestinians to benefit from economies of scale. The Palestinian economy is comparatively small, and many of its agricultural products pose no threat to agricultural products in the Arab countries (particularly in the Gulf). In fact, they constitute an alternative for similar Turkish products and are less costly than the latter owing to Palestine's geographical proximity to these markets. Similar arrangements can also be accorded to the rest of Palestinian products. To achieve this objective, it will be necessary to improve the lines of transport and communication between Palestine and the Gulf countries.

A shift to this arrangement would enable the Palestinians to benefit from a well-known principle in economic literature, "the importance of being unimportant". The Palestinians, on their part, will have to adapt their products to the requirements and standards of these markets if they want to gain access.

IV. CONCLUSIONS

This paper surveyed the economic set-up of Jordan, Palestine and Israel and also discussed the various possible future configurations of the economic relations among these countries and tried to present a Palestinian perspective on this topic.

The following summarizes the conclusions put forward by the present paper:

1. The Palestinian economy is the weakest and smallest of the Jordanian, Palestinian and Israeli economies. This economy is currently undergoing a rebuilding of its infrastructure; work is also under way to build up its institutions and to repair the structural damage caused by 30 years of Israeli occupation. It is also attempting to recover its Arab dimension. In these tasks, the Palestinians are faced with a scarcity of resources.

2. The creation of an economic agglomeration of these three countries will be dictated by several factors, foremost among which are the following:

(a) The global and regional trend to build economic agglomerations and the fiercer competition resulting from this trend.

(b) The global and regional tendency towards liberalization of regional and international trade and the desire of the parties concerned to work within the framework of GATT.

(c) Requirements of maintaining the peace process among these countries. The creation of an economic agglomeration among them is viewed as one way to consolidate this process by raising the cost of dissociation from the arrangements that strengthen interdependence among them.

3. The most practical form of economic agglomeration of the three countries appears to be a customs union, which would have some of the advantages of a free-trade area, for the following reasons:

(a) This form of relation already exists between Palestine and Israel, and it would be easy to bring in new parties.

(b) For us Middle Easterners, the European experience in this field is more appropriate than the American experience with a free-trade area.

(c) Under this form, distributing the customs revenues among the three countries is easier, because there is a united protectionist wall.

4. In this economic agglomeration, formulating a method for equitably dividing the customs revenues of the union would constitute the most important and problematic issue among the union countries. Therefore, a suitable mechanism has to be sought for this purpose. The Southern African Customs Union experiment would provide a good pattern to use

as an example in working out a method for dividing the revenues and devising a mechanism for resolving any problems that may crop up.

5. In economic agglomerations, both theory and practice indicate that the gains of such agglomeration, irrespective of its form, are directly proportionate to the relative economic size of the parties involved. This means that Israel would be the largest and Palestine the smallest beneficiary of the gains accruing from this agglomeration. To redress the injustice that would befall Palestine and, to a lesser extent, Jordan, a fund should be established for a more equitable redistribution of benefits.

6. This form would entail short-term costs of adjustment, particularly for Palestine. Some industries can be expected to lose their markets because of severe competition. Transfer to the economic agglomeration should therefore be gradual, and steps should be announced beforehand in order to enable the industries that may lose, particularly the Palestinian pharmaceutical, clothing and footwear industries, to take suitable steps for adjustment. One such step may take the form of establishing Jordanian-Palestinian joint projects that enable both sides to attain economies of scale.

7. Because the Palestinian economy is small in size, and since agriculture constitutes a substantial part of its GDP, it can benefit from the principle of "the importance of being unimportant" in international trade. The Palestinian National Authority should therefore arrive at trade agreements with Arab countries, particularly those of the Gulf, to exempt Palestinian products from customs duties and other trade restrictions and give them preferential treatment over similar imported products. However, this would require the establishment of an infrastructure to link Palestine with those countries, which means investment in communications between them. This has not been included by the World Bank in its calculations or accounts for the regional projects necessary to encourage commercial exchange in the Middle East as a preliminary step for regional economic merger. In short, the Arabs must give priority to the creation of Arab economic agglomerations before entering into those to which Israel may be a party. Here it must be noted that Arab experience is, very unfortunately, most frustrating.

8. The Palestinian National Authority should not make a point of exporting Palestinian labour to other markets, since employment opportunities there have not only declined, but may disappear once and for all. A possible strategy here is to shift to a policy of encouraging exports. All measures have to be taken to maximize the chances of success of such a policy.

The pessimism dictated to us by reason, owing to the present situation, emanates from dissatisfaction with the gains realized from the inter-Arab experience itself, and from the Palestinian-Israeli experience in the arena of economic agglomerations, particularly since none of these agglomerations were built on the free will of each of the concerned parties. Yet this pessimism must be resisted, by optimistic will-power. For this reason we Palestinians first and foremost, and the rest of the Arabs second, must stick to the hope of reviving the pan-Arab nationalist idea. This may at first seem outdated, although the crux of the problem appertains to political will and to nothing else.

Commentary

Dr. Fahd al-Fanek

Introduction

This paper starts from two hypotheses: first, that a common desire or will exists to forge a special trilateral economic linkage (of the Benelux type) between Jordan, Palestine and Israel that could be equivalent to a merger, customs union or free-trade area; and second, that the Palestinian side can make its own decisions in the field of economics and can take this course or that according to its own interest or calculations.

It is to be feared that neither hypothesis is valid. Israel is not keen on creating such a triangle, especially when the Jordanian and Palestinian economies put together do not equal one tenth of the Israeli economy and cannot bring much benefit to Israel. In fact, Israeli aspirations extend to the markets of the Gulf States, which will be ready as soon as or even before the peace process is completed.

At the same time Jordan would not wish to build up such a tripartite arrangement; its trade relations with Iraq and other Arab countries are too important to be sacrificed in return for a customs union with Israel and Palestine.

On the other hand, any Palestinian economic decision is subjected to Israeli policy at present and until further notice. And even if a Palestinian State were set up with a truncated sovereignty, its economic movements would be governed by the policies of Israel and Jordan and by the nature of political relations with both those countries.

Hence we believe that the idea of tripartite economic union, agglomeration or integration does not exist as a carefully studied practical option put forward by Israel or Jordan, and is, therefore, the least likely future scenario. I dare say that it would be rejected by the Jordanians, whether from the local or pan-Arab perspective or from the perspective of simple national interest.

It seems that the author is not positively sure here of what he wants. He says that the opportunities for economic merger between Jordan and Palestine should be sought out before arrangements are entered into with Israel, as if this were politically possible. Then he expresses misgivings about possible competition between local Jordanian and Palestinian industries and therefore suggests that the trade liberalization process between Jordan and Palestine not be rushed.

In fact the writer is afraid of Jordanian competition in the field of industry. He is also uncomfortable about the Jordanian labour surplus, as Israel could possibly dispense with Palestinian workers. However, the surplus labour force in Jordan comprises educated and university graduates who have no place in the Israeli economy. As for unskilled workers, which Israel needs for its construction and agriculture sectors, Jordan has a very limited supply and imports its own needs from Egypt.

The author is modest enough to ask for a rudimentary form of Jordanian-Palestinian economic cooperation, i.e. the establishment of joint Palestinian-Jordanian companies to be stationed in Jordan or Palestine according to the relevant economic considerations. This is being done now; there are joint companies, but the circumstances prevalent in the West Bank and Gaza Strip do not allow them to function owing to the spirit of uncertainty and instability, which add up to a most unpropitious investment climate.

The paper also suggests that Palestinian goods be accorded preferential treatment somehow or other under the pretext that the Palestinian economy is so small that its exports would not adversely affect the trade of Arab countries. He calls this "the importance of being unimportant". Such a proposal is not devoid of goodwill but at the same time is economic illogical in the light of the private sector's reasoning, which is motivated by financial and not nationalist considerations.

The paper heavily stresses the importance of customs revenues and how they should be distributed to the three partners as if this were the central issue, although customs revenues are declining both in Israel and in Jordan. In accordance with the WTO and the Euro-Mediterranean

partnership agreements, this trend will continue to the zero point within the coming ten years.

It is noteworthy that neither the customs union nor the free-trade zone is acceptable to Jordan. The signing of the trade agreement between Jordan and Israel was delayed for several months because Israel insisted on the establishment of a free-trade zone while Jordan has decided that it is not ready yet for this risk.

Other cursory remarks remain to be made. For example, if the researcher describes the customs union between Palestine and Israel as forced, why then would he want to drag Jordan into it? And if he believes that economic agglomeration among Palestine, Jordan and Israel is unavoidable owing to a tendency towards the creation of such agglomerations, why should Jordan not think of other available options such as European partnership? The author calls for setting up a unified protectionist wall around the three countries because it entails a better division of customs revenues—but what benefit can Jordan expect from such a wall while the country is in the process of opening up to the world market? What protection can Israel impose while it has a free-trade zone with the European Union and the United States? He asserts that both theory and practical experience indicate that gains from economic agglomeration are directly proportionate to economic size. This is a serious error, for there is a wide difference between the strength and efficiency of the economy on the one hand and its volume on the other hand. In the European market, for example, Luxembourg benefited more than Germany, and in the Pacific cooperation, Taiwan, Korea and Singapore are benefiting from their dealings with the People's Republic of China and the United States.

Finally, Dr. Zaghah openly admits that some of his proposals are not supported by reason, and he calls strongly for Arab will-power to save the Arabs from being mere consumers of Israeli manufactured goods. He thus declares economic bankruptcy and pins hopes on the political side. But if the Arab political will-power were strong and effective at all, we

would not then need to discuss a Palestinian-Jordanian-Israeli economic union.

CONSTRAINTS ON ISRAEL'S ECONOMIC RELATIONS WITH THE ARAB REGION

Dr. Jamil Helal

Introduction

Israel's economic strategy for the Middle East is an element in a more comprehensive strategy, a strategy governed by the history of Zionism as a settlement movement, the violent nature of the rise of the State of Israel, and the course taken by the Arab-Israeli conflict and the Palestinian-Israeli conflict. It is a history that has coloured the various aspects of Israel's view of its relations with the surrounding Arabs with regard to the political, economic, security and ideological contents and implications of these relations. This history has also coloured Israel's handling of the current political settlement negotiations.

The Camp David accords generated a semi-official academic and institutional interest in the form and range of the economic relations between Israel and the Arab countries, particularly those directly bordering Israel. This interest began to crystallize among the Israeli "intelligentsia", taking the shape of a theory derived from a superficial reading of the experience of Western European countries after the Second World War—that is, that the more intensive the relations of economic cooperation between the States of the region, the more consolidated "peace" will become and the more incomprehensible a state of war would be.

Hence the Israeli technocratic interest centred throughout the 1980s on formulating projects coming under the title "Arab-Israeli economic cooperation" reduced to the slogan "Economic cooperation consolidates peace." Those plans remained without a comprehensive strategic framework until the Israeli Labour party assumed the task of putting the settlement process within the framework of the project of establishing a new regional system. The best spokesman, theorist and promoter of this project was Shimon Peres, then Foreign Minister, and his deputy Yossi Belin.

The Israeli vision began to evolve from a conception that reduced the "peace" process to a process of generating economic interest, to a vision that links the inception of peace in the region with the process of establishing a new regional system at the time when the Arab-Israeli negotiations commenced.

1. THE ELEMENTS OF ISRAEL'S MIDDLE EAST STRATEGY

The "New Middle East" project proposed by Shimon Peres and others is not a plan for the establishment of a Middle Eastern market, as many educated Arabs and Arab politicians have supposed, but a project to establish a regional system with a particular structure and specific functions: a project that aims at the creation of a regional bloc with its own common market and elected central bodies to be formed in accordance with the European Community model. It is a project that includes establishing a regional security system to set the new political system of the region on firm ground. The execution of the Israeli project is accompanied by the creation of various frameworks of regional technical, specialist, economic and coordinating regional and joint bodies and committees.

According to the Israeli conceptualization, the plan is to be completed within political and organizational time phases, with attention being focused on concluding bilateral agreements in the first phase and normalizing Arab-Israeli relations in the second phase. The Israeli strategy also proposes the construction of a regional economy in three stages, as follows:

1. Establishment of bilateral and multilateral projects.
2. Participation of international institutions in carrying out projects that require huge capital investments.
3. Laying down an economic policy for a regional Middle Eastern bloc accompanied by the formation and development of official regional institutions.

The Israeli project attaches great importance to organizing the Middle East as an economic unit, through basic changes in the economies of the region, with all that this implies in terms of: establishing joint projects; constructing power and desalination stations; creating a communications and telecommunications infrastructure; developing agriculture, industry and tourism; and opening the borders and encouraging competition. This, however, does not negate the need for various functions for highlighting the economic, commercial and financial "benefits" and for frequent discussion of joint Arab-Israeli projects, investments and borders open for commodities, persons, ideas and technology. One prominent function is marketing the political settlement under the name of "peace", regarding it not only as a watershed between two political stages but also between two economic phases.

II. SOURCES OF SUPPORT FOR THE ISRAELI PROJECT

The project for establishing a regional Middle Eastern system remains one of the Israeli Labour party. However, it enjoys, though in different degrees, the support of secondary forces and parties in Israel and the support of frameworks and factions of technocrats and segments of the Israeli bourgeoisie and an effective State bureaucracy. It must be noted also that the Israeli plan emerged within the context of major local, regional and international political and economic changes witnessed during the 1980s and 1990s.

Israel's conception of a regional system is based on strategic elements. It also bears the traits of a historical stage whose conditions had not been fulfilled until the late 1980s and early 1990s. This, however, should not mean that the Israeli project is a ready-made and detailed outline being executed in accordance with a specific timetable.¹

¹ Shimon Peres, *The New Middle East* (Element Books, 1993). Government of Israel, Development Option: The Middle East/East Mediterranean Region, 1966, Vision IV, August 1995. In 1994, Yossi Belin, who was then Israeli Deputy Minister of Foreign Affairs, said, "It is likely that the region will see during the five coming years a common infrastructure for Palestine, Egypt, Jordan, Syria and Lebanon; and if that materializes, we will explore the

III. MECHANISMS OF ISRAEL'S ECONOMIC STRATEGY FOR THE REGION

Israel's regional strategy is based on the mechanisms described below.

1. Conclusion of bilateral (politico-economic) agreements with individual neighbouring Arab countries as well as multilateral agreements with a number of or all Arab States. Bilateral agreements define Israel's relations with every Arab country in economic, commercial and military/security fields in addition to the diplomatic sphere, with all the joint organizational, administrative, technical and military arrangements resulting from such agreements.

2. Emphasis at the early stages on providing the conditions required for the establishment of a tripartite system that gradually assumes the shape of a political economic/security setup comprising Israel, Jordan and the Palestinian entity, to be linked later, in a piecemeal fashion, with a group encompassing Syria and Lebanon and possibly other countries. At the same time, economic relations with Egypt are being expanded, specifically in the areas of energy, tourism and some limited industries, for example textiles, which fit in with the requirements and desired expansion of the Israeli economy.

possibility of setting up a common market " This Israeli official estimates that the linkage of Israeli electric power networks with Jordan and Egypt and later on Israeli participation in the present agreement with Turkey and Iraq will save Israel \$700 million per year. See also James Harding, "Israel to consider Mideast common market", *Financial Times*, 14/15 May 1994. Belin comments, "From an economic angle and, thanks to the available potentials of the Gulf States, it is likely that Israel's economic ties with the Gulf States will be more intensive than those that will be forged with our neighbours, owing to the large gap between us and these latter, which does not exist with regard to the Gulf countries" (Israel Information Services, Gopher 21, 1994). An analysis of the statements made by Israeli elites since the end of the 1980s shows that the military was the first to support "the new order of peace and globalization", followed by the business elite, with the political elite coming last to join the "peace train". See Jonathan Nitzan and Shimon Bichler, "From war profits to peace dividends: the new political economy of Israel", paper presented at San Diego, April 1996.

3. Normalization of economic relations with the countries in the region as required by the prerequisites of a free market, that is without stipulating the establishment of preferential economic relations (as was the case with the Palestinian entity and Jordan and as Israel demands in its negotiations with Syria and Lebanon), but also not overlooking the security considerations that are accorded a special priority and understanding by Israel. Establishment of privileged economic links with Arab States is conditioned by Israel's conception of its national security and by its attempt to create mutual material interests that minimize the possibility of new military conflicts.

Proposed Israeli economic projects tend, directly or indirectly, to set in place and regulate the conditions of Israel's integration into the infrastructure and economic setup of the region. On this ground we can explain the special Israeli interest in the expansion and development infrastructure networks linking it with surrounding Arab countries. Most such infrastructure projects fall within the public sector and therefore require detailed agreements between Israel and each individual Arab country involved, which necessitates long-term official coordination and which likely will generate joint technical committees.

It is well known that it is easier to obtain international funding on concessional terms for regionally-oriented infrastructure projects. Hence we notice the interest shown by the World Bank and the European Commission with regard to special infrastructure projects related to communications, energy and water.

The expansion and development of the physical infrastructure constitutes a condition and a supportive factor for the development of a free-market economy, as well as for the development of a Middle Eastern common market.

Israeli political and economic elites conceive of economic normalization as implying that most joint (financial, commercial, productive) activities be carried out between Israelis and Arabs. Mainly private capital would contribute to these activities in accordance with the

free-market economy, i.e. without agreements between the Governments of the region or international institutions, unlike water, energy and communications activities (infrastructure projects), which do require such agreements.

IV. "INTEGRATION" . . . ON ISRAEL'S TERMS

A careful look into regional Israeli projects reveals that their motivating strategy revolves around unequal Israeli integration into the region. This would transpire through mechanisms conducive to converting Israel into a major centre of the regional infrastructure in the Arab area that serves first and foremost to provide Israel with the cheapest possible energy and the least costly labour. Israel also seeks to enhance its international economic status and its chances of obtaining a share of the region's markets. All these advantages can be discerned from scrutinizing the functions of a number of projects proposed by Israel within the framework of so-called regional cooperation:

1. Making Israel an intermediary in carrying water from Lebanon to Jordan and from Egypt to Gaza and its attempt to exploit new water resources. This is in addition to maintaining its hold on those resources already under its control and displaying a readiness to obstruct the development of new demographic situations in the neighbouring countries which may bring about an increase in the rates of water consumption of resources which Israel is using (e.g., imposing restrictions on the entry of Palestinians into the autonomous territories).²

2. Diversification of Israel's sources of energy (oil, gas, coal and solar energy) and obtaining them at the lowest possible cost, particularly gas and oil, as well as a reduction in electricity costs by linking Israel's power network with those of the surrounding countries.

² To see the importance attached by Israel to the topic of water, see Ze'ev Shev's article in *Ha'aretz* on 8 October 1993; this was also published in *Al-Quds al-Arabi* on 12 October 1993.

3. Revival of the roads, sea routes and railway networks that linked pre-1948 Palestine with the Arab countries surrounding it, as a model to be adopted for normalizing Israel's relations with its Arab neighbours, and establishment of a new system of links (highways joining Turkey with Egypt via Israel) to provide Israel with a strategic logistical position.

4. An examination of Israeli projects involving fields other than infrastructure reveals the following:

(a) There is a concentration of these projects along the borders with Arab States. This may be attributed to two reasons: the availability of cheap labour and the proximity to local Arab markets on the one hand; and security considerations on the other hand based on the assumption that the creation of economic activities in border areas would generate local interest in stability and normalization of relations. This is most obvious in south Lebanon, which Israel singles out for an intensive linkage operation with regional and international commercial and financial centres, as can be seen from the Golan Area project and from a number of other projects proposed between Israel and Jordan. It is also apparent in the industrial zones proposed for establishment along the border between the Palestinian National Authority territories and Israel, a project sponsored by the World Bank.

(b) Consolidation of a division of labour whereby Israel specializes in sophisticated technology and international marketing (i.e. fields that enjoy a high value added), while the Arab side takes charge of less industrialized fields such as the Israeli-Egyptian textile industry project.

5. It is evident that the Benelux-type of Israeli-Jordanian-Palestinian economic union has played a leading role in formulating the economic agreements concluded between Israel and the other two parties. But the size of Israel's economic and military potential, the dependence and marginalization from which Palestinian economy suffers, the political and security restrictions imposed by the Oslo and later accords on the Palestinian National Authority and the difficulties surrounding the

Jordanian economy all mean that the relation between the three parties will tend towards the establishment of a model which, in some respects, is similar to that represented by NAFTA (the North American Free Trade Association).

Israel's strategy of forging unequal relations with the surrounding Arab countries will become clearer to us if we go back to its conceptions of the security arrangements with these neighbours. Such arrangements aim at securing the largest possible Israeli military control of the area in the post-political-settlement stage.

V. TRANSFORMATIONS AND TRENDS OF THE STRUCTURE OF THE ISRAELI ECONOMY

Israel's peace orientations are closely related to the changes introduced into the global economic system during the 1980s and to the need of international capital for horizontal expansion (accumulation), not only in the field of production, but also in terms of ownership and facilitation of the entrance of giant multinational firms into the emerging markets. These Israeli orientations are also strongly linked with the changes witnessed by the Middle East region and the transmutations experienced by the structure of the Israeli economy itself during the 1980s. Perhaps the economic driving force behind the most significant events of our region (the political settlement, some limited democratic transformations, formation of a Middle Eastern tier linking most countries of the area with European countries) lies in the pressure of international capital and its local and regional components. This pressure is bringing about a more thorough merger of the region's economies (including Israel's) with the world capital market. At the economic level, the most significant practical expressions of these processes can be found in privatization, removal or reduction of trade barriers, openness to outside investments and the contraction of the State's role in the local economy.

Qualitative transformation in the Israeli economy started in the mid-1980s, when the crisis of this economy was at its most severe. This transformation was embodied, *inter alia*, in the growth of the volume and quality of Israeli exports to cover advanced technology (with high value

added) instead of traditional commodities such as citrus fruits or simple manufactured goods such as textiles, plywood and foodstuffs. Improvement in the structure of Israeli exports was accompanied by an improvement in the export/import ratio, despite the fact that the balance continued to tilt in favour of imports. There was also development in the structure and professional distribution of the Israeli labour force, which took place in favour of sophisticated technological industries and the sectors of commercial services, banking services and business. In this respect we notice a substantial rise in the proportion of professionals and technicians in the total workforce. The recent immigration flow from countries that were formerly part of the Soviet Union contributed to this growth. Thus in the first years of the 1990s, over one quarter of the Israeli workforce consisted of professionals and technicians, while the percentage of those working in agriculture dropped to less than 4% of the total Israeli labour force. In the mid-1980s, the Israeli economy had entered a phase of structural adjustment, with all the privatization measures, trade liberalization and openness to the world economy implied by this term.

However, despite the significant transformations and the relatively high growth rates experienced by the Israeli economy since the application of the structural adjustment programme of economic reform in the mid-1980s, the Israeli public sector and the Histadrut (with the beginning of noticeable changes in the situation of the latter) still play an effective role, particularly in the agricultural sector and in the field of large and medium-size industries. Until now, the public sector in Israel is regarded as one of the largest in the world in comparison with the economy's volume. The privatization programme included in the structural adjustment programme mentioned above is still working although at a much slower rate than planned because of the resistance it is facing from various segments inside Israeli society. Numerous liberalization measures and measures to encourage competition have been adopted in the field of industrial production. Despite all this, however, the State still has effective weight in the Israeli economy.

Foreign trade also has occupied a prominent position in the economy of Israel, which may be ascribed to several interlocked factors, such as Israel's isolation from its regional surroundings owing to the Arab boycott of Israel, the small size of the Israeli market, the country's scarce natural resources and its extraordinary politico-military relations with the West. Other factors include Israel's connections with Jewish communities abroad and the large financial assistance it has been accustomed to receive since its foundation. The same factors contributed to diverting the largest part of Israeli trade towards the advanced capitalist world (Western Europe, the United States and recently Japan and South-East Asia).

The Arab-Israeli political settlement is not expected to bring about a qualitative change in the structure of Israeli foreign trade. In fact since the Oslo agreement of September 1993 we see evidence of determination by Israeli economic and political elites to establish and expand economic connections with the centres of the global capitalist system and with what are known as the emerging markets, over and above Israel's exploitation of its new regional situation based on the political settlement and termination of the Arab boycott for this purpose.

Thus, there are a number of considerations that have a bearing on Israel's calculation of its regional economic relations:

1. Transformations in the structure of the Israeli economy itself, including the transmutation in the nature of the predominant capital. The Israeli economic adjustment programme was adopted in order to resolve structural economic problems and to usher in a future economic role for Israel. Such a role is essentially the outcome of a political process. Moreover, the above-mentioned adjustment programme, in many of its basic trends and many of its details, is not different from the programme promoted by the World Bank and the IMF in their relations with third world countries and emerging economies. It is striking to note here that the United States has used a "carrot and stick" policy with Israel to make it adopt the adjustment programme.

2. Israeli exports have consistently risen in industrial commodities, shrunk in agricultural products and slightly dropped in diamonds. With the

beginning of the 1990s, minerals, machinery, electronics and chemicals exceeded half of Israeli exports, while diamonds constituted about one quarter, and the agricultural goods, food, textiles and leather industries accounted for the rest. In the later 1980s, Israel exported nearly half the commodities it produced compared with 20% of its products during the 1960s. High-technology industries witnessed progressive growth during the 1970s and 1980s, with their relative volume doubling and their share in exports rising. Available data show that the international competitiveness of high-technology industries in Israel is growing.

3. There was a consistent growth in foreign trade compared with GDP. In 1992, Israeli imports amounted to \$28 billion, while exports amounted to \$21 billion. This is in comparison with a GDP of approximately \$60 billion. However, despite the accelerating growth of Israeli exports in recent years, the volume of imports grew in the meantime, which kept the trade balance in deficit. To redress this deficit, Israel depends on foreign aid.

The structure of Israeli imports reveals that they are mostly production commodities (i.e. raw materials), followed by investment goods (i.e. machinery and equipment used in production and adding to capital accumulation). This structure reflects Israel's complete reliance in its industrial production on imported raw materials (oil, diamonds, etc.) and its need, therefore, to export in order to cover the greater part of the cost of its imports.

4. Regional variables, the start of the Arab-Israeli negotiation process and the Oslo agreement have produced more convenient circumstances for converting the Israeli economy from a war economy into an open economy. The American industrial-military complex benefited from arming the Middle East, and some military exports went to Israel because they were needed to maintain regional tension in order to boost American military exports. However, the recession that has befallen the world economy since the mid-1980s and the large drop in demand for weapons, coupled with competition in this area from other countries, have led to a decrease in Israeli military manufactures. In addition, international and

regional changes since the early 1990s (the Gulf war) have reduced the need for Israel as a watchdog of American interests. Hence arises U.S. support for the transformation of the Israeli market into an open one and the movement of Israel's economy towards peace through the removal of trade and investment barriers.

The drop in oil prices during the 1990s reduced the GDP of the oil-exporting countries by 30%, to 80% of what it was in the first half of the 1970s. In addition, the population of those countries has doubled and the gaps in wealth have widened, with more repressive measures being used against opposition in most such countries. The socio-economic and political crisis has contributed to the enhancement of political Islam in the region to a degree that has jeopardized the ruling regimes there. Western Governments, for their part, are viewing political Islam as the major threat after the downfall of the Soviet Union. They feel that the solution lies in creating new political realignments to face the "danger" of political Islam. The discourse of the Israeli political elites, moreover, always exaggerates the threat of Muslim fundamentalism to Western interests; it also links political Islam with terrorism.

The Israeli economic plan for the period 1994-1996 paid special attention to creating conditions suitable for commencing Israel's economic integration (in a relative and limited sense) with the surrounding countries. Such conditions do not amount to much more than making its economy more competitive in world markets by using a number of financial, monetary and banking means (such as price controls, reduction of the government budget deficit, tax cuts on some activities, maintaining low interest rates), through investment of a larger portion of government expenditures in human and physical infrastructure, continuation of privatization (including banks), exercise of strict control over monopolies, encouragement of competition in a number of agricultural products with the aim of reducing prices, cutting costs of tourism to Israel, reexamining the military industrial setup and so forth.

Although the above Israeli plan does not propose real changes in the economic policy of the Government, it paves the road towards an assessment starting from the assumption that the success of the political

process would boost economic growth in Israel because it would be conducive to: an increase in investments in infrastructure (linking Israeli infrastructure with that of the neighbouring countries, starting joint infrastructure projects, etc.); opportunities to export to new markets (both inside and outside the region, owing to the cancellation of the Arab boycott); the inflow of foreign investment; and the choice of Israel by multinational firms as their centre in the region because of Israel's political stability and advanced infrastructure compared with other countries in the region.

5. There is realization by most major Israeli political forces and parties and by the cultural and financial elites and circles that the settlement of the conflict in the region would have profound effects on Israel's regional situation and political, economic and security realities. And even if the change in the actual political relations of Israel resulting from the settlement of the Arab-Israeli conflict is rarely discussed in these circles beyond the limits of security arrangements and the normalization process, interest in the economic returns of peace, on the other hand, is renewed and widened with each and every new official Arab-Israeli political agreement or diplomatic opening. The economic dimension becomes prominent, as all agreements concluded between Israel and the Arab parties include details for economic arrangements that exceed the limits of ordinary economic relations between any two countries that have normal diplomatic relations between them. The peace treaty between Israel and Egypt in 1979 was followed by a trade agreement in 1980. The larger part of the clauses of the annexes of the Declaration of Principles between Israel and the PLO was devoted to economic relations and arrangements. These annexes were followed by more detailed arrangements in the Cairo agreement (May 1994), while economic affairs occupied a remarkable amount of space in the Israeli-Jordanian agreements following the July 1994 Washington Declaration.

However, it would be a grave mistake to overlook the importance of the political and security-strategic parameters in settling the Arab-Israeli conflict. To overestimate the economic dimension of the peace agreements between Israel and the Arab countries would

marginalize the vital strategic importance of the political normalization agreements in so far as Israel is concerned. Israel wants such normalization agreements to include recognition of Israel's right to existence—before acknowledging the rights of the Palestinian people to self-determination, to an independent State and to repatriation and prior to settling the issues of Israeli settlements, Jerusalem, water and borders. They must also include (from Israel's point of view) according Israel the legitimacy to become an active and recognized State and component of the region; normalizing its diplomatic, political and economic relations with the Arab region; maintaining Israeli military superiority for an indefinite period of time; recognizing Israel's right to make unequal security arrangements with the surrounding Arab countries; and enhancing Israel's international status.

The economic returns accruing to Israel as a result of the political settlement go beyond its economic and trade relations with the region and amount to consolidating its relations with the centres of international economy. Perhaps it is this side which is the more important from the angle of Israel's view of its own interests.

There is a consensus among Israeli economists, capitalists and technocrats that peace would bring substantial economic benefits to Israel; however, there are wide variations in the estimation of the size, nature and sources of those benefits.

In this respect there is on the one side an initial assessment to the effect that the economic results of ending the Arab boycott to Israel and normalizing relations would remain limited, whereas another set of Israeli observers is completely at variance with this.

In any case, what Israeli economists unanimously agree upon is that the termination of the Arab boycott of Israel will have a healthy impact on the Israeli economy. They feel that even if this effect does not go beyond generating limited trading activity between Israel and the Arab world, lowering costs for energy (oil and gas) imports and a greater degree of readiness by multinational firms to invest in Israel, the

opportunities for growth and the rates of growth for the Israeli economy will still improve.

VI. CONSTRAINTS ON ISRAEL'S PLACE IN THE REGIONAL ECONOMY

It is not easy to forecast the quality and size of the role which Israel would play in the Arab region after the political settlement has been completed. This is due to many reasons, the most important of which are described below:

1. *The difficulty of defining Israel's political role in the region.* Normalization does not depend only on the political decisions taken by tops of the leadership pyramids in the region nor on the administrative decisions resulting from the political decisions. In reality, there are many various factors and considerations that may affect the course of that role and how it is defined. Some of the factors and considerations are exclusively related to Israel and pertain to internal political and ideological conflict, a conflict which is expected to continue since it includes the issues of (Israeli) withdrawal, borders and settlements over and above issues associated with the character of the Israeli regional role and the identity of the Jewish State. There are also factors and considerations directly appertaining to: the internal situations of concerned Arab parties and the possibilities of their undergoing changes in the post Arab-Israeli conflict settlement period; how each party views its own interests (and the multiplicity of forces that formulate such interests on each side); the ability or willingness of Arab parties to consolidate their strategy; the magnitude of the standard-of-living problems of the majority of the population and the solutions to be adopted; and the nature of the political alignments that will arise in the region after the peace settlement and the place of Israel in such alignments, and then the fate of the Arab bloc itself.³

³ Note, for example, the wide difference between the estimate of Marwan Iskander and Youssef Shebel concerning the possible Israeli economic role in the Arab region. See Marwan Iskander, "Al-'alam al-Arabi fi marhalat al-salaam" (The Arab world in the phase

2. *How each party sees the settlement in terms of its various political, security and economic aspects, and the likely attempts of each to modify some parts of the settlement to better suit its own interests.* Furthermore, numerous hitches can be expected to crop up during implementation or with regard to the ability or readiness of one party or another to abide by commitments, which may cause a change in the balance of power that could lead one party to reconsider the agreements, after they had already been concluded. At any rate, it would be unwise to exclude the possibility of a rise of new forms of conflicts and pressure and new regional alliances or to exclude the possibility of embarking upon new settlements based on new alignments. It is only natural that these changes would, somehow or other, be reflected upon the course of Arab-Israeli or inter-Arab economic relations. Undoubtedly, leaving the basic issues of Palestinian-Israeli conflict undecided (e.g., Jerusalem, settlements, refugees, borders, water) renders the possibility of the eruption of the conflict, perhaps under a new form.

3. *The difficulty of accurately defining the potential and capacities of the Israeli economy in comparison with Arab economies and the likely relations of the former with the latter.* This is possibly one of the main reasons for the wide variation in estimates by Arab economists in assessing Israel's economic capacities *vis-à-vis* Arab economies, and the extremely large variation in estimating the implications of the future relation emanating from the rise of a Middle Eastern common market. Such assessments range from predictions of a complete dominance by the Israeli economy over the Arab Mashreq economy, to an evaluation that views the Israeli economy as one with limited capacities if compared with the formidable potentials of the surrounding Arab economies.

The adoption of conventional economic criteria (GDP and GNP) "which is rather problematic and, at best, approximate" leads to the

of peace), *Al-Hayat* newspaper, 14 and 15 October 1993. See also Yousef Shebel, "Al-muwajihat al-iqtisadiyat al-martaqaba bein Lubnan wa Israel" (The expected economic confrontation between Lebanon and Israel), *Al-Mustaqbal al-Arabi* (The Arab future) journal, vol. 16, No. 171 (May 1993).

assumption that the Israeli economy in the first third of the 1990s almost equalled the volume of those of the surrounding Arab countries (Egypt, Syria, Jordan, Lebanon and Palestine) put together. However, this should be viewed in conjunction with the fact that applying the same criterion for the same period to the Saudi economy reveals a volume double that of the Israeli economy; Saudi exports of 1993 were double those of Israel (noting, however, the difference between the respective exports of the two countries). Likewise, the size of the Algerian economy in the early 1990s (before the present crisis erupted in Algeria) was, according to the same criterion, equal to that of the Israeli economy. By the same standard and during the same period, we find that the size of the total economies of the Arab world and Israel put together was less than that of Spain.⁴

It remains true that if the characteristics and structure of the Israeli economy and those of the neighbouring Arab and Gulf economies are taken into account, the Israeli economy will be the largest beneficiary from economic openness to the surrounding areas, whether: in terms of importing the energy resources that it needs, at a lower cost than before, and the easier solutions that would be available for water and logistic matters; in terms of the Israeli economy's ability to export some goods and services to Arab markets at competitive prices and conditions; or in terms of creating a regional Middle Eastern infrastructure tied to Israel without the latter's economy having to modify its linkages to the markets of the centres of the international economy and to the markets that give special advantages or privileges to Israeli products.⁵

⁴ *The Unified Arab Economic Report* of 1993 stated that total Arab GNP for 1992 (\$482 billion) was 15% below that of Spain, whose population did not exceed 39 million (against 236 million for the Arab world). Moreover, more than one fifth of Arab GNP, or about \$102 billion, was not income in the conventional sense of the word, but resulted from returns on oil and minerals. The *Report* stated that the share of the Arab world in gross world product deteriorated after the early 1980s, declining to about 1.6% in 1992 (while the Arab region accounted for 5% of world population).

⁵ Evidence of this is conclusive, not only with regard to the volume of commercial exchange between Israel on the one side and the European Union and the United States on the other side, but also from unrelenting endeavours by Israel to develop its economic

4. In this context the following facts are noteworthy:

(a) The Arab markets are still small and predominated by the centres of capital which will try to maintain this hegemony and deepen their linkage to the international markets.

(b) The flight of Arab capital to centres of capital outside of the Arab region results from local and regional political and legal conditions which are subject to change. In reality, this change has partially already started following suggestions and advice of the World Bank and the IMF. This may, in turn, modify the balance of power of investment capital, particularly if the new regional situation constitutes an incentive to start forming an economic Arab bloc as well as a new Arab regional system with effective joint bodies and if political democracy became broad enough to confront the Israeli regional project.

relations with Western Europe, Japan and South-East Asia. It should be noted that the trade concessions Israel has obtained from the United States exceed those of any other country, including the United States' NAFTA partners. For example, the Israeli-American trade agreement (which took effect 1 January 1995) completely exempts all Israeli goods from any customs duties. Furthermore, over 50 Israeli companies are listed in American stock exchanges, which puts Israel third among the foreign countries whose companies' shares are traded there. This gives Israel easy access to the American capital markets. Moreover, Israeli firms account for over 10% of the number of foreign firms listed in the three major American financial markets, making Israel second only to Canada in this field. The number of Israeli firms listed exceeds that of Mexico—a member of NAFTA (See the report of Patsi Laon Ma'louf, "One tenth of the firms trading in American stock exchanges are of Israeli nationality", *Al-Hayat* newspaper, 14 January 1994.) Israel has attempted to improve its economic position with respect to the European Union, Japan and the United States, after the Middle East peace conference held in Madrid and after the signing of the Declaration of Principles between Israel and the PLO. Israel also makes every effort to exploit the progress in the negotiations with the countries of the region, to improve its international economic status. These efforts resulted in Israel's being granted, in the summer of 1994, full membership in the European Union in the sphere of research and development (a sphere concerned with scientific and technological development). Other outcomes of Israel's efforts in this arena include the signing of an agreement on technological development between Israel and the United States in January 1994 and permission given by the U.S. Government in February 1994 to American companies to purchase and import equipment and technology for launching Israeli spacecraft.

(c) The Israeli economy is capable of completely dominating the Palestinian economy, with its fragile and exhausted infrastructure and its virtual subjugation to Israeli economy. It is also capable of overshadowing the Jordanian economy, considering the latter's limited potential and per capita income equal to one tenth of that of Israel. However, it is possible to make this fact a springboard for adopting strategies that will prevent, or at least limit, Israeli control over the two neighbouring economies and consequently enhance the relations of Israeli economy with other currently shattered Arab economies.

However, the problem does not lie in the strength of Israel's economy or in the attraction of its project to establish a New Middle East. This latter plan arouses the misgivings of a wide range of forces (radical Islamic, Arab nationalist, and secular democratic, with numerous ideologies), with these misgivings based on political, economic and cultural considerations, some of which are linked to the structure and identity of the new system and political functions while others are related to ideological and historical causes, for example, the Arab integrated phased regional project with an automotive social and developmental purport. It also lies in the marginalization that governs the form of the relations of the Arab disarranged and backward economy with the world economy, and in the political insignificance of the Arab bloc as regards its connections with effective centres of decision in the present international order, particularly after the Second Gulf War.

Note: This paper has drawn heavily on the following sources:

Jamil Helal, "Strategiyyat Israel al-iqtisadiya: al-Sharq al-Awsat" (Israel's Middle East economic strategy) (Beirut: Institute of Palestinian Studies, 1995).

Jamil Helal, "Al-iqtisad al-Israeli: al-bunyah wa al-tahawwulat, 1985-1995" (The Israeli economy: structure and transformations, 1985 - 1995).

Jamil Helal, "Sina'at idologiyyat al-salam fi Israel" (Peace ideology formulation in Israel), *Majjalat al-Siyasa al-Falastiniyyah* (Journal of Palestinian policy) vol. 2, Nos. 7 and 8 (Summer and autumn of 1995), Palestinian Studies and Research Center, Nablus.

Chapter Ten

Strategic Dimensions of Middle
Eastern Economic Scenarios
Dr. Mahmoud Abdel Fadheel

Commentaries

Dr. Waseem Harb
Dr. Fahd al-Fanek
Dr. Ibrahim Badran
Dr. Zaki Hannoush
Dr. Tayseer Abdel Jaber
Dr. Samir Nasr
Dr. Munir Hamarneh
Dr. Samir Halileh
Dr. Basim Fayyad
Dr. Zuka al-Khalidi
Dr. Khaled al-Wazani
Dr. Ahmad Najjar
Dr. Walid Hmeidat
Dr. Kanaan Ismail

Reply

Dr. Mahmoud Abdel Fadheel

STRATEGIC DIMENSIONS OF MIDDLE EASTERN ECONOMIC SCENARIOS

Dr. Mahmoud Abdel Fadheel

I. NEW INTERNATIONAL ECONOMIC CHALLENGES

The new pressures generated by mounting economic competition at the international level, as well as the accelerating pace of technological development of equipment, commodities and services have doubtless made it extremely necessary for Arab States' individual economies to seek new formulas for expanding the scope of the economic space in which they operate. This, in turn, requires that they start to consider modalities and forms for a regional economic grouping that could play a mediatory role by which subregional entities may define their standing and level of relations with the global economy as a whole. Hence, economic policy makers, and strategy planners in general, in any Arab country, should understand the pattern of interaction and reciprocal impact of three levels of economic relations:

- (a) The subregional (State) level.
- (b) The regional level, where various mediatory (subregional) levels could culminate into an "ideal" regional level or an "ideal regional grouping".
- (c) The global level, where relations of an international nature prevail.

For the purposes of this paper, we do not intend to be part of the longstanding controversy over the nature of the new giant world economic groupings: NAFTA, the EU, ASEAN and MERCOSUR of Latin America, and whether their status can be characterized as open regionalism vs. closed regionalism. All we care to emphasize here is that the integration of individual Arab economies into the new structure of the post-Uruguay Round world economy is no less than a suicide attempt that will reflect negatively on the prospects for advancement and economic development of the Arab countries. Nonetheless, if Arab countries are intent on

seeking a suitable "regional" framework in the context of new international economic developments, the essential fact that there is no such thing as an ideal formula for a regional economic arrangement should be kept in mind. The European Common Market is no more than one of many possible models that suit the more advanced countries, which went a long way toward developing their productive structures before seeking regional integration. Moreover, a model such as NAFTA, which groups Northern countries (the United States and Canada) and an advanced Southern peripheral country (Mexico), has a special historical background, whereas the ASEAN model is based on a flexible transitional formula that takes into account differences in level of development and labour forces among ASEAN member countries: Singapore, Brunei, Malaysia, the Philippines, Indonesia and Viet Nam.

The Arab countries have recently witnessed heated argument over what regional arrangement beyond the scope of the 'Arab economic space' is best in the context of recent regional and international developments. Among such prospective arrangements, much is said in comparison between a Middle Eastern order, and a Mediterranean partnership. Both proposals strategically imply the creation of a new economic space that would include a number of Arab countries (according to the possible geographical intersections) and would ultimately lead to the establishment of a free-trade area around the year 2010.

It is clear to us that the Middle Eastern proposal is basically an American-backed Israeli formula aimed at what Shimon Peres labeled the New Middle East, in which Israel would play the leading role of an accredited agent of and broker between the advanced capitalist Western and Asian centres on the one hand and (mainly) the Arab Mashreq and Gulf countries on the other. As far as this proposal is concerned, we have outlined our reservations and commented on its main features in previous writings, particularly with regard to the possible economic gains and

losses of the enterprise, which is currently advertised and marketed with such vigour.¹

In its Middle Eastern perspective, Israel primarily focuses on human resources development, owing to lack of other natural resources. Hence, it invests 3.2% of its GDP in R&D activities, with the aim of joining the high-tech modern industry club and doing away with light and low-skill industries, often dubbed "T-shirt industries". Israel's regional policy is targeted towards attracting direct foreign investment, especially by giant electronics multinationals, with Israel aiming to serve as a bridge by which products are channeled to the greater Middle Eastern market in the post-peace era.

II. MIDDLE EASTERNISM: CENTRE AND PERIPHERIES

Israel basically denies the very existence of an Arab economy or an Arab economic structure and bases its strategic perspective on the establishment of a Middle Eastern regional economic grouping, in which the individual economies of the fertile crescent countries (formerly called Bilad al-Sham) are incorporated without prior coordination or integration. Israel will be the centre, or heart, of such a grouping, supplying the other peripheries with their needs. Nonetheless, what really matters to Israel in the final analysis is not a Middle Eastern economic partnership, but rather its function as a bargaining chip in the pursuit of a better and more preferential economic relationship with other major economic groupings of the first world, namely NAFTA, the European Union and ASEAN.

For this reason, the Arab world is to Israel—a country of the North—a Southern space, a backyard in the same way that some South American countries are to NAFTA, the southern Mediterranean countries are to the EU or some Asian countries are to Japan. In other words, Israel

¹ In this regard, see Mahmoud Abdel Fadheel, "Masharee' al-tarteebat al-iqtisadiyat 'al-Sharq al-awsatiya': al-tasawurat, al-mahathir, ashkal al-muwajaha" (Projects for organizing the "Middle Eastern" economy: conceptualization, perils, forms of confronting), *Al-Mustaqbal al-Arabi* (The Arab future) journal, No. 179 (January 1994), pp. 90-124.

is seeking through this endeavour to secure a central and dominating position in the Arab Mashreq economy that could help her penetrate its Gulf environment, by manipulating a central platform that comprises the Israel-Jordan-Palestine triangle.

Hence, Israel is after a relationship by which it could become the world's main gate to the vast Middle Eastern regional market. And while this market was opening up to accommodate Israel's industrial exports, it would greatly encourage foreign investments to make use of the Israeli export platform to reach the Arab markets, considering the Israelis' high-tech industrial products and extremely low shipping costs.

A survey conducted by CRB Foundation to explore the attitudes of a number of multinational corporations operating in Europe, the United States and Japan, emphasizes the above tendency. Survey results revealed that multinationals active in the production of textiles, food and light chemical products (detergents) tend to channel their investments towards Egypt, whereas high-tech industries that seek to employ highly-skilled labour and make use of local R&D facilities will be directing investments to Israel.²

What attracts the observer's attention in regard to the survey is that most international corporations taking part indicated that the main factor and motive behind their future investment and distribution operations in the area would be to expand the market size for their products (63% of the total).³ In the meantime, Israeli subsidiaries of some American international corporations have made it clear that the main objective (75%) behind future expansion of their Middle Eastern operations is penetration of the Arab consumer markets.⁴

² See in this regard Dan D. Singer Associates, *Multinational Corporation Survey of the New Middle East Peace Scenario* (report of the CRB Foundation), April 1990, p. 23.

³ Ibid., p. 34.

⁴ Ibid., p. 40.

At the technological and technical levels, Israel is preparing for reaping the peace dividend generated by the political economy of the region. The United States and Israel have agreed to set up a joint science and technology corporation, a deal that has many political implications at this stage, where continued qualitative Israeli technological superiority can be guaranteed at the regional level: the new conditions mean that a position of hegemony will be realized by whoever has the ability to supply a Middle Eastern common market with better products.⁵

Some might see that the importance of the Israeli role and the risk of Israeli hegemony materializing in the light of new Middle Eastern economic arrangements are being exaggerated. Such observers may feel that most apprehensions and risks are based on the current image of Arab economies as backward, and that the future is teeming with prospects for Arab economies to develop immensely and boost their ability to compete with others. A good example of such writings is a study by Dr. Fahd Fanek entitled "The economic dimensions of a peace settlement", in which Fanek sees that if an acceptable peace settlement is reached, Israel will become simply another foreign country that can export its products to Arab markets on an equal footing with other foreign manufactures and can pursue investment in the Arab countries just like any other foreign State.⁶

On the other hand, other writers and analysts warn that the Israeli economy will be taking for itself the best part of the dividends of the new Middle Eastern economic order, owing to its being better positioned to take advantage of dividends generated by the new economic arrangements, which will render the Israeli economy capable of maximizing exploitation

⁵ Mohammad Sayyed Ahmad, "Jaa'a waqt al-qararat al-masiriya bi sh'an mustaqbal al-Sharq al-Awsat" (The time has come for the crucial decisions about the future of the Middle East), *Al-Ahram* newspaper, 25 March 1993.

⁶ Fahd Fanek, "Al-ab'aad al-iqtisadiya lil-hill al-salmi" (The economic dimensions of a peace settlement), unpublished paper submitted to the Symposium on the Regional Outcomes of a Peace Settlement in the Middle East, held by the Arab Thought Forum in Amman, September 1992, p. 8.

of its economic and technological resources. It goes without saying that the Israeli economy is largely dependent on external exchange operations, i.e., importation of raw material and semi-finished goods (nearly half of Israel's imports), and exportation of industrial products (nearly two thirds of its exports).⁷ They also argue that under the new economic arrangements, several Arab countries will possibly turn into exporters of raw materials and components for the Israeli industries. This would be effected under the provisions of intra-industry trade agreements, which in turn will enhance the impact of the 'inequitable' growth gap between the Israeli economy on the one hand and that of Arab countries on the other. A good example of the disparities in this new distribution of labour is some Israeli economists' proposal that Egypt specialize in producing cotton yarn and ready-made clothes (and other labour-intensive activities), whereas Israel undertake advanced activities associated with the weaving and textile industries, such as design, printing and marketing.⁸

Israel is counting, in the coming period, on becoming the main centre for high-tech industries in the Middle Eastern region, in view of its suitable infrastructure in this field, as well as its human resources and technical facilities. A number of world electronics manufacturers have established branches and production facilities in what is called MATAM High-Tech Park, located in Haifa. The most important of these companies are Intel, Elbit, Microsoft, IBM, Fibronics, Chip Express, Net Manage and Elscint.

A vice-president of the multinational corporation Rockwell referred to this type of role for Israel in the post-peace era in a statement he made

⁷ C.L. Tawson and Rosen, *The Economic Consequences of Peace for Israel, the Palestinians and Jordan*, p. 13.

⁸ See Hirsch, "Trade regimes in the Middle East", in G. Fishelson, ed., *Economic Cooperation in the Middle East* (Boulder, Colorado: Westview Press, 1989).

in April 1995. The Israeli Government happily reprinted his remarks in its promotional literature:⁹

Israel is industrially and geographically at the centre of the Middle East and is poised to be a springboard for industrial development. Rockwell desires to play a larger role in the coming industrial growth, and Israel represents a very attractive base from which to accomplish this.

Other reports point out that Intel and Motorola, two leading international corporations in micro-electronics, have invested some \$2.6 billion in the Jewish State, assuming that it is the natural gateway to the Arab and Middle Eastern markets.

It is noteworthy here that the post-peace Israeli economic strategy will have a great adverse impact on Lebanon's economic future, in such areas as transport, tourism, commerce, health care and capital mediation, which form the backbone of the Lebanese economy, but which are simultaneously areas where Israel has a natural or acquired superiority.¹⁰

III. FUTURE RISKS AND THE ADVERSE IMPACT OF NEW REGIONAL ARRANGEMENTS

Prominent writer and scholar Jamil Mattar has warned against the risks inherent in the new economic arrangements (whether "Middle-Eastern" or "Mediterranean", in the sense that both scenarios are based on fragmentation of the Arabs into separate geographical entities that are closely interlinked with other parts of the world economy. Hence, a greater proportion of the Arabs would be part of a Middle Eastern

⁹ Israel, Ministry of Industry, "Reasons to invest in Israel", December 1995.

¹⁰ See Ghiyath al-Yafi, "Ayy khayarat lil-Lubnan—wal-mintaqat al-Arabiya—fi dou' khittat Israel al-khafiyya . . . iqtisadiyan wa siyaasiyyan?" (What economic or political choice is there for Lebanon—or the Arab region—in the context of Israel's covert plan?), *Al-Hayat* (Life) magazine, 31 January 1996, p. 17.

region, whereas part of this region together with a smaller proportion of Arab States would comprise a Mediterranean region.¹¹

In this context, an important question arises over the future of the Alexandria Protocol, according to which an "Arab regional order" was set up in the aftermath of World War II as part of the Arab League framework. Despite differences and inter-Arab conflicts, the "Arab regional order" witnessed an era of growth and prosperity in the 1950s, 1960s and 1970s before giving way in the 1980s to an "Arab subregionalism" that was characterized by the inception of the Gulf Cooperation Council, the Arab Cooperation Council, and the Arab Maghreb Union. The founders of these subregional groupings, which by no means accommodated all Arab countries (they left the so-called "surplus countries" outside their framework), noticeably paid little concern to formulating the cross-grouping ties that should have been maintained for guaranteeing the integration of various parts of the political, as well as economic, Arab body.

In this context, the cross-sectional implications that may be inherent in the various regional groupings—the Arab economic integration option, the Middle Eastern option, and the Euro-Mediterranean scheme—are interpreted by some as complementing instead of contradicting one another. There is not space here to critically discuss such a hypothesis, however.

Nonetheless, if a choice is to be made with regard to cross-grouping implications, the Euro-Mediterranean partnership scheme may be the most advantageous, owing to the fact that the partnership's institutional framework remains sufficiently flexible and, in a way, resembles the Asia-Pacific Economic Forum. The evolution of the non-restrictive economic partnership set-up into an economic community similar to the EEC will certainly require a long transitional period. However, this would

¹¹ See Jamil Mattar, "Watha'iq al-manthoumat al-iqlimiyat al-a'tham fil-sharq al-awsat" (A "Magna Carta" for a regional organization in the Middle East), *Al-Hayat* (Life) magazine, 10 December 1995.

allow the Arabs sufficient room to reorganize after the painful and destructive blow of the Gulf crisis and war.

The Middle Eastern project, on the other hand, is basically a product of the scheming of certain upper circles to create a new Middle Eastern regional order that would drain the Arab identity and guarantee a leading role for Israel. It would also control political and economic transformations in the Arab region, leaving the Arabs with little room for manoeuvring.

The same problem, nevertheless, applies to Arab countries associated with the Euro-Mediterranean economic space in their relations with non-member Arab States (again, "surplus countries"). The future relations between the two groups should be discussed. This particularly applies to the GCC member States, as well as Iraq and other countries such as Sudan and Yemen. It is obvious that a certain economic arrangement should be set up between the Arab States that have Euro-Mediterranean Association Agreements on the one hand and the GCC States on the other. The purpose of the arrangement would be to bolster Arab negotiating power and create conditions to help the Mediterranean Arab group develop a better collective bargaining position in the framework of Euro-Mediterranean partnership.

Thus, it is necessary to maintain strong Arab relations in the framework of the broader Arab economic space and through joint Arab activity, with the aim of keeping the Arab economy from disintegrating into disjointed economic spaces as noted above.

IV. REQUIREMENTS AND FORMS OF COOPERATION NEEDED FOR THE ARAB ECONOMY TO ADDRESS "MIDDLE-EASTERNIST" CHALLENGES

A. THE INDICATIVE PLANNING APPROACH AS AN INSTRUMENT FOR ARAB INTEGRATIONAL COORDINATION

Following their political independence, the Arab States worked individually on developing their State economies, based on the perception that inadequacies in a single State's development potential could be made up for through collaboration with advanced industrial States. Each Arab State had to plan development against a different background with regard to the level of production forces and economic and social structure disparities.

Some Arab countries did not have to start from scratch, owing to their small base of light industries and infrastructure. This was the case with Egypt (since before World War II) and Syria, Lebanon, Iraq and some Arab Maghreb countries (after the War). The majority of the other Arab countries had an agrarian/pastoral economic base. Moreover, some Arab countries had a more suitable orientation for implementing development plans than others, particularly concerning agricultural potential, and human and financial resources. Generally speaking, Arab economies are at an initial stage of growth, relying in most cases on a predominant single resource, whether this is of an agricultural, pastoral or extractive nature.¹²

In contrast to the approach whereby isolated "national development" programmes were carried out by each individual Arab country, there began a search for areas where integration was possible within the countries' development plans. Likewise, economic unification endeavours and schemes by the Arab League and the Council for Arab Economic

¹² See Mahmoud al-Humsi, *Khittat al-tanmiyat al-Arabiya wa injahatuha al-takamuliya wal-tanfuriya* (Arab development plans: integration and discordance) (Beirut: Arab Unity Research Centre, 1980), p. 21.

Unity sought to identify ways and means of promoting further collaboration and coordination of unilateral development endeavours.

Arab integration attempts in the 1950s and 1960s endorsed a characteristically idealist/legal outlook with regard to Arab economic realities. No serious attempts were made at monitoring or assessing the morphological differences in various Arab economic and social structures, nor did the joint Arab economic endeavour seek to explore the possible impact of such differences on inter-Arab relations. Any attempt at reviewing the actions that preceded the finalization of Arab economic agreements would show that there were scarcely any studies or reporting on the characteristics or available resources, whether for single Arab countries or for the overall Arab macroeconomic level.¹³

Because of this mentality in approaching economic issues, it is now beyond anybody's capacity to identify the objective considerations that were at the base of most of the decisions made and agreements reached. It is also obvious that at the time it was scarcely possible to assess the advantages that any party could have gained or lost, whether in the long run or even in the short run. An absence of studies and analytical work could possibly have been the reason behind the fact that most pan-Arab arrangements and agreements have proved to be no more than poorly-assimilated miniatures of those formulated by some other community of nations, without giving due consideration to the prevailing and prospective economic situation or the demographic and social conditions in the Arab countries.¹⁴

This fact probably explains the schism between the collective decisions and agreements reached, on the one hand, and what was carried out individually by each State, on the other hand. Thus, collective

¹³ See, for example, the League of Arab States, the Council for Arab Economic Unity, *Al-A'maal al-Tamheediya li Itiifaqiyatei al-Wahdat al-Iqtisadiyat al-Arabiya bein duwal al-Jaami'at al-Arabiya* (Preparatory work for the two accords on Arab economic unity).

¹⁴ Al-Humsi, op. cit., p. 76.

decisions seem to have been inspired by borrowed concepts or to embody overly ambitious goals, whereas the practical steps and procedures carried out in every single Arab country took nothing into consideration except current local priorities.¹⁵

Endeavours to establish coordination and integration among Arab economies were devoid of serious effort to harmonize the economic advancement of the individual Arab States so as to serve the common interest. Several years passed before those responsible for promoting economic unity and integration recognized how important it was to coordinate economic practices in various Arab countries, especially with regard to developmental processes, whether at the sectoral or macro-political levels.

Complications affecting endeavours at integration may well have originated in each party's pursuit of its own interests, at the expense of the collective interest. Trying to achieve the collective interest would have required an approach based on reciprocity of interests, in a balanced and equitable framework of economic integration characterized by give and take.¹⁶

Hence, the indicative planning approach could guide individual Arab States' development processes that encounter similar problems *vis-à-vis* Middle Eastern economic arrangements, and globalization trends in general, and with a view to assessing the position of the Arab economy within the world economy structure in particular. The development endeavours of Arab countries still lack the guidelines that point out the

¹⁵ See Sayyed Noufal in his commentary on the lecture of Ahmad Ghandour, "Al-'amal al-Arabi al-mushtarak: injaazaatuhu wa mu'awiqaatuhu" (Joint Arab action: achievements and impediments), in a set of lectures delivered from November to December 1977, Part Two (Cairo), League of Arab States, Secretariat-General, General Administration for Economic Affairs, p. 15.

¹⁶ Al-Humsi, *op. cit.*, p. 97.

direction to follow and the objectives to pursue in their inter-State commerce while seeking maximization of coordination and integration.

It is noteworthy in this context that the indicative planning approach is by no means a technical exercise but rather an economic and political necessity from the perspective of the Arab future. It seeks maximal harmony, not to say coordination, in the development policies of individual Arab States aimed at Arab economic integration, while simultaneously building up a greater degree of competitiveness. In other words, an inter-Arab indicative planning approach would help underline the pan-Arab dimension in the various national development plans and would coordinate such plans in the light of a long-term perspective of international and regional changes.

The main problem that faces the indicative planning process is to determine the extent to which the need to control and plan integrational development processes at the pan-Arab level can be harmonized with the need to offer sufficient room for private-sector investment initiative in each individual Arab country. That is why the proposed indicative planning approach is basically of an empirical nature and why it should be gradually developed, through trial and error.

In this sense, indicative planning efforts could focus on the major sectors and activities that represent possible intersections of individual State development efforts and Arab economic integration processes. This applies to areas such as food security, basic industries, infrastructure facilities, and financial mediation, which can hardly be planned and operated efficiently at a single country level. Thus, indicative planning becomes an effective instrument for achieving competitive efficiency on the one hand and reducing risk on the other. An indicative plan, according to Pierre Masse, who headed the French Planning Commission for some time, is characteristically risk averse.¹⁷

¹⁷ Pierre Masse, *Le Plan ou l'Antihazard Collection Idees* (Paris: Gallimard, 1965).

Some may think that the sectors and activities that fall within the sphere of indicative planning can be defined arbitrarily for every development plan in the light of the opportunities available for matching the requirements of Arab development integration with the priorities of individual country development—but the indicative planning concept requires the adoption of a more positive attitude towards the activities and investments subject to indicative planning. Some French indicative planning theoreticians stress, in this context, that, on the investment side, indicative planning endeavours should focus on the following:

(a) *Investments that spur investments*, i.e., investments that spur further investment (private and public) in other fields and other Arab countries. In short, concentration should be on investments that would generate investment waves in interlinked areas inside a certain country and across other Arab countries.

(b) *Industrializing industries*, i.e., basic industries that lead or create other industries or generate them, whether within the mother Arab country or in other Arab countries that would supply these industries with their production requirements or would further process their products.¹⁸

Under current Arab conditions, it is to be taken for granted that there are a number of facts that cannot be ignored if indicative planning efforts are to succeed. These include the following:¹⁹

(a) Each Arab country has a right to an independent economic orientation and to freely exploit its economic resources in pursuit of its own development goals in accordance with its socio-economic and political choices.

¹⁸ G. de Bernis, "Industries industrialisantes et contenu d'une politique d'intégration régionale", *Economie Appliquée*, vol. 19, Nos. 3-6 (1966), pp. 458-460.

¹⁹ Arab Research and Studies Institute, "*Dirasaat fi Tanseeq al-Khattat wal-Takaamul al-Iqtisadi al-Arabi*", pp. 368-369.

(b) Each Arab country has a right to attain the highest possible levels of self-reliance (or self-sufficiency) in some products or resources, provided that such an option does not contradict the objective of maximizing the cost-effective exploitation of Arab resources.

(c) Due respect must be paid to the provisions of the Arab Economic Action Charter, which was approved by the 11th Arab Summit and which calls for the neutrality of joint Arab economic action, saving it the negative impact and setbacks resulting from temporary political differences and cherishing it as the solid common ground for building Arab solidarity by strengthening mutual interests and consolidating the organic ties that promote equitable benefits.

The various forms of coordination and integration of economic plans and policies endorsed by Arab countries should be considered in the light of the aforementioned facts and with a view to harmonizing to the greatest extent possible every State's development objectives with those of Arab integration. In the short and medium run, sufficient room needs to be left to work out compromises for conflicting interests between States.

It goes without saying that pan-Arab indicative planning operations are based on the premise that despite qualitative differences between one Arab socio-economic system and another, such systems remain closely interlinked.

B. THE PRINCIPLE OF NEGOTIATED DISTRIBUTION OF LABOUR AS A BASIS FOR COORDINATING INVESTMENT AND PRODUCTION PLANS AND PROGRAMMES

Despite the special focus that the indicative planning approach puts on productive aspects and sectoral growth patterns, this approach implies arrangements that can help in increasing and multiplying the volume of commercial trade and commodity flows among Arab countries. The coordination of Arab countries' national plans may culminate into a new system of relations and trade, mainly governed by the need to maintain

the flow of certain types of raw materials and semi-finished goods from one country to another, as called for by joint development programmes and in accordance with the required development of new production structures.

The indicative planning approach may be based at the pan-Arab level on several fundamental principles:

1. The recognition of every Arab State's full sovereignty over its development planning.
2. The establishment of a framework for negotiating programmes and agreements (bilateral as well as multilateral) that lay foundations for new specialization and distribution every ten years, on a voluntary and negotiated basis.
3. Despite the voluntary nature of coordination among Arab States with regard to their individual development plans, the indicative planning approach allows for some joint planning of certain branches of industry and other productive and service activities (where public and private capital can work together), such as: the petrochemical and iron and steel industries; animal husbandry programmes; agricultural development and food security programmes; cross-country motorway networks; ship and tanker building projects; and insurance and reinsurance companies.

Nevertheless, it should be pointed out that using the indicative planning approach for coordinating the various Arab countries' development plans does not necessarily require an overall coordination of the economic, financial and social policies of all Arab countries. Differences in economic and social systems, which are manifest in the economic, financial and social policies of every Arab country, should by no means stand in the way of the adoption of the indicative planning approach and the coordination of Arab development endeavours.

Coordination of the plans of the individual Arab countries in the field of industrial investment seems to be a historical necessity imposed by: increasing sophistication of the industrialization process; rapid

technological progress; the general tendency in industry, especially with regard to capital-intensive and intermediate industries (iron and steel, and petrochemicals) to build giant projects; and industrialization's requirements for basic material and social infrastructure.

The diversity of the required structures and the immensity of the financial resources needed for such an endeavour, together with the narrow Arab markets and the external market barriers to Arab exports (especially in the developed countries), mean that the Arab countries seeking to industrialize must explore ways to expand their markets and diversify and increase their resources in a way that would serve the purpose of building a more effective industrial base. They must also utilize more efficient technology, a move that would entail far-reaching changes in their economic structures.

This goal could be achieved by using the indicative planning method and by coordinating intra-Arab private investment, which would open new avenues for bringing about the desired structural changes in the economies of the Arab States as well as in the Arab community at large.

External savings may well be the outcome of mutual dependency with regard to the various industrial activities at the pan-Arab level. However, isolated private investment decisions cannot be the instrument for reaching the level and type of industrial investment that can best serve the Arab economy at large.

The negotiated Arab distribution of labour at the industrial level would be a continual process aimed at the reconciliation of two objectives: the first is to maximize exploitation of the available resources in the Arab region as a whole by setting up the industrial structures provided for by integration (efficiency), and the second is to guarantee a fair chance for every Arab country to contribute to such structures by creating its own industrial base in a way that best serves specialization and interdependence among individual Arab countries (equity). It will be no easy job to harmonize these two objectives, especially considering how poorly distributed industrial projects are, even among the various regions

of the individual Arab countries. The case would be far more complicated when several independent, decision-making Governments take part in making joint decisions that can be vetoed by any of the parties.

Doubtless, this approach would require the use of new techniques for defining an industrial distribution pattern to be established among member States that would adhere to the criteria of efficiency and equity and make possible the speedy resolution of the problems and difficulties that would obstruct integration, particularly in the choice of industries. This is especially important as regards the business community.

Finally, one basic fact that should always be kept in mind is that this type of planning requires that a reasonable background of political and technical conditions be in place. The existence of the political will to move towards such an objective is a prerequisite for any coordination or effective indicative planning at the pan-Arab level. The absence of such a will means that any talk of Arab economic coordination and cooperation is pointless. Technical conditions, on the other hand, can always be tackled, regardless of difficulties, when the political will is present.

Commentary

Dr. Waseem Harb

I would like at the outset to congratulate Dr. Mahmoud Abdel Fadheel for his outstanding paper, which again confirms that there is always a benefit in reading what Dr. Abdel Fadheel writes. It also affirms that he is an authority on Arab world economics.

I am not going to comment on all the many positive aspects and benefits of the paper, and it is likewise difficult for me to discuss all the aspects and questions raised by him. Therefore, I will limit my remarks to discussing certain points, and then I will indicate my point of view on an important question which I believe he did not discuss sufficiently. This question is related to the future prospects of "information economics" in the Arab world, as well as the impact of this on the remaining economic sectors. The overwhelming features of the paper are the following:

1. The paper makes the assumption that there is a conflict between the part and the whole, or between regional alliances and pan-Arab alliances, and that the trend towards a formula for regional Mediterranean cooperation built on an Arab economic base is the proper approach to the future. Of course such a development could never occur unless there is an Arab political will capable of planning and taking effective action. The approach taken here keeps us prisoners of nationalistic sentimentalism at a time when the Arabs must, as a consequence of the regional and international changes under way, embark on a policy of *rapprochement* based on a new conceptualization of the issues.

Within the context of this approach, I would like to raise a series of questions:

Why has Arab will so far failed to envision an Arab economic formula? Is it a healthy thing that we envision an all-embracing nationalist Arab economic formula, which is basically a politically sentimental matter? Is it enough that we like one another as Arabs in order to cooperate economically? What is the actual meaning of the phrase "Arab economic integration"? Is it based on economic facts and

social infrastructures, or is it a pure political national aspiration, as I conclude from reading the literature published on this subject? Meanwhile, are the plans, ideas and projects for regional alliances based on realistic factors? Is the so-called tripartite bloc—Jordan, Palestine and Israel—an Israeli demand or a Jordanian-Palestinian demand? What are the ingredients of this alliance? Is it to be a common market, or only a gateway through which Israel can reach a bigger market? And does Israel really need this gateway when the atmosphere is one of general peace?

The truth is that we need to pose realistic questions supported with details and explanations so that we can determine the truth.

2. The paper by Dr. Abdel Fadheel says that Israel seeks, via a Middle East economic grouping and using the Israeli-Jordanian-Palestinian relationship as a base, to establish unique economic relationships with the major economic powers and to dominate the economies of the Arab Mashreq and Arab Gulf countries.

I fully understand the Arab national apprehensions in regard to this concept, and I also recognize that Arab economic cooperation is a necessity. I agree with the author that political will is a prerequisite for any Arab economic coordination—but what is the alternative in the absence of this Arab consensus?

The predicament of Arab economic thought is that it is a captive of this type of thinking. As an Arab nationalist who cheered Egyptian President Jamal Abdel Nasser when I was young and who still believes in my Arab nationalist identity, I can never relinquish this identity. However, I should deal with the status quo objectively and realistically and look for new linkages that can tie the Arab world together.

3. Dr. Abdel Fadheel says in his paper that Israel is striving to develop its manpower resources in the area of research and development so that it could become the bridge over which the merchandise of large international companies crosses to bigger markets. He also said that Israel is trying to become the site for the investments of these large international companies in the high-technology sector.

I think that this is a very important question, because it embodies the most significant danger that Israel poses to the Arab world. It is also a question with enormous political and economic repercussions for the future, and it should have occupied a larger space in the paper. We need to understand its various dimensions, because it is the hottest point in information economics today.

Information economics is one of the most important sectors in the world of today. Its importance lies in the fact that it is one of the most rapidly developing sectors and often has an impact on other economic sectors and activities.

The sector of information economics generally has two basic functions:

(a) To create and disseminate information through information and telematic channels.

(b) To create software.

The making and dissemination of information has become the backbone of every economic activity following the launch of the Internet by the Americans. Investments, financial allocations and all sorts of economic decisions now depend on the availability of complete and accurate information whether at the macroeconomic or microeconomic level.

The control of this sector by the Western economy, particularly the U.S. economy, places the latter in an extremely advantageous position, since American information centres can analyse the information they obtain from the various data banks around the world and can consequently follow economic trends in the various parts of the world. Taking into consideration the distinctive relationship that exists between Israel and American economic decision makers, one can sense the Israeli danger that is posed to the Arab world.

Arab countries are backward in the field of informatics and have a long way to go before they will be in a position to make full utilization of it, whether as individuals, States or companies. No more than ten Arab centres have shown an interest in informatics, and their activity was restricted to programming. In fact, there is no Arab data bank to disseminate information. Data banks in the Arab countries amount to nothing more than archives and do not engage in any kind of work requiring sophisticated utilization of technology. The information contained exists only in Arabic and is used on a limited geographic and sectoral basis.

This acute shortcoming will encourage international companies to take over the Arab information industry, a phenomenon which is clearly dangerous. Shortcomings in the Arab information industry will make it difficult for the Arabs to make credible feasibility studies that could be used to attract international investments to the region. Furthermore, without such studies, it would be difficult to formulate economic policies and plans that could lead to healthy economic growth. It has been pointed out in this connection that the proportion of industrial investments made in the United Arab Emirates on the basis of feasibility studies for 1994 amounted to no more than 24% of the total investments for that year. It has also been pointed out that available Arab economic information sources are restricted for the most part to the Arab Gulf States. Western sources and data banks are the only entities undertaking such studies.

The Arab weakness with regard to programming is striking if compared with Israel's enormous interest in this field, and this, in our view, constitutes the greatest danger in the short run. Israel has attracted \$2.6 billion in American investment for the development of information systems and programming, and well over \$12 billion in total capital for this purpose. It has been reported that Israel has attained a high degree of progress in macro-informatics, cybernetics and robotics. This will certainly allow Israel to become not only a bridge, but an exporter of the informatics that control the various economic sectors. And here lies a great danger which the Arabs must address.

Commentary

Dr. Fahd al-Fanek

Dr. Abdel Fadheel has submitted an excellent paper using the scientific method and practical application in a difficult case; Arab conditions do not yield easily to scientific analysis, as they continue to fluctuate constantly. These conditions sometimes defy scientific logic because of uncalculated political actions and decisions based on personal whims—and yet the researcher is compelled to assume that Arab decision makers are rational people.

I am one of those who admire the thinking of Dr. Abdel Fadheel. Nevertheless, I would like to make some remarks disagreeing with several points, which by no means reflects negatively on his paper. Dr. Abdel Fadheel says on the first page that the merger of the Arab economies on an individual basis into the international economy of the post-Uruguay Round era is a suicidal attempt which will have negative consequences for the future of Arab economic progress and advancement. However, this theory lacks proof. My question here is: Was the accession of other third world countries to the World Trade Organization, and earlier to GATT, an act of suicide, or does this statement apply only to the Arab countries? We as researchers prefer to see the Arab countries join the WTO as a unified economic bloc. But is this preference enough, knowing that it is impossible for practical reasons at least in the short-term, when leaders of Arab countries refuse even to meet?

It is safe to say that if we cannot enter the WTO as a unified Arab bloc, then it would be suicide to stay *outside* it, as this would mean isolation and alienation from the world market, particularly since the inter-Arab market is insignificant and its resources limited, and since the political will to activate it is almost non-existent.

I agree with the researcher in his rejection of the New Middle East Project proposed by Shimon Peres. However, on the periphery of this common Arab rejection, I would like to point out that the project is no more than some ideas put forward by certain American intellectual circles and some articles appearing in the press here and there. From a realistic

point of view, there is no ready-made market within a New Middle East. No Arab country has ever received an official invitation to join such a market. Evidently, this market cannot materialize from the practical point of view, because it at least requires the unification of Arab markets. When we add Israel and perhaps Iran and Turkey, the situation does not become easier but more complicated. However, if what is required is to launch a Middle East project after the achievement of comprehensive peace, we would be against it, because Israel would be the leader and the focus of the project, while Arab countries would play peripheral roles only.

The paper says that major international companies, particularly those in the electronics industry, will make their investments in Israel if a Middle Eastern market is established, and Israel would be the bridge over which the products of these companies would travel to Arab markets. My view on this is that the Arab markets are already open to the products of these companies, and that these companies do not need an Israeli gateway or bridge for the passage of their products. My question is: Why do these companies not opt for an Egyptian or Jordanian gateway to enter Arab markets, if they really do need a gateway, and why do they invest in Israel, not in Egypt, despite the size of Egypt's local market, the country's policy of openness, and its cheap Arab labour compared with Israel's higher paid workforce?

It is well-known that some large American companies use Israel as a site for conducting research and development, because there are abundant engineers and technicians in Israel who can be hired at low cost compared with their American counterparts. There are large American companies that made links with Israel, even when the Arab economic boycott of Israel was still in force, and before there were any peace treaties or talk about a Middle Eastern market.

While I understand and support the idea of adopting a negative stand towards a Middle Eastern market, for different and varying reasons, I could not understand the warning made against the Euro-Mediterranean partnership, which is probably the appropriate political and economic alternative for us. Morocco and Tunisia have already signed Association Agreements to accede to this partnership, and Egypt and Jordan are

expected to join before the end of the year. Consequently, we are talking about a practical and viable alternative which really exists, not a hypothetical option.

I believe that a Mediterranean partnership under the leadership of Europe is the only way for us to escape a Middle Eastern market under the leadership of Israel. The former would provide the Arabs with the opportunity to catch up with the advanced, developed world. Furthermore, European markets would be open to the Arabs, and this would provide them with the opportunity for industrialization, development and growth.

The apprehensions voiced by the author, quoting Jamil Mattar, that such arrangements are based on dividing the Arabs into separate geographic entities, are groundless. In fact, Arabs are already divided, with or without a Middle Eastern or a Euro-Mediterranean market. This state of Arab division is one of the reasons for the inevitable failure of the Middle Eastern market, but this cannot apply to the European partnership, because the Europeans recognize that waiting for an Arab economic bloc or alliance to materialize means waiting for a very long time. Therefore, they decided to offer individual Arab States the chance to join a Euro-Mediterranean partnership. Evidently, their approach has succeeded.

It seems that Arab agreements with the European Union have been proceeding smoothly. Differences are restricted to the names of commodities and the quantities to be traded. I examined the agreement with Tunisia, which encourages Tunisia to enter into economic integration arrangements with other Arab countries. The European partnership includes some Arab countries but not all, and the Europeans would rather deal with an integrated Arab bloc than with individual Arab States. However, they know that Arab economic integration at present would require a miracle to achieve.

Apprehensions over the reluctance of the oil-rich Arab States to join the European partnership is not a sufficient reason for procrastination. It is these oil-rich Arab countries, which are now running a deficit, which

did not want integration with the poorer Arab countries. At the same time, they are seeking to enter into agreements with the European Union.

I have noted that the author ultimately prefers a Euro-Mediterranean partnership because it allows the Arab house to be rearranged, particularly since the author is of the view that the Gulf war has dismembered the Arab house. The truth is that the Gulf war has revealed the state of weakness of the Arab order, but did not create this state. The aftermath of the Gulf war is now gone; the state of Arab weakness has remained with us.

I should assert here that the issue of the Euro-Mediterranean partnership is not an economic or commercial issue only. It signifies other important dimensions, such as democracy, pluralism, human rights, environmental protection, and cultural interaction.

It will certainly allow the Arabs to catch up with the developed world. It is an opportunity which we should not miss.

Commentary

Dr. Ibrahim Badran

I would like first to commend the paper submitted by Dr. Abdel Fadheel. I believe it is a good paper, in which the author dealt with many points we need to examine further. It also constitutes a base for a different vision. On my part, I would like to make three points on this topic:

1. As far as concepts are concerned, I think that we as politicized intellectuals are afflicted with a kind of obsession. Sometimes we understand casual words to mean a real state of things. But this is not necessarily helpful. The Middle East is an Arab region with regard to its culture, history, thought, people, geography, demography, present and future. Therefore, we should not be alarmed when we talk about the Middle East, as if we are no longer living in the Middle East or that the Middle East no longer belongs to us.

2. Geopolitical and geoeconomic projects usually appear whenever there is a geopolitical or geo-economic vacuum to fill. If we take 1945 as a base when most Arab countries became independent, no two Arab countries have succeeded so far in establishing meaningful or stable economic relations that would assure investors that such relations could continue for the next 10 or 20 years. Therefore, we are in a state of vacuum, a state which would tempt other powers, whether Israel or Burkina Faso, to move in to fill the vacuum. Nevertheless, I believe that we as intellectuals should not overexert ourselves in trying to figure out what the Israelis are up to. We should not overexert ourselves in trying to predict what the other side will do, while ignoring the subject of what we should do ourselves. We should keep in mind that many studies were made about a New Middle East before Shimon Peres put forth his proposal.

Geopolitics and geo-economics are a real material state, not a theoretical state. It is not a matter of a person drawing up a map on paper. Unless the physical ingredients, such as the economy, demography and geography, are involved, nothing will happen and nothing will change. Furthermore, the rejection of the idea of the New Middle East will not

solve the problem. Therefore, when we look at the future of this New Middle East, we should think in terms of what the individual Arab countries can do unilaterally and what can they do at the bilateral, multilateral and collective levels. Other than that, we will continue to move in circles.

3. My third point is that there is an Israeli hegemony, which we should assess rationally, free of any illusions or oversimplification. Analysts sometimes think in terms of how much we could benefit from trade, or how much we could export. This is an oversimplification. There is no doubt that Israel's capability is not restricted to its area, population or even its GNP, which amounts to \$70 billion. Israel has a powerful reach in a number of areas:

(a) *The international financial area:* We know that Israel has influence with many international financial institutions and can employ this influence to serve its ends.

(b) *The technological area:* In the four years that have elapsed since the Madrid conference, Israel has concluded four major technological agreements, with the United States, Germany, Japan and India. The significance of these agreements is long-term, not short-term.

(c) *The political area.*

(d) *The military area.*

The Arab region has been involved in a conflict for the past 50 years, and we therefore cannot afford to give ourselves too much time to wait to see what the other side will do, because events impose themselves by force. What the Arabs should do is become an effective part in event-making and not simply be the part that is influenced by these events.

Dr. Zaki Hannoush

There is an Arab view which argues that the major challenge facing the Arab world lies in the international economic changes that are taking place, with these changes being considered the independent variable, while Arab-Israeli regional relations are a dependent variable. If this is the assumption we are making, then Arab countries should search for appropriate formulas and practical and realistic concepts that can cope with the changes that are taking place in the international economic system. They must form a vision of an Arab economy that will be able to deal with a global economy that features giant alliances and blocs. Israel in this case should not be anything more than one party of one of the regional groups in the Arab or Middle Eastern region.

Therefore, one of the biggest mistakes the Arabs can make at this stage is to believe that the Middle East peace agreements concluded between the Arabs and Israel are the gateway from which they can cross to the international economy, or to believe that Israel is the crossing point—perhaps the only crossing point—to the new WTO system. Some rather undeveloped notions have appeared calling for a Syrian-Israeli economy, a Jordanian-Israeli economy, a Lebanese-Israeli economy, an Egyptian-Israeli economy, etc., as if Israel is the common denominator or the key to the solution in the region.

It is true that the state of war between the Arabs and Israel has officially ended. But the fate of the economies of the Arab countries in the post-peace era should not be mortgaged to Israel or be utilized to serve Israeli ends. Israel should remain as part of the whole; the plans put forward to strengthen and develop the Arab economies are as feasible and viable now as they were in the past.

Therefore, Arab economic policy makers and strategic planners should think of Israel and its economy as a part to be associated with the whole, not as a part to which the whole should be subordinate. Hence arises the importance of the author's statement that the merger of the economies of the Arab countries individually with the new infrastructure

of the international economy, after the Uruguay Round, is a suicidal step and will reflect negatively on the progress and development of the Arab economies.

In the process of searching for an appropriate regional hemisphere, Arab countries should not necessarily imitate other models, such as NAFTA, EFTA or others, and should not necessarily opt for a New Middle East Project or a Euro-Mediterranean partnership. The New Middle East Project is a formula that will ultimately be utilized for the benefit of Israel and the United States. The Euro-Mediterranean project is a formula that will ultimately be utilized for the benefit of Europe. Arab countries in both projects are marginalized.

In all cases, Israel does not recognize a single Arab economy or an Arab economic infrastructure. At best, Israel believes that even if this single Arab economy exists, it should be utilized in the service of the Israeli economy. Israel is seeking to seize control of the gateway to the Middle East.

In short, Israel is striving to become the focus of all economic activity and the convergence point or crossing to most infrastructure projects, such as roads and railroads, or projects in communications, energy and water (this last area in cooperation with Turkey). It also seeks to become the primary beneficiary of all forms of international tourism to the region. It is trying to attract foreign investments and become a major partner in inter-State trade. Israel is also trying to become a major exporter of technology to the Arab countries and if successful would become the dominant economic power in the region. We can add to all these points the fact that Israel is a military power.

Thus Israel would become the major political power in the region, all the more pleasing to the United States, which is concerned about any disturbances or ideological movements in the Arab region that would threaten its economic interests there. The United States has been working hard since the end of World War II to establish a foothold in the Middle East and has now begun to reap the fruits of its efforts, particularly after the theatrics of the second Gulf war. The last of these American attempts

was a proposal to build a protective shield against long-range missiles covering the entire Arab region and the Middle East.

One of the implicit goals of the United States is to undermine every chance for the rise of an Arab economic entity, or an Arab order with all the political and pan-Arab dimensions that this would imply. The United States would also resist the rise of a trend towards Arab integration or solidarity.

Perhaps it should be indicated here that most Arab regimes, whose systems of government are far removed from the concepts and principles of civil society, implicitly prefer a New Middle East Project; such a project would eliminate all chances for Arab unity, and each Arab ruler would continue to rule in his own country, assured that he will encounter no threat to his regime or interests. The events of the 1950s and 1960s confirm this fact. Furthermore, the systematic departure from the concept of Arab nationalism in the aftermath of the second Gulf war is another instance of this trend away from nationalism.

If the New Middle East Project ever materializes, the outcome will evidently be in Israel's favour. All the economic arrangements that would be devised under the project would eventually turn into gains for the Israeli economy, which already enjoys several advantages, such as the following:

(a) Israel's technological superiority is further reinforced by its technological collaboration with the United States.

(b) Companies in Arab countries that have concluded peace agreements with Israel have entered into inequitable partnerships with Israeli companies: the Arab partner is subservient, offering facilities such as cheap labour and supportive productive services, while the Israeli partner carries out the planning, design, marketing and part of the financing.

(c) Israel has become a major political and economic force in the region and possesses advantages that allow it to resolve its own problems at the expense of its Arab neighbours by gaining for its exports a preferential status in Arab markets. In other words, Israel has been given advantages which the Arab countries have not given to one another.

(d) These arrangements would dismantle the Arab world and divide it into non-Arab entities with regional, not pan-Arab affiliation. For example, the countries of the Arab Gulf region would be alienated from the rest of the Arab world and would become some kind of protectorates lacking pan-Arab affiliation. The Arab Maghreb has been alienated from the Arab Near East and linked with Europe, although there is a contradiction between the European and the American viewpoints on this question. More important, the Middle Eastern region would be placed under the leadership of Israel.

It is absurd to think that the New Middle East Project would be as advantageous for the Arabs as for Israel. Israel would become the economic and financial focal point in the Middle East, and the United States and the West in general would consolidate their economic exploitation and intensify their cultural and consumerist onslaught, at the expense of the Arabs.

Proposed formulas and alternatives for Arab economic cooperation

I agree with the author's analysis of the wide discrepancy between the collective Arab decisions and agreements made, on the one hand, and the practices implemented in each individual Arab State, on the other. It seems that these decisions and agreements have not taken into consideration the actual situation in individual Arab countries, such as the local economy, the demographic and social situation, etc. Furthermore, some Arab Governments that took part in making these decisions did so with bad intentions. They went along with these decisions either to escape blame, or because they caved in to pressure, or because they wanted to see the pan-Arab trend continue for their own interests and not necessarily for the interest of the country they govern. Had there been goodwill on

the part of these Governments, an Arab common market and a free-trade area would have been operating by now, and dozens of bilateral and collective agreements would have been implemented.

Furthermore, Arab Governments claim that there is a lack of Arab studies on relevant topics, while Israel, on the other hand, has already prepared studies on them. Consequently, these Arab Governments can claim that they have a direct interest in dealing with Israel as opposed to dealing with other Arab countries. Perhaps conferences and research centres such as ours should take the initiative to undertake such studies in order to neutralize the argument of those who claim that the only alternative we have is to deal with Israel. The burden of this endeavour should fall on strategic Arab thinkers and independent strategic research centres. Assuming that there is goodwill on the part of Arab Governments, these studies would serve as an alternative and a competitor to the Israeli plans. Needless to say, Israeli plans were presented in a tempting but underhanded way at the Arab economic summits in Casablanca and Amman. Ever since its establishment, Israel has been trying to prepare future scenarios, such as the Baltimore Plan, the Tel Aviv Project, the 1967 Booklet, the New Middle East, etc. in contrast to the Arabs.

Numerous studies have been submitted to this conference of ours. These studies should have discussed the future of the Jordanian economy within its regional context from the angle of its pan-Arab dimension, not from the angle of the Israeli dimension and Jordan's peace treaty with Israel. Consequently, these studies should have tried to uncover the opportunities that exist for economic cooperation among the Arab States on the one hand, and between the Arab States and Israel on the other hand.

A. THE FIRST FORMULA

We do not want to be accused of being biased against the New Middle East Project outright. There are benefits which could be attained from this project, and this conclusion is supported by theoretical economic

analysis. However, in our analysis, we should not overlook political and institutional considerations and the fact that gains should be divided among the parties concerned. Thus, two basic, organically-linked conditions should be fulfilled if the anticipated gains from the New Middle East Project are sufficient for the Arabs to go along with the project.

1. *The first condition*

Israel's role and position in the structure of the new Middle East order should be equivalent to the role of any of the Arab States. In other words, the roles and positions should be arranged horizontally, not vertically. A vertical arrangement would enable Israel to control the network of economic relations and consequently to attain political hegemony, in addition to its apparently limitless military superiority. But if the roles and positions were on parallel horizontal foundations, the Arabs and Israel would be able to deal with each other as equal counterparts as soon as an equitable political settlement were reached. If Israel gains the upper hand in any New Middle East Project—and this intention was evident from the documents and proposals submitted to the Arab summit held in Casablanca and was also evident from the statements and interventions made—this will reflect a serious structural imbalance with grave consequences for the Arab countries.

2. *The second condition*

To attain satisfactory gains for all the parties involved in the New Middle East Project, it is essential that Israeli gains not be attained at the expense of the Arabs. Furthermore, these gains should not be so enormous that they marginalize the Arab role and position and consequently enable Israel to attain economic hegemony in addition to its political and military hegemony.

B. THE SECOND FORMULA

Clearly, each Arab party that participated in the peace process and signed peace agreements with Israel was acting in accordance with its own

individual interests and security, and each sought from the beginning, as a matter of principle and policy, to freeze the contradiction and conflict with Israel in order to deal with its own economic and political problems and its numerous and accumulated domestic needs. To the Arabs, the value of peace should stem from its ability to assist Arab countries, individually and collectively, in resolving their most important economic, political, water, environmental, educational and security problems, not in resolving Israel's problems at the expense of the Arab States.

The new situation created by peace should be accompanied by efforts to surmount the obstacles standing in the way of creating a new rationalism in the Arab region (and the Middle Eastern region). This new situation should be based on a regional and pan-Arab vision of the issues of economic development; informatics; tourism; navigation; trade; environmental protection; the protection, distribution and rationalization of water resources; the development of agriculture, economic, confederal and security cooperation; disarmament; the upgrading of the forms of democratic political participation; and human rights.

The future actually depends on the ability of strategic Arab planners, whether in government, the private sector or the research centres in the various Arab countries, to initiate research and studies, to devise scenarios and suggest options. They should develop an Arab vision in which the initiative should be for an Arab Middle Eastern market as an alternative to the Israeli-American project, which is trying to bypass Arab identity and undermine the pan-Arab nature of the region's States.

These studies should focus on the opportunities for inter-Arab cooperation, Arab-Israeli cooperation, and Arab-international cooperation, while allowing a margin of freedom for each independent Arab country to take the economic measures it considers appropriate and to utilize its resources for the purpose of achieving its developmental goals in the way it sees fit. Arab countries should also make a minimum commitment to inter-Arab coordination and integration so as to achieve the goal of Arab developmental integration and to resolve the conflicts that may exist among the individual Arab States in the short and medium terms.

It will be difficult for us to imagine that the two existing generations of Arab people will manage to swallow or accept Arab cooperation with Israel, particularly since the Arabs feel that the resolution of the Arab-Israeli conflict by peaceful means has been dictated upon them by international forces at the expense of the Arabs.

Arab regimes should also be careful in their approach to the Middle Eastern or Euro-Mediterranean projects. They should approach these two projects in a calculated and well-studied way, free from emotional reactions. As long as the Arab order continues to stumble, as long as the Arab common market does not exist, and as long as certain Arab Governments are rushing to make arrangements with Israel, the Arab side should not turn down other options outright. It seems an appropriate preliminary step to launch a mini Arab order on a temporary basis to pave the way for a larger Arab order capable of coordinating the Arab position and approaching the Middle East with a united Arab position. We believe that this mini Arab order is capable of constituting the appropriate grounds for future Arab integration. If Arab integration is achieved, the Arabs will become the stronger side, deserving the bigger gains in the fields of regional and international cooperation through the World Trade Organization. They will also be the stronger side in dealing with the major economic blocs in the world, and ultimately with Israel, merely one of the States of the region.

C. THE THIRD FORMULA: END ZERO

In its current form, the New Middle East Project does not advance the interests of the Arab States. It is probably important to remember that the Arab States do not need Israel, while Israel does need them. The West has its own interests in the Arab world, and the Arabs have their own interests in the West. Consequently, a peace dictated upon the Arabs leaves many questions outstanding or deferred, and economic cooperation with Israel does not resolve these questions.

Therefore, to be politically realistic, the Arabs should focus on their particular interests, and not leave it for Israel to be the only party doing so. It is true that acquiescence to the pressure of international forces,

particularly American and Israeli, will defuse the crisis for the foreseeable future. But over the long run and in the context of inequitable Arab-Israeli relations, Arab feelings of unfairness and imperialist hegemony will intensify, and the future will become insecure. Perhaps the phenomenon of political Islam or terrorism is the likely result, although we reject it outright.

Our future vision, which we believe is a historic inevitability, is that unless Arab Governments and regimes become sensitive to the interests of their own peoples and stop caring only for their own interests (and implicitly the interests of Israel and the United States), an explosion in the Arab region is forthcoming. At that point, the era of Arab fundamentalism with all its forms and probabilities will begin. A proper reading of history neither precludes nor denies such a possibility.

Commentary

Dr. Tayseer Abdel Jaber

Dr. Mahmoud Abdel Fadheel discusses in his paper the economic alliances being offered to the Arabs at present, and he focuses on three types of blocs: the Middle Eastern arrangement, the Euro-Mediterranean arrangement and Arab economic cooperation.

The author believes that the Middle Eastern project is basically an Israeli formula supported by the United States. He explains that this project calls for Israel to play a major role as the economic centre of this order, as well as serve as the world's gateway to the regional market. He adds that Israel will specialize in high technology, which depends on extremely skilful and competent manpower and advanced facilities in research and development.

Dr. Abdel Fadheel also explains that the repercussions of these arrangements are similar, to a certain extent, to the Euro-Mediterranean arrangements, because they do not deal with the Arab States as one economic unit or according to the same terms. These arrangements are similar to the old vertical integration between the central State and its peripheries. Nevertheless, he prefers European partnership because it is more flexible.

Finally, Dr. Abdel Fadheel explains the third option, namely, Arab economic cooperation. He proposes that Arab countries plan and coordinate their efforts in order to attain full Arab integration.

Although I appreciate very much the ideas presented by Dr. Abdel Fadheel, I could not trace in his paper a specific stand towards any of the options available that a country such as Jordan or Egypt could adopt and follow. This makes the paper a neutral study: the repercussions, consequences and dangers are highlighted, but it is left for the reader to analyse and to draw his own conclusions. This neutral position is the easiest position one can take, but it falls short of giving an answer to the important question: Which one of these options shall we choose?

In its neutral spirit, the paper elaborates well on the limitations of Arab economic cooperation and points out the contrasts in the Arab economies, the negative impact of the Gulf war on continued Arab economic cooperation, and the importance of political will. He says in this connection that if the political will is lacking, it is meaningless to discuss this subject.

The question which imposes itself here is: do the Arab countries have the political will to commit themselves to a full economic integration by setting up a free-trade area or an Arab common market, even two decades from now? The answer is no, because the political will either does not exist or is weak or scattered. It is also still incapable of bringing an economic integration programme to a successful conclusion.

We are now facing the consequences of the failure of inter-Arab economic action, the unevenness in the economic relations which each Arab country has with other countries of the world, the weak Arab political will, and Arab division as a result of security apprehensions. All this is happening in a new economic environment, regionally and internationally, and under acute international economic competition over the Middle Eastern region.

In light of this situation, Arab economists should consider carefully whether it is useful to continue along on the deadlocked path of Arab economic integration or whether they should pursue a more realistic but less ambitious goal, which can be summarized in the following points:

1. To explore the possibility of economic cooperation between a number of Arab countries without waiting for all Arab countries to join.
2. To effect a reconciliation, particularly politically and culturally, among Arab countries.
3. To expand the prospects of cooperation between Arab businessmen and investors and the private sectors of the Arab countries.

4. To merge with the international economy by joining the World Trade Organization, to liberalize trade, and to reduce government restrictions on the movement and transfer of capital, currencies and persons.

5. To set up joint regional projects and to link infrastructure sectors wherever possible, such as power, road and water networks.

These are the things which are feasible, and this is what we should call on the Arab countries to adopt. Our colleague, Dr. Abdel Fadheel, is aware of the fact that planning is on the retreat and is no longer considered a necessary instrument for economic growth: the economic adjustment programmes in the Arab countries focus on the role of the private sector, reliance on market forces, reducing the scope of government intervention in the economy, privatization, and the liberalization of economic activities.

Let us go back to the first and second options. As for the New Middle East, I agree with the repercussions which Dr. Abdel Fadheel pointed out, but I would like to draw attention to the commercial practices of Israel, which obstruct economic relations under the pretext of the necessity to adhere to certain standards and specifications or to follow certain security procedures. Other than that, I would like to draw attention to the following points:

1. There is no Arab country which needs a middleman for reaching other markets. Economic relations have already existed for many years between each Arab country and the various regions of the world. Therefore, the role of middleman which Israel seeks to perform is not needed.
2. There is in the region economic competition, with more than one State desiring to play a major regional role. Some of these States are qualified by virtue of their size to play such a role. Consequently, Israel will not necessarily be able to monopolize this role.

3. Since serious efforts are still being made to end the Arab-Israeli conflict and the Palestinian-Israeli conflict, if a State has an interest in a certain project or economic transaction with Israel, the project or transaction should not be frozen. It may be in the long-term interest of the Arabs to have some kind of association with the Israeli economy, including the transfer of Arab labour to Israel and reciprocal treatment in the purchase of shares and real estate. This point, however, remains controversial.

4. As for the alternative of Euro-Mediterranean economic cooperation as embodied by the Association Agreements, Dr. Abdel Fadheel seems to support this option, with reservations. For my part, I support the trend by Mediterranean Arab countries to cooperate with the European Union. In fact, the experience of Asian countries in achieving rapid economic growth shows the significance of the opening of the developed countries' markets (particularly the United States and Japan) to the exports of these countries. European markets constitute a huge outlet for Arab exports, although this requires an adaptation in the long term and medium term that will involve some cost. It is noteworthy that the Association Agreements include provisions for financial assistance that will reduce this cost.

Finally, I would like to thank Dr. Abdel Fadheel for his paper, which has opened many topics for discussion.

Commentary

Dr. Samir Nasr

Thank you, Mr. Chairman. I would like first to commend Dr. Abdel Fadheel for the clear analysis and vision that was evident in his paper, and I would like to make the following remarks.

Any Middle East accord would presume an agreement between a minimum of two parties. If one party is seeking to impose its hegemony on the other, the other party can avert this by negotiating other frameworks that would preclude hegemony. Negotiation is a lengthy process, whether in the Middle East or elsewhere. As circumstances and alliances change, plans formulated for application in a certain region become no longer workable.

It is important to note that the structure of the international economy will make competition between the various centres of production in the industrial countries more acute. This will certainly weaken the alleged Israeli hegemony and may limit it to certain fields, such as advanced technology, or aviation or certain industrial commodities that have a high value added. The Arab market share of these commodities may not be sufficient for Israel to rely on, particularly since other competitors will not allow Israel to monopolize neighbouring markets. Needless to say, Europe and the United States have enormous interests in the Arab world, particularly in the Gulf countries. Israel may have great ambitions and goals, but those goals will not necessarily be translated into reality. There is no justification for looking with pessimism at the New Middle East Project. However, cause for pessimism does exist in two other major fields: the faltering growth of the economies of the Arab countries and their relative failure to deal with one another.

Regardless of the justifications that we may give, the patterns of cooperation that lead to real growth are necessary whether or not there are schemes for a New Middle East. It is also vital for the Arab countries to build institution-based States as an alternative to the absence of a regional system of cooperation. Competition in the international markets exists, rewarding higher performance and punishing poorer performance.

Ultimately, only high-quality, best-price goods will be able to survive. What we need most is to build an economy that can perform more effectively, and this is the challenge that faces the Arab economies in general—how to build a competitive economy, how to adapt to the dictates of the constantly changing world economy, and how to give momentum to regional Arab cooperation and the gradual expansion of the Arab common market. These questions are always valid, and they are urgent questions, whether there is a New Middle East in the making or not.

Improving the performance of the Arab economies will involve several important processes. But it is scientific research and technology absorption that would determine the extent of the strategic development of the economy. Trained manpower could become the backbone of the production system. A healthy base for economic growth would also require control of costs and prices, adoption of strict standards and specifications, and superior managerial performance in the fields of production, distribution and marketing.

To attain the aforementioned goals, the public sector should undertake more research and should provide funding for training, while the private sector should undertake the business of investment and management.

The proper distribution of assignments may require some exceptions, such as leaving certain strategic production units, in accordance with the conditions of each Arab country, under the control of the public sector with the private sector participating. Strategic cooperation on the issues of financial transfers, capital investments, and the upgrading of financial markets to serve as a supportive factor of investment would guarantee the creation of joint ventures which are not based on bureaucratic agreements, but on economic viability and the conviction of local investors that such projects are worth investing in.

This strategic cooperation also requires agreement on an objective working plan, the flow of Arab capital within an institutional framework and strict accountancy procedures, transparent information, and the

conversion of stocks in the primary and secondary financial markets into working capital.

Above all else, planning means that we should have at our disposal various types of information and should make a correct assessment of the economic, financial and trade conditions so that would-be investors might evaluate the enterprises they intend to start up and the degree of risk they are willing to accept. Planning also means that all channels of communication should remain open. In fact, inter-Arab coordination could begin on several aspects, such as the coordination of investment laws and production standards.

The elimination of customs and artificial protective barriers, even on a gradual and carefully studied basis, would be a major element of this cooperation, because it would expand the market for Arab products and services, thus increasing revenues. The elimination of customs barriers would also enable additional capital to flow to the Arab countries, which consequently could expand their activities throughout a wider geographic sphere. Our experience shows that maintaining customs barriers among the various Arab countries is usually due to pressure from local producers seeking protection for their products to forestall the competition of other products in the short run.

This narrow-minded view of local producers is in itself a manifestation of the immature vision of businessmen who fail to understand the structural transformations needed for upgrading their performance. Planning also requires a certain degree of foreign investment, not only in its financial form, but in its technological ingredients as well. This investment could be done through free-trade zones, partnership with foreign companies, and even the purchase of shares in local companies and cooperation in the fields of marketing, production and services. It is important not to leave all this in the hands of the Israelis, who are pumping capital and technology into their own areas.

Inter-Arab cooperation did not succeed, because it was built on emotional considerations and political rhetoric and because it came from the top, not from the rank and file. It was the improvised type of cooperation which lacked contact with reality and where deeds were in stark contrast to words. This type of emotional, improvised cooperation does not draw the line between political differences and trade cooperation. Middle management was never consulted or given the chance to discuss things. It is a cooperation which had to be established between alienated cultures and work dynamics. Rarely did cooperation lead to realistic results or projects. A real and lasting beginning should be based on joint interest, and should be built on solid ground. Its criterion is economic viability and its field of work is the market and its expansion. Its objective is to eliminate the various types of obstacles, and it can be promoted through the efficient distribution of information.

Real planning can programme the elimination of the various types of obstacles. To shift from focusing on short-term interests in order to adopt long-term interests requires a positive shock. The question here is whether moving from the war economy to the peace economy can be considered a positive shock. Of course, a peace economy has its own advantages. However, the mechanism of alliances dictates a balanced and collective growth, not a domination or hegemony. The assumption that in trade, one party benefits and the other party does not is an illusionary assumption, because commercial trade requires that the purchasing power of the two sides be continuously raised to ensure the continuity of the cooperation.

Apprehension about the New Middle East Project is necessary, but is unjustifiable. It is necessary, because we must think seriously about the economic challenge. We no longer have a situation where the military balance of power is the decisive factor, and this is important because it could result in the reinstatement of Arab cooperation as a priority topic on Arab agendas.

It is important in this connection to enhance the economic awareness of our thinkers and decision makers as a prerequisite for moving on smoothly to the more complex topic of development.

Meanwhile, apprehension about the New Middle East Project is unjustifiable, because the only option we have is to develop Arab resources regardless of the conditions governing the regional or international economies. We should start building links of inter-Arab cooperation on a gradual basis as a preparatory step for coping with the forthcoming economic challenge, which is definitely coming, regardless of how long it takes. These links will then free the local economies from restrictions and barriers.

Apprehension about the New Middle East Project should serve as a vehicle for expediting our preparations and enhancing and diversifying the areas of inter-Arab cooperation. In both cases—expediting the process of inter-Arab economic cooperation and gradually moving from the subsidized economy to the competitive economy—is the step that Arab countries should take. Perhaps even the talk about the New Middle East Project will give momentum to this qualitative shift.

Commentary

Dr. Munir Hamarneh

I would like to congratulate Dr. Mahmoud Abdel Fadheel for his valuable paper, which raised several questions and issues. I would like to add a few points which I believe are appropriate in this context.

First: Why are we afraid of the New Middle East Project, and why do we talk so much about it? I believe that the reason for this is that the Project looks as if it is one of the conditions of the Middle East peace settlement, at a time when the balance of power in the region has been upset. If the political settlement which is being discussed at present is imbalanced and the New Middle East Project is one of its ingredients, Arab apprehensions would be justifiable.

Second: If we closely examine the Israeli-Arab agreements that have been concluded so far, particularly the last agreement, we will see that Israel is very anxious to see measures of normalization, particularly economic measures, taken quickly. Israel also wants to include in the agreements the terms and trends of joint action in the region.

This is exactly the point which is raising apprehensions that the New Middle East Project is simply a process of regional economic dismantling and restructuring following the pattern of the political changes that are taking place in the region. For all these reasons, people justifiably fear that the New Middle East Project is an alternative (in a new organizational form) for the settlement of the Arab-Israeli conflict. It is true that we may not know all the ingredients and elements of the Project, but we at least know the broad outlines. What are the apprehensions of Arab countries, and third world countries in general, at the present time? It seems that people are primarily apprehensive about international economic changes and our inability to keep pace with them.

The truth of the matter is that we are not being given an opportunity to keep pace with these changes, or act as an effective element within them. What we *are* allowed is to be subservient. I am sometimes afraid of the illusionary talk which says that we are capable of

becoming partners in what is taking place in the world. But I say that we are incapable of becoming partners, because the world alliances now being forged are being effected among inequitable forces.

There can be no true alliances between inequitable forces. The fact is that the sophisticated technological powers are in command of the accumulated world finances and are dictating things to many nations of the world.

What I fear most is that at a time when there is a great deal of talk about privatization in third world countries as one form of economic development, we will overlook the fact that the available international liquidity is at present 20 to 30 times the volume of international trade. Since this liquidity has no place in which to operate, it is either being employed in speculation or for buying major enterprises in the third world countries. If privatization eventually opens the doors wide for foreign capital to purchase major enterprises in the developing world, we will end with a situation in which our funds and resources are run by corporations whose addresses which we do not even know. This is a highly significant and serious issue.

One of the great dangers is that Israel is one of the effective forces behind the New Middle East Project. It was behind the invitation for the Casablanca, Amman and Cairo economic summits. Zionist forces have played a major role in this connection. They believed that through such conferences, they could rally the forces of the region behind a specific economic issue. I believe that the facts are hard to swallow—but we have to face up to the facts if we are to reach proper conclusions and devise healthy policies to cope with the challenges of the coming phase.

Third: The United Nations conducted a field survey to determine how successful were the attempts made at integration in the developing world in the mid-1980s. The survey concluded that over 25 integration attempts in the developing world did not attain their objectives. Why? There are common factors for the lack of success in all these cases:

- (a) A lack of political will.

- (b) Political and economic influence of the foreign factor and the role of multinational companies.

- (c) The disparities among the countries attempting to integrate.

Within this context, I would say that attempts at joint Arab economic action will not succeed and that attempts at Arab integration will not succeed either, despite the sometimes well-studied and carefully prepared plans. Why? The reason is that Arab countries are located in a more sensitive spot of the world than other countries that tried (unsuccessfully) to integrate. We have oil and strategic location. I hope, however, that we can devise a formula for joint Arab economic action which could hold out in the face of change.

Commentary

Dr. Samir Halileh

I would like to thank Dr. Abdel Fadheel for his paper, and I would like to begin by saying that we need to hear the accurate details of the Euro-Mediterranean partnership plan which is being forwarded as one of the alternatives for the region, or as an alternative to the New Middle East Project. There is a Euro-Mediterranean plan which allows Arab partnership with Europe at a bilateral level. It also allows for strong horizontal relations among the States of the region, including Israel. In this sense, even with the European plan, we cannot escape the fact that Israel is one of the major factors in the Mediterranean region. Therefore, the problems of accumulation in inter-State trade or in European trade will force several Arab countries to enter into bilateral relations with Israel, if these Arab countries are to have favourable trade relations or a significant market in Europe. This was the case with Tunisia and Morocco, and I believe that similar arrangements will be made with other Arab countries. In this sense, the Euro-Mediterranean plan is not an alternative to the New Middle East Project or to the Arab project. However, it seems that it is the best possible solution under the prevailing circumstances. The plan will allow Israel to play a distinctive role, but not a leading role, as is the case with the New Middle East Project.

In light of the peace process in the Middle East, there are at least three proposed mechanisms for restructuring the region. It is noteworthy that several Arab countries did not participate in the multilateral talks, which were a preparatory step for the restructuring of the region and which were a tool for discussion containing specific projects and programmes.

There is the Taba regional group, as well, which includes Israel, the four Arab countries adjoining Israel, and the U.S. Secretary of Commerce. This group represents a framework which will determine and regulate in one form or another the regional trade relations with Israel and the United States in the next decade. In these three regional coordination plans, the Arabs are treated as individual States, not as one unit. I believe that there

should be Arab coordination aimed at the adoption of a unified viewpoint on the future of the region.

The third and last point I want to make concerns Palestine and the so-called Triangle Plan. I believe that this plan is an illusion. It expressed the Israeli view and was rejected by the Palestinians. The Jordanians also rejected it temporarily. Jordan has not signed a free-trade agreement with Israel that would provide for the establishment of a free-trade zone between these two countries. This means that such a relationship will not exist for at least the next 10 years.

As for Palestine, it is a special case. The option for Palestine is not to choose a free-trade area or customs union relationship with Israel, but to escape merger with the Israeli economy. A second step would be a free-trade relationship in the future. In other words, Palestine would be moving away from a merger with the Israeli society and market, ultimately to a status where the relationship of subservience to Israel would be eliminated.

In view of our special situation, we see the Triangle Plan as an Israeli plan, which we reject. The New Middle East Project is an Israeli plan as well, of course, and there is no unified Arab response to it. On the contrary, Arab countries are cooperating bilaterally with the plan.

Commentary

Dr. Basim Fayyad

At the outset, I would like to thank Dr. Mahmoud Abdel Fadheel for his paper, which is a reflection of pan-Arab feelings which we very much miss these days. The paper also envisions a future outlook describing the developments and events with which we will live during the coming period. I will try to think along with Dr. Abdel Fadheel, with a vision close to his, although I disagree with some of his details or scenarios.

Dr. Abdel Fadheel said in his paper that the 1950s, 1960s and early 1970s witnessed joint Arab economic action and some forms of economic integration. Here I must disagree. Joint Arab economic action in the 1950s and the 1960s was never successful for the following reasons:

1. Despite the political will that existed in these two decades, most Arab rulers had no real political desire to embark on a course of joint Arab economic action, although they paid lip service to Arab nationalism and to all the slogans it raised.
2. The varying levels of economic development of the different Arab States were not taken into consideration. The obvious example in this regard is Egypt and Syria, which had disparate levels of economic development and different bases of production, which are the economic determinants of integration, as is known in economic theory. These variations were not taken into account, and Arab countries took no action to address them.

For the future, the Arab countries should begin eliminating the differences that exist among their production sectors as well as the differences that exist among economic regions, whether they are relatively developed or developing.

Of course, I agree with Dr. Abdel Fadheel that the forms of economic integration employed by developed countries are not necessarily appropriate for us. In other words, it would be futile for us to copy the

existing forms of economic development and integration. However, when we talk about the European Union model, we can find in it the minimum economic determinants essential for any economic integration. Therefore, we should examine this model to determine the prospects for utilizing it in the proposed Arab integration.

I am not going to comment on the New Middle East Project, because I believe the first part of the paper has been covered well. Instead, I will concentrate on the second part.

We know that there are five forms of integration: free-trade area, customs union, common market, economic union and monetary union. Of course the economic determinants of each form differ, and obviously we cannot move from one form of integration to another at will. Nevertheless, what works for the European Union will not necessarily work for the Arab countries: there are vital differences between these two groups of countries in such areas as price frameworks (which differ greatly from one Arab country to another), inter-State trade relations, degree of protectionism, trade volume, and the labour market and wages. Ideas of an Arab economic union are being voiced by economists and intellectuals, but I do not understand on what basis they are advancing these ideas. If primitive forms of Arab economic integration could not create a free-trade area or a customs union, how then can we talk about a monetary union or an economic union?

Before thinking about launching economic integration among the Arab countries, we should examine the necessary economic determinants for such integration. While I believe that the Arab countries constitute an ideal region for economic integration, I cannot overlook two facts. The first is that the area to be covered by the Arab economic integration should some day include all the Arab States. But I say with Dr. Abdel Fadheel, let us start with what is possible. In other words, the Arab countries that can start the process of economic integration should do so, and there should be mechanisms for other Arab countries to follow and catch up whenever the time and circumstances are opportune, or whenever they feel that the economic integration region is an attractive and

beneficial arrangement for them to join. It is noteworthy that Europe has employed such mechanisms into its integration process.

Furthermore, I cannot exclude other forms of integration such as a European partnership or Mediterranean cooperation. As for the New Middle East Project, I have my own reservations about it. Many people believe that the project is unrealistic. Arab countries are still incapable of achieving economic integration among themselves. How can they then integrate into a larger framework with Israel and Turkey? Furthermore, the danger posed by Turkey is no less than the danger posed by Israel, but because of our sensitivity to Israel, we often forget about Turkey.

Again, if we examine the economic determinants with a view to choosing a certain form of integration—and there are many studies on this subject—we will conclude that the Arab countries at present are incapable of achieving an ideal system of economic integration. Proceeding from this fact, we should start at the beginning. First, we must determine the forms of economic integration, beginning with a free-trade zone and customs union and ending with a monetary union one day. To do so, there should be concerted Arab action on several fronts. Furthermore, it is important to identify the mechanisms we will employ for achieving our economic integration. I believe that the most important goals are the following:

1. Enhancing the role of the economy, particularly the private sector, to establish strategic relations and networks among companies, whether these are public sector or private sector companies. The private sector should be given the lead in this process. Had the private sector been more dynamic and had it begun to create these strategic relations and networks, it would have already launched some form of economic integration.
2. Cooperation in scientific research and development. The basic problem is that individual Arab States make no allocations for scientific research and development. We can solve this problem in a realistic way: Arab countries could allocate joint budgets for simple forms of scientific research and development. The focus should be on applied, not theoretical

research. Furthermore, it is not wrong to import technology and utilize it for our purposes.

3. The adoption of a regional industrial policy similar to the ideas presented by Dr. Abdel Fadheel. We should explain here that a regional industrial policy cannot be formulated at a government meeting or at a short convocation of the Ministers of Industry.

4. The formulation of a foreign trade system, even if we are not talking about a customs union or a commercial union. There should be forms of economic or trade flexibility among the Arab countries (this would not contradict GATT) in order to achieve the following purposes:

(a) To activate Arab inter-State trade.

(b) To raise the volume of exports from the various Arab countries to international markets qualitatively and quantitatively, which can only be done by supporting small and medium-size industrial companies, as opposed to large corporations. Marketing strategies for the products of such companies should be initiated. From a macroeconomic viewpoint, this would help the rise of corporations specialized in the collective marketing of the various products of Arab companies.

5. Cooperation on infrastructure. In fact, no type of integration or unity can be accomplished unless there is an integrated infrastructure.

6. Rectifying disparities among the member countries of the economic integration. Unless there is a very clear mechanism from the beginning to be applied by all the member States to rectify structural, sectoral or regional disparities and imbalances, the form of cooperation will neither be positive nor attractive to the participating member States. Furthermore, other Arab countries or countries of the region would be reluctant to join this form of cooperation.

Commentary

Dr. Zuka al-Khalidi

The paper argues that the Middle East Project is basically an American-backed Israeli formula aimed at building what Shimon Peres described as the "New Middle East", in which Israel would play a leading role and act as the agent or middleman between the advanced capitalist centres in the West and Asia on the one hand, and the Near Eastern and Arab Gulf countries on the other.

The paper also argues that the Middle East project is based on institutional arrangements made at the top to establish a new Middle East regional order that could obliterate the Arab identity and give Israel a leading and regulatory role in the economic and political transformations in the Arab region.

In reply to this argument, I would like to say that the New Middle East Project is old, not new, contrary to what many people believe, and is closely linked with the creation of Israel in the region. When the West created the State of Israel, it was nurturing expectations that Arab countries would accept it in a short period of time, because they would have to acquiesce to the *fait accompli*, and the new entity would be integrated in the region economically and politically, just like other non-Arab States in the Middle East. The United States and other Western countries that supported Israel were aware from the beginning that the survival of the State of Israel could not be attained by military superiority alone.

The West was also of the opinion that lack of Arab acceptance would undermine the security of Israel and that the recurrence of wars with its Arab neighbours would lead to attrition in the financial resources of the Western countries supporting Israel and place limitations on its prosperity and economic progress. However, the emergence of the pan-Arab movement under the leadership of Egyptian President Jamal Abdel Nasser in the mid-1950s and the effective support made available to the Arabs by the Soviet Union and the socialist bloc delayed the launching of the New Middle East Project. After the June 1967 and

October 1973 wars, the West and Israel realized that the Arab States were convinced that it was impossible to destroy Israel by military means. Consequently, talk about a "Middle East Project" began to surface. The first clear sign calling for such a project was a statement made by a former Israeli foreign minister, Abba Eban, at the end of the 1973 war. Eban said then that the only guarantee of peace in the Middle East lay in the creation of joint and interlocked regional interests. However, the project was only seriously raised after the second Gulf war in 1991, which led to the destruction of Iraq's military and financial capabilities.

The second Gulf war coincided with the collapse of the socialist bloc; thus the Palestinian armed resistance movement lost two strong supporters. Inter-Arab relations grew worse during and after the war, and Arab Governments were now more prepared than at any other time to accept the idea of peace with Israel.

Therefore, one can argue that the New Middle East Project was basically a political and security-based project. Discussion of the economic aspects of the project began only after the launch of the peace process and normalization with Israel. This is a natural outcome of the variance between the size of the Israeli economy and those of the Arab States, as well as the variance between Israel's technological progress contrasted with that of the Arab States. Another factor is the globalization and liberalization of international trade which followed the conclusion of the Uruguay Round. It was perhaps the requisites of globalization and the liberalization of international trade that paved the way for a discussion of the possibility of launching a Middle Eastern market after initiating the peace process with Israel. Had it not been for these new developments, it would have been possible to speak only about bilateral economic relations between Israel and the Arab countries within the framework of peace, exactly like the bilateral relations that exist between two Arab States or Arab countries with their non-Arab neighbours.

In fact, the future of Arab-Israeli economic relations will be decided by this difference in the economic and technological standards between Israel and the Arab States and by the globalization and liberalization of international trade. However, the action which the Arab countries will

take to decide the form and content of this relationship will certainly be significant. The assumption that the Arab States will be only on the receiving end of whatever Israel seeks to dictate is unrealistic. It is true that the size of the Israeli economy and the level of its sophistication will give Israel the upper hand in any form of cooperation, whether economic or otherwise, with the Arab countries. But this should not mean that the Arabs cannot reject unfair forms of cooperation or that they cannot negotiate better terms.

The paper also states that the integration of the Arab economies on an individual basis into the infrastructure of the international economy in the post-Uruguay Round era is a suicidal attempt that will negatively reflect on the economic development and progress of the Arab countries. I do not think that it is possible to disagree with this statement. However, I differ with Dr. Abdel Fadheel when he says that the Arab economic integration plan is an alternative to the New Middle East Project or Euro-Mediterranean partnership.

I believe that the New Middle East Project and the Euro-Mediterranean project are not an alternative to the Arab integration projects. Under the current local, regional and international conditions, I do not believe that it is difficult for the Arab States to set up an inter-Arab free-trade zone to serve as a nucleus for closer arrangements in the future, particularly since the World Trade Organization makes it mandatory, in any case, for each member State to eliminate customs barriers. With the exception of two States—Iraq and Libya—which have not yet taken an official position in this connection, Arab countries are either members of the World Trade Organization or are currently taking the measures that would qualify them to join. And I do not expect that even Iraq and Libya would stay outside the World Trade Organization for long.

To activate the role of the proposed free-trade area in developing trade relations among Arab countries, two measures should be taken:

1. Currently existing institutions should be strengthened through the financing and guaranteeing of Arab exports.
2. Measures aimed at trade efficiency should be initiated and pursued seriously and quickly.

Trade efficiency measures mean the modernization and updating of techniques and the use of computers in all phases of export and import operations. This includes the procedures involving trade, customs, banking, insurance and transport, so as to allow for rapid completion of commercial transactions, major reduction in cost, and minimizing the waste of resources and efforts which usually accompany the use of traditional techniques. UNCTAD announced such a project in its Eighth Session in Cartage, Colombia in 1992. The project proved to be very effective in developing the trade of the countries which applied it.

The success of launching an Arab free-trade area depends on convincing the parties concerned to take more advanced steps with regard to Arab integration. I would like to conclude my comments by saying that it is the duty of economic conferences, such as this one, to persuade decision makers in the Arab countries that Arab economic integration is no longer a political luxury, but an urgent need dictated by the regional and international developments in which we are so deeply involved.

Commentary

Dr. Khaled al-Wazani

I would like to thank Dr. Abdel Fadheel for his valuable paper. However, just as a brainstorming exercise, I will make a few brief comments on some points. There is a lot of talk about inter-Arab cooperation these days. Some of the talk one hears is irrational and unrealistic, and we need this exercise.

I would like to begin at the point where Dr. Zuka al-Khalidi left off. I can see in her comments a great deal about how this idea of the New Middle East Project started. To start, I believe that the Gulf crisis of 1991 was the climax of a deterioration in inter-Arab relations. Israel has entered into the picture appearing to be a catalyst for change. It seemed that the Arab countries could not create a Middle Eastern market without this catalyst, and that Israel was helping to revive inter-Arab cooperation.

First, I would like to point out that in a Middle Eastern market, Israel would be able to define the economic future of its Arab neighbours. The economies of the Arab countries could only be services economies utilized in the interest of Israel. The Israeli economy is technologically advanced, and the economies of the Arab countries are no match for it. In other words, they cannot compete with the Israeli economy. Consequently, the economies of the Arab countries would be utilized in the service of the Israeli economy. This is not imaginary thinking. It is factual and realistic. For example, what role can an economy such as Jordan's play in a New Middle East Project? It can do nothing more than act as a bridge for the goods and commodities that Israel wants to export to the Arab Gulf countries or other Arab States.

The greater question involves what the United States wants in this connection, as the United States seeks to secure its own interests in the region through Israel. It is true that the United States dominates the region. However, it would rather secure this domination through its durable partner and ally. United States bases in the Gulf are not guaranteed to last forever. But Israel's loyalty to the United States is, and

this loyalty is further enhanced by the Israeli lobby and the strategic relations that exist between the two countries.

The New Middle East Project in its wider sense is one of the best examples of the alienation of the Arab regimes from their own peoples. The Arab people are not convinced that the launching of a Middle Eastern market or the establishment of relations with Israel has any use. Meanwhile, they recognize that they have to keep pace with the trend towards globalization. This is in fact the state of alienation that exists in the region. Arab regimes are promoting a New Middle East Project, while their own peoples are unwilling to go along with it. The furthest the Arab people would go along with such regional arrangements would be in the case of a project that could introduce some kind of improvement to the economy and a higher standard of living.

I believe that Dr. Abdel Fadheel has cited very important points. First of all, he reiterated the fact that Arab countries deal with one another on the basis of mutual suspicion, and this is a fact which cannot be denied. Formulas for inter-Arab cooperation failed in the past. For example, a formula of cooperation between Egypt and Syria and another formula of cooperation among Jordan, Egypt, Yemen and Iraq also failed. How can we create inter-Arab cooperation in an atmosphere of mutual mistrust?

The last question is about the best approach the Arabs could use in dealing with non-Arab States. In the current state of inter-Arab division and disagreement, individual Arab countries are more likely to conclude bilateral agreements with Israel, even if these do not necessarily serve their own interests. The logical question that follows is: Can the Arabs act collectively to define their relations with others? So far this question has been unanswered.

Commentary

Dr. Ahmad Najjar

One must admit that Dr. Abdel Fadheel's paper and presentation are exemplary, as usual. As for me, I find it difficult to comment on his paper because he is literally my professor. But I will make some remarks that would not in any way detract from my deep appreciation for the paper.

The first point is related to his definition of Israel's position *vis-à-vis* a Middle Eastern economic bloc. Dr. Abdel Fadheel explained that in the final analysis, a Middle Eastern economic bloc is only important for Israel because it could use the bloc as a bargaining chip in establishing special and unique economic relations with economic blocs in the first world countries. I find this difficult to believe. In fact, ever since its creation, Israel has failed to establish a certain minimum of large-size industries. The United States made a commitment to import Israeli commodities.

This explains Israel's durable surplus in the balance of payments with the United States and its deficit with the European Union. Had it not been for the American commitment, the marketing of exports would have been a real problem for Israel. It is noteworthy that the total imports of the Arab countries in 1994 amounted to \$160 billion, while total Israeli exports to the various parts of the world were put at \$14 billion.

Therefore, I believe that Israel is primarily interested in the large Arab market and would use its relationship with this market as a bargaining card with international companies or international economic blocs to acquire a special status. However, one cannot overlook the importance of the Middle Eastern market in itself for Israel.

My second remark is that the capabilities of the Israeli economy are being exaggerated. I am not an advocate of a New Middle East Project. I completely support Dr. Abdel Fadheel in his categorical rejection of the market and in opting for inter-Arab cooperation.

Again I would say that the capabilities of the Israeli economy are being exaggerated. It has been stated that the Israeli GDP is \$70 billion. According to World Bank figures, the GDP of Egypt is \$213 billion, or three times that of the Israeli economy. The same applies to other Arab States when we measure GDP in terms of purchasing power. Obviously, the GDP of the Arab countries is much larger than that of Israel in terms of purchasing power.

My third comment is that the paper did not refer to the state of polarization of Arab States on the basis of political and ideological affiliations. Major Arab countries monopolized the economic forces in the 1950s, 1960s, 1970s and even the 1980s. This often occurred in a competitive and unfriendly atmosphere, thereby minimizing the opportunity for effective cooperation on the basis of mutual interests.

My main comment will deal with the solution Dr. Abdel Fadheel has devised to create some form of Arab economic cooperation to confront the challenges posed by a New Middle East Project. He suggests coordination in the development policies of individual Arab States as a basis for the formulation of investment and production plans and programmes. I believe it is difficult for the Arab States to take such action in the current regional and international conditions, combined with the external pressure being exerted on these States to head in this or that direction. This, however, could come at a later, more advanced phase of inter-Arab relations.

I believe that, as has been stated by some of my colleagues here, the linkage of the infrastructure of the Arab States would facilitate the transfer of goods and services and would give these goods and services a competitive edge in Arab markets. Furthermore, it would be useful to liberalize Arab economic relations in the fields of trade and, for example, to create free-trade areas. It would be also useful to liberalize investment and agree to set up joint ventures of vertical rather than horizontal integration, such as establishing a car industry whereby the body would be manufactured in one Arab country, the engine in another Arab country, and the tires in a third Arab country, with the car being assembled in a

fourth Arab country. No country would try to undermine this type of integration, because it would not want to undermine its own interests.

The liberalization of trade will reveal the spheres in which each Arab country enjoys a relative advantage and will mobilize the factors of production in a way that would facilitate the possibilities for indicative planning or negotiations on the division of labour. This could be manipulated to enhance cooperation and integration.

Needless to say, any inter-Arab cooperation should be founded on three bases of support, namely the State, businessmen and labour unions. It is this trinity which should constitute the basis for negotiations among Arab countries to upgrade economic cooperation regardless of the particular instruments selected.

Commentary

Dr. Walid Hmeidat

After listening to the working papers and the comments on them, as well as the roundtable paper submitted by Dr. Mahmoud Abdel Fadheel, I would like to emphasize the following points:

1. I agree with Dr. Abdel Fadheel that the integration of the economies of the Arab countries on an individual basis, in the new infrastructure of the world economy in the post-Uruguay Round era, is suicidal and will negatively reflect on future economic development of the Arab countries. I also agree that there is an ideal or single formula for regional economic arrangements.

2. Since the economic arrangements contained in the New Middle East Project and the Euro-Mediterranean endeavour are disadvantageous to the Arabs, and since there is no contradiction between GATT and international or regional alliances, there should be more regional cooperation in liberalizing inter-Arab trade and coordinating inter-Arab trade policies. The establishment of an Arab free-trade area would serve as a strong foundation for regional integration *vis-à-vis* the markets of agricultural and industrial products. Such a grouping would be capable of encouraging local and foreign investments and allowing Arab countries to make steady progress towards multilateral liberalization with the outside world within the framework of the World Trade Organization. It must be said that this scenario is not an easy one, but the Arab States should do their best to put it into action.

Finally, I hope that all those with sincere intentions will succeed in their efforts to attain more progress and prosperity for this cherished and bountiful country.

Commentary

Dr. Kanaan Ismail

I would like to thank Dr. Mahmoud Abdel Fadheel for his valuable paper and the great effort he made to prepare it. Dr. Abdel Fadheel said at the end of his paper that political will is a prerequisite for any form of coordination or cooperation. If this will is lacking, it is pointless to talk about coordination or integration. I support Dr. Abdel Fadheel in this regard.

However, there was a point which his paper did not address in detail: I would like to point out that discussion of the question of political will without examining the current deteriorating conditions of the Arab nation cannot be regarded as a complete discussion. The United States has managed to control the political decision of most Arab countries, particularly the Arab Gulf countries, and has kept them subservient following the aggressive American war on Iraq. This has enabled the United States to control the oil resources in the region with the aim of cornering and dominating Western Europe and Japan.

Consequently, the decision is no longer in the hands of these Arab regimes, but in the hands of the single superpower in the world. Things have arrived at such a point that it is difficult at present to talk about Arab economic integration in any meaningful way.

It is possible only, as Dr. Zaki Hannoush has suggested, to establish economic cooperation and economic alliances. This is what Dr. Abdel Fadheel proposed as a means of reaching the ultimate objective of Arab economic integration so as to cope with international changes in accordance with a pan-Arab outlook. It should be an outlook that can deal with giant economic blocs, the Middle Eastern market, and Israel.

I would like to emphasize that we should not rush into any form of cooperation or integration with Israel at any level or under any slogan at the present time. We should continue the Arab boycott of Israel until full Arab rights are regained. Meanwhile, we should enhance and strengthen inter-Arab links and consolidate the ties of economic cooperation. We can

accomplish this by transcending the negative aspects of the past and expanding on joint Arab ventures that can place the economies of the Arab States in a position where they can compete.

Reply

Dr. Mahmoud Abdel Fadheel

I would like to begin by thanking everyone for their intensive participation, which is an expression of pluralistic opinions, and we are indeed living in an age of pluralism. Allow me to cite some points which I believe need further clarification.

On the issue of integration, coordination and cooperation, some participants raised the question of economic theory. This paper is not academic in nature, nor is it a research paper presenting statistics and figures. It is a paper designed to raise certain issues, nothing more, nothing less.

Dr. Waseem Harb accused the paper of being oriented towards pan-Arab nationalistic sentimentalism at a time when we need a structural, synthetic approach. In fact, however, one cannot overlook sentiment, in many aspects of life. On this issue in particular, a combination of both reason and sentiment is appropriate.

Briefly speaking, I want to say that cooperation, coordination and integration are not abstract concepts, but real processes. I agree with Dr. Waseem that information economics is a major, dynamic sector that should be given increased attention. Dr. Fahd Fanek cited a point which has been repeated on several occasions, namely that entry into the World Trade Organization is a suicidal attempt.

He pointed out that I spoke about joining the World Trade Organization, when in fact I did not mention the WTO at all in my paper. I say again that it is suicide; in all the arrangements proposed, whether it be the World Trade Organization, the Euro-Mediterranean partnership or the Middle Eastern market, there is a transitional period of five to ten years during which the Arab house should be rearranged. I would say that the Arab countries have five years to rehabilitate themselves in order to qualify for entry into the global system.

Again it would be suicide if Arab States were to join the global system individually. They should instead start a coordinated effort to devise collective inter-Arab arrangements that will qualify them for entry. The question is not a theoretical one. For example, China and Israel are qualified to join the system. Likewise, we should start preparing ourselves; we cannot afford to waste time.

We are not prepared yet, and there is no guarantee that we will be ready ten years from now. The question is not one of funds. It is a question of technology, infrastructure and human resources. These were the factors that allowed Asian countries to succeed in this endeavour. I did say, as Dr. Fanek noted, that the Mediterranean option is more flexible because it allows us more freedom of movement. But there are reservations voiced on this option. Arab Gulf countries are not included in these arrangements. So how will they enter—through the back door or the front door? This question allows us to explore how we should try to improve the package deal offered to us. We should not accept it as offered by the Europeans; we must try to improve the terms. Evidently there is a great deal of freedom in this option. Probably it is also evident that if Arab association with Europe is restricted to bilateral relations between individual Arab States and the European Union, as is the case now, the Arab region would not be attractive to foreign investors. The Arab region can only attract investment if inter-Arab arrangements and relationships are launched before embarking on any kind of association with the European Union.

My reply to Dr. Badran about the New Middle East Project is that we cannot accept any regional arrangements in the Middle East in the midst of unstable and deteriorating political conditions. Any arrangement of this sort would fail to resolve the basic problems. We are talking here about stable and lasting relationships, and we cannot really build an economic institutional structure if basic political problems are not solved first. Israeli withdrawal from southern Lebanon and the Golan Heights or the establishment of a Palestinian State are all examples of the problems that must be addressed.

When the Western Europeans began to set up their economic arrangements, the political questions had already been answered. For our part, we should not try to put the cart before the horse—we should insist on resolving political problems first if any economic arrangements are to survive. But if the intention is to end the Arab boycott of Israel for the sake of opening markets for international companies, I think we would be far from our real goal.

I agree with the remark made by Dr. Badran that there can be hegemony of capital and technology as well as political and military domination. Dr. Tayseer Abdel Jaber mentioned two points which in my opinion need a long pause for reflection. He said inter-Arab cooperation faces a deadlock because of a lack of political will. I do not believe that this is the case. In the experiment launched by the Asian countries, there were two types of arrangements mentioned by Charles Omnet. One type involves regional economic institutional arrangements, which came from above in the form of political agreements among the concerned governments. The second consists of regional economic arrangements which were made through private companies and investors. I believe that the Arab situation falls into the second category. There is a union of Arab chambers of commerce and a federation of Arab businessmen, etc., which can build up this kind of cooperation. Such organizations created economic integration in Asia with no arrangements coming from above. I believe that this path is still open to us and that we could start at the sectoral level.

If we look at Asia, we find that the only official arrangement that comes from above is the ASEAN group, which represents a small group of nations, while the larger, overall arrangements are unofficial and include China/Hong Kong, China/Singapore, China/Malaysia and China/Korea. All these are private arrangements, with no government intervention. I believe that a similar path is open to us and that we should make the most of it, by starting at the sectoral level.

The last point mentioned by Dr. Tayseer Abdel Jaber and Dr. Khaled al-Wazani was that we are living through a period of structural

adjustment programmes and that the mechanism of planning has lost some of its value or effectiveness. I believe that this conclusion is not accurate for the simple reason that structural adjustment programmes have very clear and specific objectives, namely, to restore fiscal health and to rectify the balance of payments. In its second phase, the programme is supposed to liberalize the markets, introduce a certain degree of privatization and reform the public sector. However, it does not resolve the problems of unemployment or exports. It also cannot achieve any progress in production or transform the production framework. Consequently, when we speak about the creation of an appropriate economic environment, we mean that we want the proper environment for economic growth and a resolution of the unemployment problem. But are there really any guarantees that we will attain such objectives? I want to emphasize that the Arab countries are undergoing a phase of structural transformation. But structural adjustment programmes do not explain how we move on from reform to growth. Even Michael Bromo, the chief economist at the World Bank, admitted that we have no theory or guarantee of how a country can move from reform to growth. In fact, he used the expression, "We are working in the dark."

Dr. Tayseer Abdel Jaber and Dr. Ahmad Najjar spoke about the size of the GDP as an indicator of economic strength. I do not agree with this statement. If we look at the strength of the Saudi Arabian economy in terms of GDP, as Dr. Abdel Jaber did, we will see that it is much stronger than the Israeli economy. Dr. Najjar said the same thing. I personally have strong reservations about this statement. My question here is: What are the indicators of economic strength? They are very clear to me. They are expressed in the size of spending on research and development, the size of high-tech industrial exports, the sectoral composition of the economy, and the size of a country's labour-oriented human resources. Even China would be classified as a country with a strong economy if we take GDP or GNP as the criterion. It is very dangerous to make such comparisons or to use the GDP or GNP as an indicator of economic strength. We should not overlook the fact that the economies of half of the Arab countries are based on the depletable resource of oil and the other half on petroleum by-products and tourism.

It has also been noted that the Arabs have good bargaining power when they negotiate terms with the WTO or the European Union. I do not believe this is so, because each Arab country is likely to sign alone. Nevertheless, Arab States can maximize their gains through negotiations with the World Trade Organization or the European Union.

Dr. Samir Nasr believed that the pessimistic view with regard to the New Middle East Project is necessary but unjustifiable. He also spoke about the need to raise competitive efficiency. But I would say that the challenge is greater than that. It is a question of domestic rehabilitation: a process of improving the efficiency of the economic units operating in each individual Arab State. It is a question of launching a revolution in the educational system and building a sector for research and development as well as a sector for intermediate industry. It is noteworthy that in every Asian country, the intermediate industry was the base from which economic development and progress were launched. If we can manage to create high-quality, low-cost intermediate industries, they will certainly be competitive.

Dr. Nasr raised a very important point about the technological packages we should accept. I believe that what we need is a technology that can promote and upgrade our efficiency and skill.

Dr. Samir Halileh also raised the valid point that Israel's role in the Euro-Mediterranean partnership would be less effective than its role in the New Middle East Project. I agree with this idea. He also pointed out that the problem of the Palestinian economy stems from the customs union imposed on it by force, and he pointed out that the economy can never operate freely unless it leaves this customs union.

It is important to note that some of the new arrangements are not voluntary, but mandatory. We should think of ways we can manoeuvre out of this state of siege which has been imposed on us.

Dr. Zuka al-Khalidi offered a significant historical elaboration on the New Middle East Project. She rightly noted that there is a special

historic problem involving the region. Israel is seeking regional arrangements aimed at normalization and integration. The same thing was pointed out by Dr. Najjar. The problem here is that although Israel is alien to the region, it wants to dominate, and such a situation has never happened before anywhere in the world. Taiwan was never alien to but was part of China. North and South Korea were one country that had been divided. Even the situation of South Africa is different. Our region is a special case.

In reply to Dr. Basem Fayyad, who said that the experience of the European Common Market is useful for us, I would say that the Europeans liberalized trade in the early phases of the market. This happened before they could move on to more advanced arrangements. The Arab Common Market tried the same thing when it was first launched. However, when Europe entered into the arrangement spelled out in the Rome Agreement, they had more mature production frameworks in place than we have now. The Arabs have other forms to try, such as sectoral coordination. I believe that the economic structures in the Arab countries are completely different from those that existed in Europe in the early phases of the market. Therefore, I believe that our chances of benefiting from the experience of the early phases of the European Common Market are very limited.

In reply to the remarks made by Dr. Khaled al-Wazni, I would say that it is possible for the economic planners of individual Arab States to take into consideration the conditions of the inter-Arab market. Economic integration begins with sectoral coordination, and this is feasible and possible. The important thing is that we should employ the proper mechanisms. It must be stressed here that there is a fundamental partnership between the public and private sectors. Some say we may not attain the same degree of success as Europe, yet before World War II, Europe did not have then any sort of trade liberalization. Our situation is similar to that of Europe on the eve of World War II.

On the question of the limited Israeli domestic market, I agree; we cannot deny it. What Israel could export to the Arab countries is limited, because its exports are mainly high-tech products and services, and Israel

therefore has better chances for its exports in other countries. But Israel will certainly be used as a crossing point to the Arab markets by international companies.

In other words, international capital is collaborating with Israel to penetrate Arab markets. This is not a purely Israeli plan, because the capacity of Israel itself to export to the Arab markets is limited, although the Arab market is very good.

Chapter Eleven

Background Paper for the
Preparatory Committee
**Dr. Muhammad Haitham
Hourani**

BACKGROUND PAPER FOR THE PREPARATORY COMMITTEE

Dr. Muhammad Haitham Hourani

I. THE CURRENT REGIONAL DEVELOPMENTS

After many years of military conflict and instability in the region, peace treaties were concluded between Israel on the one hand and each of Egypt, Jordan and the Palestinian National Authority. During the years of conflict, enormous economic resources were allocated to the military effort at the expense of economic development. Now that peace has replaced war, positive developments can be expected to be seen for the economies of the countries of the region, and the fruits of peace should reflect on the well-being of the region's peoples. Peace in the region should also be associated with continuous efforts at economic development so as to reinforce the political and social stability of the States of the region.

Several political schemes have appeared. Each emphasizes the significance of cooperation among the region's States, and each asserts that the peace process requires economic cooperation among the various countries of the region and the major economic blocs in the world. The United States has led this trend by affirming that peace has two faces, one political and the other economic. The United States has made it clear that the economic aspect can only be attained regionally and that therefore a single economic region should be created and Israel should, for all practical purposes, be integrated into it.

The political options that were raised also affirm that unless the region becomes a single integrated economic group, it cannot attract foreign investment. A call has been made for economic reforms in each country in the region and for integrating the economies of the region, so as to render them capable of benefiting from the world economy.

The economic summits for the Middle East and North Africa were held to reinforce this trend. The first economic summit took place in Casablanca in 1994 and the second was held in Amman in 1995. The

third economic summit will be held in Cairo next October, and the fourth is to be held in Doha next year.

The Amman economic summit sought to present the Arab States and Israel as an integrated economic region. That was a prelude to rehabilitation within the framework of comprehensive integration into the international economy. It would allow the global private sector a chance to examine the opportunities of investment in the Middle East and North Africa. At the end of the summit, three institutions for regional cooperation were formed: the Bank for the Development of the Middle East, the Regional Tourism Authority and the Regional Business Council.

The most prominent form of regional cooperation at present is the economic partnership between the Mediterranean basin States and the EU countries, with a view to integrating this region with Eastern and Western Europe. This integration should be effected by the year 2010 and would include 30 countries with 700 million people, representing a substantial volume of international trade.

The EU believes that this economic partnership with the Mediterranean States is very important, because its aim is to strengthen economic cooperation between these two groups of countries.

As for cooperation at the regional level, several regional models were proposed following the conclusion of the peace agreements between Israel and each of Jordan and the Palestinian National Authority. There is a project for a tripartite partnership among Jordan, Palestine and Israel with these serving as the nucleus for an economic bloc which could be expanded in the future. Jordan and Israel have drawn up the features of the proposed economic cooperation, which includes recent agreements on building an airport, a project for developing the Jordan Valley, and a project for the desalination of the Red Sea water. Meanwhile, there is another model for regional cooperation that includes the Middle East and North African countries, as well as economic partnership with the EU.

II. THE DIMENSIONS OF REGIONAL DEVELOPMENTS AND THE TRENDS OF THE ECONOMIC SUMMITS

This paper will not discuss regional developments from an economic perspective. It is evident that the priority of the trend is to promote Israel's economic entry to the Arab region and its integration with the economies of the Arab States.

Since the peace which has been attained so far is incomplete and far from the comprehensive and just peace that is sought by the Arab peoples, we should not rush into an accelerated pace of normalization of relations with Israel, or a growing economic cooperation between the Arab States and Israel. There must be a comprehensive and just peace achieved first. The trend towards normalization and growing economic cooperation is raising a great deal of concern. The recent events in the West Bank and Gaza Strip and even more recently in Lebanon have justified this concern. They also have provided evidence that Israel's oppressive policy is continuing, with the support of the United States and Britain. The events have also revealed that the principles still governing the attitude of Israel in handling its problems with the Arab countries and in seeking solutions that are intended to establish peace in the region are based on arm-twisting, the imposition of the *fait accompli* and the exercise of force by the strong against the weak. Therefore, the features of the regional developments being promoted now are still unclear. With the exception of the Palestinian National Authority, which has acquired a small part of the West Bank and Gaza Strip, and which needs enormous economic support, peace with Israel is still a distant goal.

Therefore, I believe that we should focus in this conference on discussing how to activate the Jordanian economy so that it could integrate with the world economy, as well as how to reorganize and restructure it to allow it to keep pace with contemporary international developments. We should do this rather than discuss forms of regional cooperation, whether the tripartite economic partnership, the Middle East and North Africa model, or the model of the Euro-Mediterranean economic partnership.

The Amman economic summit held in October 1995 sought to highlight the economic importance of the region as an integrated region capable of attracting international investment and creating an atmosphere of trade cooperation between the region's countries and the other economic blocs in the world. However, it was left up to each State in the region to prepare its own national economy for future integration with the region's economic system, as well as for playing its designated role in the future in terms of attracting investment and for promoting economic and trade cooperation with other countries in the world. Perhaps the effectiveness and success that each State has in regional and international cooperation depends on its economic power and its capabilities in organizing and performing.

Therefore, this working paper will try to highlight the most prominent focuses which must receive due attention if we are to build a strong economy capable of raising the standard of living of the Jordanian citizen and attaining the desired economic security and stability. These focuses are divided into two groups: the first deals with promoting and upgrading Jordan's economic policies, and the second group deals with the factors involving the development of the Jordanian economy.

III. FOCUSES FOR DEVELOPING THE JORDANIAN ECONOMY

A. PROMOTING JORDAN'S ECONOMIC POLICIES

Economic policies are a major focus of this paper, because they represent the main ingredients for the achievement of economic development and the creation of an appropriate investment climate in Jordan, as well as the success of the economic adjustment programme being implemented by the Jordanian Government.

These policies could be discussed as two groups: the policies that are aimed at achieving overall stability and the policies that are seeking to attain economic liberalization.

1. *Policies aimed at attaining overall stability*

The achievement of the overall stability of the Jordanian economy is a prerequisite for attaining balanced and sustainable development. Overall stability means fiscal and monetary stability. The following is an analysis of these policies:

(a) *Fiscal policies and the attainment of fiscal stability*

The aim of fiscal stability is to eliminate the deficit in the State budget and to give the economy a good financial reputation plus the confidence that can attract international investment. It is not easy to achieve fiscal stability at present because it requires the formulation and implementation of wise financial policies capable of controlling government spending, curbing the accumulated deficit in the State budget, and properly managing foreign debt.

The problems of fiscal stability are linked with the country's general economic conditions and the amount of overall activity in the national economy. Since the mid-1980s, the Jordanian economy has suffered from stagnation, which is manifest in the decline in financial remittances from abroad and weak exports. This in turn has reflected negatively on the size of economic activity and has led to a high rate of unemployment.

The Jordanian Government formulated an economic adjustment programme in 1989, but it was not completed, because of the Gulf crisis. This was followed by the current adjustment programme, which covers the period 1992 to 1998. These programmes sought to reduce the deficit in the State budget and to improve the balance of payments. Perhaps the most important fiscal trends at present involve the endeavours being made to increase local savings, to shift the tax burden from savers and investors to consumers, to reduce customs tariff rates, to seek to join the World Trade Organization, to continue negotiations with the European Union with a view to concluding an Association Agreement, and to upgrade the functions of the stock market in Jordan.

Coping with the fiscal deficit and seeking to reduce the foreign debt are two of the most prominent challenges facing developing nations at present. The Jordanian Government has managed to reduce foreign debt from 170% of GNP to 92% of the GNP in the past few years.¹

Perhaps among the most important factors which would strengthen the financial position of the State are restructuring government departments and institutions, implementing the privatization programme, reducing government current expenditures, increasing the efficiency of government performance, and eliminating administrative and financial corruption. At the level of economic activity of the State, the activation of investments and the increasing of national production would also improve the financial position of the State.

(b) *Monetary policies and the achievement of monetary stability*

The aim of monetary stability is to maintain a constant exchange price for the Jordanian dinar and to restrain inflation by strengthening the balance of payments and keeping sufficient amounts of foreign currency reserves.

The exchange rate of the dinar underwent a crisis in 1988, and the dinar became restricted until 1995 when the Jordanian Government announced that it had become a transferable currency. Stability in the dinar's exchange rate can be achieved through the activation and support of economic activities that generate income in foreign currency, foremost of which are the following:

- (a) Exports;
- (b) Tourism;

¹ Jordan's foreign debt in 1992 stood at \$6,625 million, equivalent to 128% of GNP. The country's foreign debt dropped to \$6,008 million in 1993 and dropped again to \$5,657 million in 1994, or 92.7% of GNP. The amount of \$835 million of Jordan's debt was forgiven as a reward for entering the peace process. On 28 June 1994, Jordan concluded an agreement with the Paris Club to reschedule foreign debts amounting to \$1,212 million over a 20 to 22 year period, with a grace period of 5 to 12 years.

(c) *Financial remittances from abroad.*

Perhaps discussion of how to activate these domains falls within the context of another sphere of discussion and analysis. Nevertheless, alongside these activities, the Government is following monetary policies aimed at building up its foreign currency reserves. These policies are manifest in interest rate policy, including the policy of allowing deposits in Jordanian dinars to have higher interest rates than deposits in foreign currencies, especially US dollar deposits.

The Jordanian Government has obtained some loans as part of its economic adjustment programme to support the balance of payments and the country's foreign currency reserves.²

We believe that there are several methods which could be used to strengthen the foreign currency reserves. Among the most important are the development of industries and the promotion of commodities that can replace imports, particularly consumer commodities. This in turn requires that the quality of Jordanian food, clothes and footwear be raised. Furthermore, local industries manufacturing the requirements of the construction and plastics industries could be established. The medical services sector could also be improved, particularly in view of the fact that it has gained an excellent reputation among Arab countries; it still requires further development and attention, however.

2. *Economic liberalization policies*

We mean by economic liberalization that the national economy works in accordance with the free market mechanism without any restrictions; this is the basis of the free market economy, which has

² Jordan recently obtained a loan from the World Bank amounting to \$80 million to be repaid over a 20-year period with a 5-year grace period, out of the World Bank's appreciation of Jordan's achievements in the fields of economic reform, liberalization of the economy, and the encouragement of investment. Jordan has also obtained a \$135 million loan from the Japanese Government to support its balance of payments.

proven its effectiveness and success in our age. At the level of the world economy, the liberalization of the economy means the abrogation of restrictions in dealing with other countries, the encouragement of investment and trade with all countries following a policy of economic openness, and the minimizing of government intervention in economic activities.

Most developing countries have suffered in recent years from the problems of foreign debt and the worsening deficits in the State budgets. Their foreign currency assets have been exhausted, and the exchange rates of their national currencies have dropped. Consequently, these countries had to develop economic reform and structural adjustment programmes and to make an overall review of the economic policies they had been following.

The most prominent policy that has been criticized and reassessed was the large role of Government in operating the national economy, whether through its ownership of productive sectors and supervision of operations, or its adoption and implementation of decisions related to imports and exports, or its policy of subsidizing consumer commodities.

Since the 1990s, Jordan has been applying an economic adjustment programme seeking to reduce the deficit in the State budget, strengthen the balance of payments and encourage privatization. Jordan's economic liberalization policies were manifest in the liberalization of investments and the labour market and in the liberalization of foreign trade.

(a) *Investment liberalization policies*

The Government is seeking to integrate the Jordanian economy with the world economy at a rapid pace. It is also seeking to attract investment and capital from abroad. From the convening of the economic summit for the Middle East and North Africa in Amman last year, Jordan sought to promote foreign investments and to explain the new investment climate in the country, after the introduction of a package of economic laws. The most important of these was the investment law which equalized foreign and local investments. The Government has also decided to issue a law

allowing foreigners to invest in the Amman Financial Market without prior approval. Only a small number of companies are excluded. Thus the Government would be revoking all restrictions on foreign investments.

(b) *Foreign trade liberalization policies*

The Jordanian Government is currently engaged in negotiations to join the WTO, which means that the Government will be removing all the restrictions on import activities and will be reducing customs duties on imports.

The liberalization of foreign trade also requires the promotion of Jordanian exports, the encouragement of Jordanian industries, and the focus of attention on upgrading the quality of goods and commodities, so that they can compete with similar products in foreign markets.

The openness of the Jordanian economy and the efforts made to attract investments from abroad require the Jordanian economy to become more responsive to the technological developments that are taking place in the world economy. It also requires that national production efficiency be raised and production costs be reduced, if Jordanian products are to compete in the world market.

B. FACTORS INVOLVING THE DEVELOPMENT OF THE JORDANIAN ECONOMY

We present here a number of the major factors involving the development and upgrading of the Jordanian economy in terms of providing an investment climate capable of attracting national and foreign investment. Some of these factors will be discussed briefly, while others will be explained in greater detail.

(a) *Political and social stability.* The importance of this factor is self-evident.

(b) *Infrastructure* such as roads, airports and public services, including the importance of allowing the private sector to invest in some of these projects.

(c) *Laws and regulations* that contribute to the development of the economy, the liberalization of trade and investment. The Government recently issued a package of laws, foremost of which are the Investment Law and the Income Tax Law. However, efforts should continue to introduce the required amendments to other relevant laws and regulations.

(d) *Developing the public sector and restructuring government institutions* with the aim of raising their efficiency and eliminating bureaucratic red tape in the work of the Government, so that the foundations of an investment climate attractive to the private sector could be laid down.

(e) *A focus on the promotion of productive sectors* which enjoy a relative advantage in the Jordanian economy, such as the following:

- (i) The tourism sector.
- (ii) The medical services sector.
- (iii) The higher education sector.
- (iv) The financial, banking and real estate services sector.
- (v) The extractive industry sector (phosphates and potash).
- (vi) The agricultural sector, focusing on the production of out-of-season vegetables.

(f) *The activation of Jordanian exports.* The economic power of nations usually lies in their strong export capabilities. Jordanian exports are among the most important sources for strengthening and consolidating the country's balance of payments. If we want to enable the Jordanian economy to integrate into the world economy, join the WTO, and engage with the EU countries in an Association Agreement, it is necessary to prepare the Jordanian economy for high-quality production at low economic cost so that its products could compete in export markets. This requires the establishment of advanced and productive agricultural and industrial sectors. Some Jordanian industries have already achieved

significant progress in this field and have managed to reach numerous foreign markets, such as the pharmaceuticals industry and some foodstuff and plastic industries. International specifications should be applied for Jordanian products, so that they can be exported; the mechanisms supporting exports should be provided, such as banks for the financing of exports and organizations for advertising and promoting Jordanian exports as well as programmes of export guarantee and of incentives to encourage exports, together with increased attention to product quality, since this is required in foreign markets.

(g) *The activation of the private sector's role and the continuation of privatization.* The economic activity carried out by the private sector represents one of the basic ingredients for achieving economic development and successfully implementing economic reform programmes and policies. Undoubtedly, the success of the economic policies adopted by the Government will depend on the effectiveness and efficiency of the private sector in taking the initiative and carrying out activities to produce goods and services, as the private sector is more capable than the public sector of running projects and achieving efficiency in the production of goods and services.

If the private sector is to operate successfully, its needs should be examined, the appropriate climate for its success should be provided, and the obstacles it is facing should be overcome, whether in regard to the dealings of the private sector with the government machinery, where it needs to have import and export licenses issued, or in its dealings with the banking system.

Businessmen should also be supported and counseled on the various activities they carry out.

The Jordanian Government is continuing the transfer of some of its activities and enterprises and to sell the shares it owns to the private sector. We hope that Jordan will benefit from the experiences of other countries in this field, so we can avoid mistakes that could reflect negatively on the level of performance of the services rendered. Perhaps

the most prominent examples of privatization in Jordan are the Telecommunications Corporation, the electricity companies, and Royal Jordanian Airlines. In addition, the Government has sold its shares in the mining companies, including the phosphates and potash companies.

(h) *The development and advancement of human resources.* One of the most prominent ingredients of economic development and one of the main requirements for attracting foreign investment is the availability of technically and managerially qualified and skilled human resources. This fact has been confirmed by the experiences of the developed countries, such as Japan, the United States and the EU countries. The degree of economic progress these countries have achieved and the enormous rate of growth in their industrial and agricultural production have been due to their technically trained manpower and skilled industrial workers, as well as their creative and innovative administrative and organizational capabilities.

Since the early 1950s, Jordan has made substantial progress in training its citizens through academic education. Generation after generation has continued to seek education at universities and has occupied distinguished positions in the various vocations and professions, particularly medicine, engineering, agriculture, banking and economics. However, Jordan's performance was at a much lower level in the field of skilled labour, because such preparation needs modern technical training institutes.

This paper affirms the need to encourage and promote Jordanian exports in foreign markets. If Jordanian exports are to compete in foreign markets, they must be high-quality and cost-competitive. The most important factor of success in this connection depends on a cadre of technically and managerially trained manpower.

Jordan believes that human resources are its real capital. Human resources have been the most distinguished element in the performance of the Jordanian economy from the 1950s up to the mid-1990s. Remittances

made by Jordanians working abroad were one of the major strengths of the balance of payments and a reason behind the stability of the exchange rate of the dinar. All these factors confirm the importance of developing and training the country's human resources.

We stress here the significance of releasing the innovative and creative forces which the Jordanian individual possesses. We can achieve this through training and focusing on the development of human resources as one of the basic ingredients of economic progress.

We also affirm that Jordan still has a long way to go in terms of training and developing its human resources in industrial production and the services sector, with the most important of these sectors being tourism and banking.

We believe that what is required in the field of human resources development are the following:

1. Training and development

(a) Implementation of the country's professional and vocational training programmes according to the most modern scientific and technological standards, and the opening of high-level training institutions and organizations. Jordanian trainees should be provided with the most modern technical skills and expertise, which would necessarily be reflected in more efficient production.

(b) Implementation of training programmes in the field of private sector project management.

(c) Advancing applied research that is directly relevant to industry. Applied research would help solve the problems encountered in production and would contribute to the proper use of the requirements of production, including water and energy.

2. Ensuring constructive industrial relations in all companies and enterprises so that the worker would feel that he really belongs to the enterprise for which he is working and that he can contribute to raising productive efficiency and to rational consumption of water and electricity and rational use of the requirements of production.

3. Ensuring an umbrella of social and health insurance which could provide a feeling of security for members of the workforce, so that they could utilize their maximum capability in production.

So far, we have been talking about how things should be. If we are to translate these ideas into practical realities, we will have to give high priority to these questions and persuade decision makers of the significance of developing and training human resources and approaching international institutions and friendly nations to help establish advanced professional and vocational training institutes. It should be noted here that some delegations which attended the Amman economic summit last October, including the Japanese and German delegations, expressed their willingness to assist Jordan in the field of professional and vocational training.