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THE IMPACT OF THE GULF CRISIS ON THE JORDANIAN ECONOMY

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PREFACE

This study has been undertaken in compliance with the initiative of the Economic and Social Commission for Western Asia (ESCWA) to examine the impact of the Gulf crisis on the national economies of ESCWA member countries,[1/] and in response to a request from the Jordanian Ministry of Planning transmitted to ESCWA via the United Nations Development Programme (UNDP), Amman.

It is understood that any estimate of the impact of the Gulf crisis on the Jordanian economy can only be tentative at this stage, as the situation is still evolving and key parameters remain unsettled. Accordingly, the study adopts a scenario of a continuation of the current situation <u>vis-à-vis</u> the crisis.

The study attempts at analysing the direct as well as indirect impact of the Gulf crisis on the Jordanian economy, resulting from the crisis <u>per se</u>, and from Jordan's abiding by United Nations Security Council Resolution 661, concerning the embargo imposed on Iraq. In addition to identifying policies and measures to be adopted by the Jordanian authorities to deal with the impact of the crisis, the study aims at estimating the financial assistance needed by Jodan to bear the burdens caused by the crisis.

A concise review of basic economic developments during the 1980s and up to the eruption of the crisis on 2 August 1990 is presented, all within the framework of economic planning policies and structural adjustment programmes. Chapter II deals with the impact of the crisis on the economic sectors most affected by the crisis, with estimates extending to a full year, starting with the crisis.

Chapter III summarizes the study and makes several recommendations for action.

It should be noted that the study does not deal with the social impact of the crisis, because this is difficult to express in monetary terms, and any such analysis would be coloured by subjective inclinations. However, the magnitude of the impact can be roughly portrayed in a few words:

The deterioration in the economic and social conditions of the Jordanian expatriates in Kuwait has been disastrous. The misery of these expatriates has not been limited to the loss of jobs, which represent the only income source for most of them. It also has extended to the loss of savings, end-of-service remunerations,[2/] and assets. Tens of thousands of the repatriated expatriates have experienced a tortuous misery. Coming home has been no great

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1/ The member countries of the Economic and Social Commission for Western Asia (ESCWA) are Bahrain, Egypt, Iraq, Jordan, Kuwait, Lebanon, Oman, Palestine, Qatar, Saudi Arabia, the Syrian Arab Republic, the United Arab Emirates and Yemen.

2/ According to ESCWA's conservative estimation, the end-of-service remunerations of Jordanian expatriates in Kuwait amounted to around $2.7 billion. The study, however, does not include these remunerations in the losses, on the assumption that they may possibly be settled in the future.

consolation for most of them, as they can hardly hope to secure a source of income in a country which already has high unemployment. Nor do they dispose of any savings from which they can pay for the cost of living. Many of them who, during their stay in Kuwait, were able to buy or build a house in Jordan, are finding themselves forced to sell these houses to meet the cost of living. Those Jordanians who remained in Kuwait are facing an uncertain future, and simply do not know where to go, given their meagre financial means.

CONTENTS

LIST OF TABLES

I. ECONOMIC CONDITIONS IN JORDAN PRIOR TO THE GULF CRISIS

A. Introduction

Jordan's economic performance has been determined, to a large extent, by its economic relations with neighbouring oil-exporting countries through the following factors: financial transfer of both the private (workers' remittances) and public (official grants) sector, capital flows (mainly soft loans) and trade flows.

During the 1970s, the increased level of economic activity in the Gulf countries, caused by the sharp rise in oil prices, created an economic boom. The Jordanian economy was affected by this boom through its economic relations with these countries. Rising exports helped finance capital formation and imports. The flow of financial transfer contributed to a build-up of international reserves. As a result, the gross domestic product (GDP) recorded double-digit growth rates, external indebtedness was minimal and inflation remained moderate.1/

The impressive economic performance of Jordan came to an end in 1983. Real GDP growth dropped from 10 per cent during 1979-1980 to 8.7 per cent in 1981, and further to 5.5 per cent in 1982.2/ In 1983, real GDP growth dropped to 0.2 per cent. Between 1984 and 1987, the growth rates remained modest, due to the ongoing economic slowdown, which was followed by a recession starting in 1988.

These developments were determined mainly by the depressed economic conditions in the GCC countries, which in turn were determined by the fall in oil revenues. The effects of these developments on the Jordanian economy were reflected in a further increase in the deficit of both the government budget and the balance of payments, thus leading to a further rise in the country's external debt.3/

B. Five-Year Development Plan (1986-1990)

The terms of dealing with major medium-term economic, financial and social challenges facing Jordan were established within a framework of objectives of the Five-Year Development Plan (1986-1990).

1/ United Nations Department of International Social and Economic Affairs (DIESSA), "The impact of Security Council resolution 661 on Jordan and Yemen", unpublished manuscript by Edouard Nsimba, September 1990.

2/ International Monetary Fund, Jordan -- Recent Economic Developments, Washington, D.C., (SM/83/220), p. 1.

3/ The World Bank, Report and recommendations of the President of the Bank to the Executive Directors on a proposed industry and trade policy adjustment loan to Jordan, 27 November 1989, annex III.

The objectives include accelerated growth, creating additional employment opportunities and sustaining viable budgetary and balance-of-payments positions. The plan also recognized two long-term constraints deserving attention, namely, Jordan's growing population and increasing scarcity of water. Indeed, Jordan's economic difficulties are compounded by one of the world's highest population growth rates. Jordan's population of 3.1 million is estimated to double in less than 20 years (at 3.9 per cent annual growth), placing a heavy burden on the country's already strained educational, health, welfare and other services.[4/]

To deal with these problems, an economic policy framework has been adopted to provide for:

(a) The continuation of an open and liberal trade system;

(b) A cautious monetary policy designed to encourage domestic saving and maintain a flexible interest rate policy;

(c) Restructuring the economy in favor of productive projects;

(d) Developing Jordan into a regional centre for banking, finance and technology;

(e) The promotion of tourism and the strengthening of Jordan's role as a supplier of skilled manpower to the region.

However, the assumption made in the framework of the plan did not materialize. The economic situation deteriorated rapidly during 1986-1987, and a severe balance-of-payments deficit developed in 1988. The Government, while trying to maintain formulated policies, has adopted stronger measures to contain macro-economic imbalances, promote growth and help the poor.[5/]

C. Economic adjustment programme

In 1988, the increasing balance-of-payments deficit required immediate action to restructure the economy. Since mid-1988, the Jordanian Government has been engaged in designing and implementing a comprehensive reform programme to recapture the growth momentum of the economy wile maintaining a viable budgetary and balance-of-payments position. In August 1988, the Government announced a number of measures aimed at improving the business environment for industry, which plays an important role within the dynamics of economic development. The measures were designed to achieve financial stabilization and to shift incentives towards the promotion of exports and efficient import substitution activities. There has been evidence that business has been responding positively to government policies.

4/ United States Department of Commerce, Foreign Economic Trends and their Implications for the United States -- Jordan, Washington, D.C., July 1990, p. 7.

5/ The World Bank, *op. cit.*, page 30.

Following a series of internal economic, financial and monetary discussions of concerned official institutions in Jordan as well discussions with international financial institutions, mainly the International Monetary Fund (IMF) and the World Bank, an economic adjustment programme (EAP) was formulated, covering the period 1989-1993. The EAP aimed at reducing macro-economic imbalances and creating a more favourable environment for overall economic growth, taking into account the limited resources available. In addition, the EAP includes a reform package in the trade system and industrial institutions supporting export promotion as well as import substitution.

Regarding external debt, the Government opened negotiations with the IMF in March 1989 on debt rescheduling. An IMF standby agreement allowed the Government to open negotiations on rescheduling the country's $8.3 billion external debt. Terms of payments of official debt with the Paris Club were concluded in July 1989. The accord provided for the rescheduling of $573 million in debt payments due between 1 July 1989 and 31 December 1990. Payments were reschduled over a ten-year period, with a grace period of five years.

The reschdeuling of Jordan's estimated $1.4 billion commercial debt (about 17 per cent of total foreign debt) has proceeded more slowly. So far, no agreement has been reached.

D. Progress in the implementation of the economic adjustment programme

The Jordanian Government adopted proper policies for the implementation of the economic adjustment programme (EAP) (1989-1993), as negotiated with the IMF. The Government's commitment to the objectives of the EAP was made clear in the significant reforms being made, which resulted in the following achievements:

1. The trade deficit showed a sharp decrease as imports dropped by 22 per cent and exports increased by 9 per cent in 1989 over 1988.

2. As a result of the adoption of the reform package of November 1988, external debt was rescheduled and the budget deficit could be reduced from JD 111 million ($166 million) to JD 70 million ($104 million).

3. The stability of the dinar's exchange rate has been maintained since September 1989, as a result of careful intervention by the Central Bank of Jordan (CBJ), coupled with Arab financial assistance.

4. Although the budget deficit decreased to just 15 per cent of the GDP in 1989 (excluding grants), the Government moved to control spending. Therefore, real spending in the 1990 budget was cut by approximately 15 per cent. In addition, the government budget policy focused on raising domestic revenues.

5. Official data for the first quarter of 1990 indicate a 1.9 per cent increase in the cost-of-living index, thus implying an official estimate of a 10 per cent increase in the cost of living in 1990, compared with a 26 per cent increase in 1989.

6. In 1989 Jordan's traditional exports (phosphates, potash and fertilizers) generated around 47 per cent of Jordan's export earnings of around $1.1 billion, as a result of a forceful drive to establish new markets in the Indian subcontinent, south-east Asia and Eastern Europe. The growth of total exports in 1989 was due not only to the promotion of traditional exports, but also to a healthy increase in a number of non-traditional exports such as manufactured exports, including pharmaceuticals, clothing, detergents and machinery, which exhibited substantial gains in 1989. Continued development of the Jordan Valley and improvement in agri-marketing are expected to produce steady gains in the medium term.

7. Net domestic borrowing by the Treasury during the first five months of 1990 amounted to around $30.6 million -- less than one third of domestic borrowing during the same period of 1989.[6/]

8. Remittances from Jordanian expatriates during the first half of 1990 were 43 per cent higher than those of the same period of 1989. The estimates for 1990, prior to the Gulf crisis, were around $800 million.

However, parallel to these achievements, the following issues were considered of major significance in the development of the Jordanian economy, prior to the Gulf crisis:

1. While economic factors such as interest rates, external revenues and the stability of the exchange rate of the Jordanian dinar will continue to figure prominently in encouraging private-sector investment decisions, the political climate remains the main determinant of investment in Jordan. The political climate has turned favourable in Jordan in the light of the democratization process.[7/]

2. Despite debt rescheduling by the IMF and Paris Club, Jordan continues to face a daunting repayment schedule. For the period 1991-1994, Jordan's debt-service payments are expected to be over $1 billion annually. The debt payments, which place further burden on the government budget, have forced Jordan to rely heavily on Arab aid. However, prior to the Gulf crisis, drawing from new credit facilities that were made available to Jordan, together with Arab aid, was expected to exceed debt-service payments.

3. Prior to the Gulf crisis, optimism prevailed among Jordanian economic and financial circles about the flow of Arab aid to the country. Overall Arab aid in 1990, as expected prior to the crisis, was said to amount to $550 million and originate as follows:

Saudi Arabia	$200 million	Kuwait	$135 million
United Arab Emirates	$120 million	Iraq	$ 50 million
Qatar	$ 40 million	Oman	$ 5 million

6/ Central Bank of Jordan, Monthly Statistical Bulletin, July 1990.

7/ Alison Semple, "Caught in the middle", No. 192, Middle East Magazine, (October 1990) p. 37.

However, Arab aid actually received during the first seven months of 1990 was $295 million.

4. Unemployment has become a serious problem in Jordan. The ability of the economy to absorb Jordanian labourers returned from the Gulf countries has declined, and the local markets are no longer able to create sufficient jobs, due to prevailing economic conditions. As a result the official unemployment rate increased from 3.0 per cent in 1980 to 5.3 per cent in 1983. The negative trend continued, with the unemployment rate reaching over 15 per cent in 1989 and around 20 per cent in 1990.

II. SECTORAL ANALYSIS OF THE IMPACT

A. Money, finance and trade

The impact of the Gulf crisis on the monetary and financial situation in Jordan can be identified and evaluated within a macro-financial analytical framework. However, due to lack of both qualitative and quantitative data, this brief analysis will only attempt to indicate the monetary, fiscal and financial impact considered relevant vis-à-vis determining appropriate action by the Jordanian authorities in cooperation with the foreign Governments and international agencies concerned.

Due to the scarcity of natural resources, Jordan's economy relies heavily on external economic and financial relations with ESCWA countries, especially in terms of workers' remittances, financial assistance and exports of goods and services. According to available data, exports of goods and services to ESCWA oil-exporting countries[1/] increased from 35 per cent ($225.6 million) of total Jordanian exports ($644.6 million) in 1986 to 56 per cent ($520.5 million) of total Jordanian exports ($925.5 million) in 1989. The reliance is further reflected in the financial assistance received by Jordan from ESCWA oil-exporting countries to finance government budget deficits and to improve the balance-of-payments position. Indeed, the financial assistance received from these countries (on a bilateral basis or through multinational organizations) constitutes over 80 per cent of the Government's external receipts, which amounted to $365.5 million in 1988 and $616.1 million in 1989.

Recorded worker's remittances have constituted an average of over one third of the country's foreign exchange earnings, and have gradually exceeded the Government's foreign receipts during the last two decades. While annual Government foreign receipts were around $610 million on average between 1986 and 1989, workers' remittances averaged over $872 million during the same period.

While workers' remittances, financial assistance and export of goods and services dominate the economic activities (i.e., domestic output) and government revenues (i.e., budget), the impact is more pronounced in the external-payments position of Jordan. Indeed, Jordan's balance-of-payments position reflects two basic features: First, despite the Government's active policy of diversification of the national economy, the export of two major categories of the country's output, namely minerals (phosphate and potash) and foodstuffs (vegetables and fruits) still dominate total exports. Exports of both categories made up over 55 per cent of the country's total exports during the last two years and are expected to increase further during the coming years. Second, the net surplus of exports accrues to the private sector, while the net deficit originates largely in the public sector. These features mirror the structure of the balance of payments of Jordan's economy, which has only a limited home production base, especially for manufactured goods and machinery.

1/ Including only the countries of the Gulf Cooperation Council (GCC), which are Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and the United Arab Emirates.

Another feature of the Jordanian economy is the "reasonably balanced" role played by both the public sector and private sector in the development process. In this regard, national accounts data indicate that the share of the public sector in domestic output and gross fixed capital formation has been almost equal to that of the private sector in raising gross domestic product and income per capita during the last decade.

The increased dependence of Jordan on sources of foreign exchange has made economic activities in the country susceptible to the development of economic, financial and political relations with the countries of these sources. While financing budget deficits could partly be achieved by means of domestic financial resources (tax and non-tax revenues as well as borrowing), and partly by foreign financial assistance and borrowing, private-sector financing of economic activities has been increasingly dominated by workers' remittances. According to a previous ESCWA publication,[2/] around two thirds of recorded workers' remittances were used in the private-sector businesses of housing, equity shareholding and productive projects. These data reflect the situation in 1985, but the trend has not changed significantly since then. Nevertheless, workers' remittances have been a significant promoter of economic and financial activities in Jordan. Not only have workers' remittances constituted the sole income source of over one million Jordanians, they have also contributed indirectly to around 40 per cent of the income of over half a million Jordanians, namely through an associated multiplier estimated at around 1.5. And from another perspective, it can be said that over two thirds of the financial institutions and around 70 per cent of today's incorporated businesses in the country would not have been fully financed without these remittances.

During the last decade, Jordan was able to establish a stable and absorptive market in Iraq for its export business. Jordan's exports to Iraq amounted to an average of 24 per cent of total Jordanian export of goods during the period 1986 to 1989.[3/] Exports to Iraq were on the rise during the last decade and increased from $171.8 million in 1988 to $215.8 million in 1989. Although a significant portion of the trade with Iraq (especially oil imports) has taken the form of settlement of the Iraqi debt to Jordan, exports to Iraq, however, have found a market considered to be large and absorptive for an eventual increase in Jordanian exports.

Jordanian exports to ESCWA oil-exporting countries (GCC countries) have not been as large (7 per cent of total Jordanian exports) and have consisted mainly of vegetables and fruits. However, considering the high absorptive capacity of these countries' markets for agri-products, Jordan has made major efforts to develop agri-business in the Jordan Valley.

2/ Economic and Social Commission for Western Asia, "Growth of development finance institutions and financial resource needs of selected ESCWA countries", E/ESCWA/DPD/86/6, p. 25.

3/ Calculated from data published in the Monthly Statistical Bulletin, July 1990, Central Bank of Jordan.

The financial system of Jordan developed satisfactorily during the last two decades. It benefited greatly from the oil-boom era of the 1970s and early 1980s. Workers' remittances were a major source of foreign exchange for commercial banks and constituted over 45 per cent of their foreign exchange transactions in 1989 and 54 per cent as at end July 1990.4/

Owing to the gradual rise in Jordan's foreign trade during the last two decades, trade finance has become a major business activity of commercial banks, followed by construction and industry finance. In 1989, credit facilities of commercial banks were over 1,730 million Jordanian dinars (JD), up from JD 1,634 million in 1988. As at end July 1990, credit facilities of commercial banks increased to JD 1,790 million.5/

Banking activities decreased following the eruption of the Gulf crisis. So far, banks have not been short of foreign exchange, but as long as they cannot expect a sufficient flow of foreign exchange, especially in the form of remittances, the situation may deteriorate. So far, deterioration has been avoided by the present halt in the banks' opening of letters of credit, as businesses hold back from any commitment, due to the presumed risk associated with Jordan's foreign trade as a result of the Gulf crisis.

Furthermore, with the banking system depending heavily on foreign deposits of Jordanian expatriates in the Gulf region (around 20 per cent of total bank deposits), the loss of any portion of these deposits -- however small -- as a result of an exodus of these expatriates, would confront the banking system with a problem over and above the ones it already faces.

A relatively acceptable degree of business sophistication on the part of commercial banks is reflected in their ability to gradually improve their deposit base, both in domestic and foreign currency. Total deposits of commercial banks increased from JD 2,346 million in 1988 to JD 2,635 million in 1989 and to JD 2,793 million as at end July 1990. The relative success of the commercial banks in increasing their foreign-exchange deposits has been even bigger. These increased from JD 535 million in 1988 to JD 647 million in 1989 and JD 758 million as at end July 1990.6/

However, in terms of return as a percentage of total assets, the commercial banks were less successful during the 1980s than, for example, major GCC banks, due mainly to their limited involvement in international commercial and investment banking. While the rate for the latter has been 0.17 per cent (less than half that of major international banks), it has been just around 0.12 per cent for Jordanian banks.

4/ Calculated from data published in the Monthly Statistical Bulletin July 1990, Central Bank of Jordan.

5/ Commercial banks' credit facilities for trade finance have been around $913.0 million on average between 1986 and 1989, or around 24 per cent of total banks' credit facilities, ibid.

6/ The increase turns to a decrease, however, if denomination is made in United States dollars. Foreign currency deposits would then be $1,425.0 million, $1,126.0 million and $1,145.5 million, respectively.

Jordan's foreign exchange reserves rose and fell with the rise and fall of oil revenues of ESCWA oil-exporting countries. Financial assistance of these countries and workers' remittances from them determined the eventual level of these reserves. International reserves (including foreign exchange reserves) of Jordan, which at end 1989 amounted to $573.2 million, or a reserve/import ratio, of over three months, were up by $325.3 million from the 1988 level of $247.9 million.[7/]

Money supply in Jordan has increased gradually over the past four years. However, the increase has been mirrored in private-sector deposits rather than in currency in circulation and demand deposits (M1), thus reflecting an improved financial deepening of the banking system in attracting deposits.

Jordan, which until 1988 registered a relatively modest rate of inflation, has been experiencing a high rise in this rate, due mainly to the high rise in the costs of imports. The Government has levied high rates of customs duties and fees to improve the balance-of-payments position (and consequently, the country's foreign reserves) and to assist in financing budget deficits. While at end 1989 the rate of inflation was slightly over 25 per cent, it rose to over 30 per cent as at end July 1990.

Conclusion

The Gulf crisis has affected Jordan in many ways. While the monetary authorities are said to be able to maintain a reasonably stable exchange rate of the Jordanian dinar until the end of 1990, the loss of foreign-exchange sources originating in ESCWA GCC countries and the subsequent shortfall in foreign currency reserves of the Central Bank of Jordan would weaken the ability of the Bank to continue maintaining the aforementioned exchange rate. A weakened dinar would lead to higher rates of inflation and consequently to a "dollarization" of the economy, thus resulting in a further deterioration in living standards.

The loss of foreign exchange sources with the subsequent shortfall in government revenues, coupled with the eminent increase in current expenditures, would widen even further the budget deficit which the Government has been trying to reduce in accordance with the government reform package of November 1988.

With tax rates as well as fees and customs being considered high and burdensome for a large segment of the population, as well as businesses, a further rise in these rates to help increase government revenues and reduce the budget deficit would discourage business activities in an already recessive economy, reduce consumer demand and increase the burdens of a great number of the population.

7/ International Monetary Fund, International Financial Statistics, November 1990.

Since even maintaining the 1989 level of the Government's external revenues[8/] is considered unrealistic under the present circumstances, the loss of foreign exchange sources would further widen the budget deficit, put a hold on development expenditures and lead to a decrease in economic activities.

The insecurity presently associated with the region and the state of affairs of relations between Jordan and the GCC countries have brought to a halt direct foreign investments, which during the period between 1987 and 1989 amounted to over JD 85 million ($185 million), of which over 80 per cent are said to have originated from these countries, with 35 per cent of the total originating from Kuwait alone. Despite its very stable social and political situation, liberal economic system and progressive investment encouragement law issued prior to the Gulf crisis, Jordan -- by virtue of its location -- might now be further associated with a bubbling region of military, national and ideological conflicts. The Gulf crisis and the unofficially implied blockade against Jordan can only help reinforce such a belief and halt direct foreign investments completely.

Following the above-mentioned government reform package of November 1988, Jordan's foreign debt of $8.3 billion was rescheduled. However, considering present circumstances, falling behind by around $1 billion in external debt servicing by end 1990 would add a further burden to government finances.

The Jordanian returnees from Kuwait and other Gulf countries could increase the country's present unemployment rate of around 20 per cent to over 30 per cent. The long-term effects of this development are of great concern to Jordanian authorities. The low purchasing power of such a high segment of the population would affect negatively domestic demand for Jordanian products and further reduce their markets. With over 30 per cent of Jordanian exports going to Iraq, Kuwait and other Gulf countries, and with over 6 per cent of the country's gross domestic product (GDP) coming from transit business to Iraq, the loss of both markets in addition to the lower domestic demand for Jordanian products would leave deep marks on the country's economy.

B. Industry and tourism

1. Overall view

Jordan has undertaken major efforts during the last four decades to build up the industrial sector as a national income source, despite the many constraints faced, In order to cope with the economic recession, prior to the Gulf crisis, Jordan introduced a major structural reform in the industrial sector. In 1989, the value-added share of the industrial sector in Jordan's GDP was around $811 million (i.e., 21 per cent at current prices). Nearly one third of this share originated from large and natural-resources-based industries, including potash, fertilizers and phosphates.

8/ The Government's external revenues, which are over 60 per cent foreign assistance and around 40 per cent borrowing, ranged between $457.0 million in 1986 and $770.0 million in 1989, or 45 per cent and 48 per cent, respectively, of the country's foreign exchange sources ($1,306.0 million and $1,604.0 million, respectively). See various issues of the Monthly Statistical Bulletin, Central Bank of Jordan.

In 1989, industrial exports constituted the major part (about 90 per cent) of total exports of Jordan; these are characterized by a certain degree of specialization in commodity (e.g. phosphates and fertilizers) and in destination (e.g. Iraq, Eastern Europe and south-east Asia).

In 1989, the revenues from industrial exports were around $821.0 million, or 60 per cent up from their level in 1988 ($505.0 million). Available data indicate that the increase continued into the first half of 1990, with revenues amounting to over $448.0 million.

With over a third of Jordan's industrial exports destined to Iraq (24 per cent) and the GCC countries (10 per cent), and with the sectoral distribution of these exports dominated by extractive products (phosphates and potash) and a limited number of finished goods in engineering and chemicals, the impact of the Gulf crisis on the Jordanian industrial sector would be severe; it would also affect the employment of around 70,000 persons and depreciate sharply the asset value of over JD 2.6 billion in investments in this sector.

The following assessment of foreseen losses and additional input costs[9/] in the industrial sector due to the Gulf crisis highlights the dimensions of the problem, particularly with respect to the major areas of damage. The assessment, however, does not consider the multiplier effect of the damage on the national economy at large. In this regard, it is noteworthy to indicate that the losses are of a recurrent nature and that even in the case of running at a loss, the production process would not be stopped, for a stoppage would lead to a loss of manpower skills and already established markets -- a development the Jordanian industrial sector cannot afford.

2. Other manufacturing industries

The value of manufactured exports in 1989 (excluding fertilizers and the aforementioned extractive industries), prior to the Gulf crisis, has been estimated as follows:

- $215 million to Iraq;
- $ 15 million to Kuwait;
- $ 63 million to other GCC countries;
- $ 95 million to the rest of the world.

Following the Gulf crisis, and due to the implementation of Security Council resolution 661, the value is expected to drop to just around $125 million, with export to both Iraq and Kuwait eliminated. Considering this, the total loss caused by the Gulf crisis for 1990 as compared with 1989, would be $253 million. As for one year, starting with the Gulf crisis, expected losses for the manufacturing industry (excluding extractive industries) are expected to be around $450 million, according to Amman Chamber of Industry sources.

9/ Additional input costs have been considered as losses because they reflect an additional financial burden that would not have resulted had the Gulf crisis not occurred.

Arab Potash Company

	Losses in sales (In millions of dollars)
1. Direct losses in 1990	
(a) Reduction in sales to:	
- France and Italy : 27,000 tons	2.62
- Iraq : 10,000 tons	0.95
- India : 180,000 tons	19.28
(b) Increase in cost of insurance and marine transport to India, Korea, Bangladesh, Taiwan and Malaysia	1.63
(c) Increase in costs of fuel and electricity	4.41
(d) Administrative overhead	2.50
(e) Employment (number of employees increased to 1,700, up from 1,550 prior to the crisis)	
Loss equivalence	0.23
(f) Import constraints	
- Raw materials from Kuwait and the Gulf	
- Spare parts and metal alloys (delay and extra cost)	
- Services and consultation	
Loss equivalence	9.00
Total direct losses in 1990	40.62
2. Indirect losses (which are difficult to monetize), include:	
(a) Delay in implementing the NPK (compound fertilizer) project with Japan	
(b) Delay in maintenance and operation due to impeding experts and technology transfer	
(c) Delay at the port of Aqaba and in domestic transport	
Total estimated losses of the company during the period 2 August 1990 to 31 December 1990 (other than indirect losses)	40.6
By extrapolating this amount for a full year, the losses would be:	100.0

Source: Arab Potash Company.

Phosphate and Fertilizers Co.

	2/8/90-31/12/90 (In millions of dollars)	1991 (In millions of dollars)
1. Losses due to higher cost of inputs:		
Sulphur	3.36	15.75
Ammonia	6.56	10.73
Aluminium hydroxide	--	1.00
Spare parts and others	1.50	6.00
Maintenance of dragline	1.04	1.04
Ammonium nitrate	--	0.54
Fuel	1.20	4.80
Total (1) for inputs	13.66	47.82
2. Losses due to lower sales and higher cost of transport and insurance:		
Phosphates	30.10	88.00
Fertilizer	12.36	39.80
Aluminium fluorides	3.27	1.56
Total (2) for sales and cost of sales	45.73	129.36
Total losses of phosphate and fertilizers (1+2)	59.40	177.20
Plus indirect costs	15.00	23.00
Grand total	74.40	200.20
By extrapolating this amount for a full year, the losses would be:		191.0

Source: Jordan Phosphate and Minerals Company.

Jordan Cement Co.

The major losses of the cement manufacturing industry are as follows:

	Annual figures (In millions of dollars)
1. Higher cost of production and transport, including:	
(a) Increase in the price of fuel oil -- a major element in the cost of production	18.00
(b) Increase in the cost of shipment of the export of 2 million tons at $5 each	10.00
(c) Increase in the cost of insurance on assets and imports	0.08
2. Loss of the export of 2 million tons, caused by loss in competitiveness due to increase in cost of production and shipment following the Gulf crisis	20.00
Total loss	48.08

Source: Jordan Cement Co.

Petroleum Refining

	(Millions of dollars)
1. Direct losses, caused by:	
(a) Increase in prices of imported inputs	6.00
(b) Increase in cost of transport, caused by:	
- Loss due to use of air freight instead of marine shipment	2.25
- Loss of discount allowed in transport by the Royal Jordanian Airlines	0.03
- Loss due to increase in cost of land transport	1.80
- Loss due to increase in cost of insurance	0.15
Total direct losses per year	10.23
By extrapolating this amount for a full year, the losses would be:	24.60
2. Indirect losses, caused by:	
(a) Increase in prices of plastic raw materials needed for the manufacturing of packaging materials	2.25
(b) Delay in implementing planned units for treatment of sulphur and fuel oil, etc.	4.50
(c) Reshipment of imports from third-country ports where imports were unloaded	3.00
Total indirect losses per year	9.75
Total losses per year	34.35

Source: Jordan Petroleum Refining Co.

The impact of the Gulf crisis on the industrial sector will not remain limited to the aforementioned financial losses. It will also deliver a vigorous blow to the employment level in the sector, especially since around 350 industrial establishments with over 12,000 workers are involved in the manufacturing export business for Iraq, Kuwait and other GCC countries. Furthermore, the crisis will lead to a sharp depreciation of the asset value of over $400 million in investments made by these establishments for the sole purpose of increasing exports to the noted countries, according to Amman Chamber of Industry sources.

Another significant impact of the Gulf crisis on the industrial sector is the stoppage in the flow of basic petrochemical and packaging materials from the Gulf for the plastics and associated industries, which are finding themselves forced to look for other sources, at higher cost -- a problem they can hardly solve owing to their precarious financial standing stemming from the loss of their main export market, namely Iraq.

3. Tourism

Tourism in Jordan has almost come to a halt following the Gulf crisis. In the wake of the policy of diversification of national income sources, tourism has been intensively developed over the past few years. Indeed, the economic structural adjustment programme (i.e., the government economic reform package) of November 1988 envisaged an income of around $660 million from tourism in 1990. During the first seven months of this year, the income generated from tourism is estimated to have been around $410 million (equal to over $700 million if extrapolated for the whole year). The loss to Jordan in tourism will not remain limited to the formerly projected amount of $250 million for 1990, but will most probably exceed this by the over $40 million in lost revenues. The per annum losses of tourism are expected to be far more than twice this amount and reach around $580 million.

The overall losses of industry and tourism

A cumulative assessment of the indicated losses in industry and tourism per annum is calculated as follows:

	Annual losses (In millions of dollars)
Potash	100.0
Phosphates and fertilizers	191.0
Cement	48.1
Petroleum refinery	34.4
Other manufacturing industries:	
- Loss in exports	450.0
- Cost of unemployment due to under-utilization of production plants (i.e., investments of $400 million)	40.0
- Extra cost of imported raw materials	50.0
Tourism	580.0
Total losses	1,493.5

C. Agriculture

The impact of the Gulf crisis on Jordan's agricultural sector has been severe. The loss of the Gulf market in addition to the Iraqi market -- the traditional markets for Jordan's agricultural exports -- has brought to a halt ongoing development in this sector, with major implications in terms of finance, employment and materials in the agricultural sector itself and in other supporting sectors of the national economy. Table 1 indicates the minimum expected loss in agricultural exports to these markets for the period October through December 1990, assuming agri-exports in this period would not be higher than those during the same period of 1989 -- an assumption considered conservative by the concerned Jordanian authorities in spite of the significant increase registered during the first nine months of 1990, compared with the same period of 1989.

Table 1. Minimum expected agri-exports to the GCC countries and Iraq, October-December, 1990
(In millions of JD)

Item	October	November	December	Total
Vegetables	8.000	5.900	5.000	18.900
Fruits	1.000	2.540	3.000	6.540
Livestock products	1.307	1.672	3.236	6.215
Other products	0.338	1.602	2.575	4.515
Total	10.645	11.714	13.811	36.170

Source: Jordan, Ministry of Agriculture.

For 1991, these losses are expected to amount to more than $200 million. In addition to this (direct) loss to agri-exports, the Jordanian agri-exporters may find themselves forced to write off over $4 million of unpaid debt by Kuwaiti importers. Another loss is foreseen in the financial and unemployment implications resulting from over 400 cold-storage vehicles and trucks which have become unoperational due to the implementation of Security Council resolution 661 as well as the unofficial boycott by GCC countries against Jordan.

The loss of the agri-export markets has put a heavy financial burden on Jordan's agri-industry: the agricultural-export sector has found itself with no cash flow to repay its debt to the Agricultural Credit Corporation (ACC), estimated at around $3.0 million for 1990 and more than $4.5 million for 1991; additionally, the non-repayment of this debt is expected to weaken the financial standing of the ACC.

Furthermore, the Gulf crisis is expected to have a major effect on the implementation of a number of agri-development projects envisaged in the five-year development plan (1986-1990), especially since the financing of these projects, such as the Zarqa River Basin Development Project and the Al-Hammad Basin Development Project depends largely on development finance institutions located in the GCC countries. With many of these institutions presently not honouring their financial commitments to Jordan, the two above-mentioned projects, for example, would have respective financial deficits of around $2.6 million and $150,000 in 1990, and $3 million and $1.5 million in 1991, respectively.

Jordan has been attempting throughout the last decade to build up an agricultural infrastructure capable of meeting domestic demand for agri-products and forming a significant national income source, especially through exporting these products to the highly absorptive markets of GCC countries. In fact, a major portion of investment in agriculture has been devoted to the development of projects in the agri-export sector. The loss of the GCC markets will mean that these projects will have to be adapted and adjusted; they will most likely have to undergo radical changes to respond to new cropping patterns, such as growing grains to meet local demand instead of growing export-oriented fruits and vegetables.[10/] The present financial standing of the private sector as well as the public sector is not considered adequate for domestically mobilizing the needed investment for such a process. The Jordanian Government will therefore have to seek foreign financing for any new agri-development programmes.

Another side-effect of the Gulf crisis on Jordan's agricultural sector is seen in the possible unavailability and the increased cost of required agricultural inputs. Indeed, prices of most imported agricultural inputs such as fertilizers, pesticides, forage and seeds as well as equipment and machinery increased considerably following the Gulf crisis, owing on the one hand to increased shipping costs due to the rise in oil prices and war-risk insurance premiums, and on the other hand to the unloading of agricultural inputs bound to Jordan in third-country ports and reshipping them to Aqaba port in Jordan. Additionally, such a detour delays the arrival of these inputs to Jordan. Nonetheless, the implementation of Security Council resolution 661 and the unofficial boycott of the GCC countries against Jordan have caused a rise of around 50 per cent in the import prices of other agricultural materials such as urea, superphosphate and sulfur fertilizers, which were imported cheaply from Iraq prior to the Gulf crisis.

10/ Moreover, the loss of the GCC market will reduce the effectiveness of the established national water-use policy, unless alternative agri-markets are found, and unless agri-production utilities to facilitate adjustment to the change in water-use policy are made available.

The overall losses of the agri-sector

The agri-sector has been amongst the Jordanian economic sectors most affected by the Gulf crisis. Its losses are as follows:

1. Direct losses, which amount to $233.1 million, are distributed as follows:

(a) $216 million, loss in agri-exports;

(b) $4 million, unpaid debt of Kuwait importers;

(c) $5.6 million, unpaid commitments of development finance institutions headquartered in the Gulf countries;

(d) $7.5 million, loss of ACC due to non-repayment of debt of farmers.

2. Indirect losses are reflected in the following:

(a) Unemployment due to the loss of agri-export markets in Iraq and the GCC countries;

(b) Unaffordable financial burden to the concerned Jordanian authorities due to radical changes that must be made in the agri-infrastructure;

(c) Rise in agri-input costs due to the increased cost of shipping and insurance.

D. Energy

1. Introduction

Jordan depends heavily on imported oil and oil products to produce the energy required for its economic and social development. Local sources of petroleum are limited to gas deposits discovered recently in the eastern part of Jordan and are used to operate an electricity plant with a capacity of 60 megawatts and run by gas turbines. The plant presently produces around 12 per cent of the electric energy generated in Jordan, estimated at 3,000 megawatts/hour.

The contribution of the other local sources of energy to the energy balance in Jordan is insignificant, either because of dearth, such as hydro-energy sources and oil, or nonavailability of mature technologies for commercial exploitation, as in the case of oil-shale reserves.

Prior to the Gulf crisis, Jordan imported crude oil and oil products from Iraq, Kuwait and Saudi Arabia according to agreements and special arrangements. Oil imports from Iraq were arranged in accordance with trade agreements that enabled Jordan to import oil and oil products against goods and services. Jordan's oil imports from Kuwait were considered within the programme package of Arab aid agreed upon in the Arab summit held in Baghdad in 1979. In accordance with this programme package, Kuwaiti aid to Jordan, which amounted to $60 million annually, was provided in kind, with $40 million used for importing oil products and the rest for importing ammonia and sulphur.

Jordan's remaining oil needs were imported from Saudi Arabia according to an agreement made between the Government of Jordan and Tapline Co. This agreement stipulated that the Government of Jordan would bear the cost of operation and maintenance of the taplines against the provision of oil required by Jordan at world market prices.

Recent figures show that Jordan imports about 83 per cent of its total oil and oil products from Iraq, with the rest coming from Kuwait (13 per cent) and Saudi Arabia (4 per cent).

2. Import patterns prior to the Gulf crisis

Jordan's annual energy imports are estimated at 3.1 million tons, of which around 80 per cent are in the form of crude oil and the rest are oil products. This structure of energy imports is subject to change. It is based on yearly assumptions using studies conducted by the Ministry of Energy and Mineral Resources in cooperation with the Jordan Petroleum Refining Company. Both the import pattern and structure of crude oil and oil products are determined according to the development of oil prices, local demand for various oil products and the availability of cracking units in the refining plant. Such considerations are regularly reviewed in order to reach an optimal import pattern to alleviate as much as possible the burden of oil imports on Jordan's balance of payments. Table 2 shows the quantities and costs of crude oil and oil products imported in 1989.

The following conclusions can be drawn from this table:

(a) In 1989, Jordan imported from Iraq about 2.5 million tons of oil and oil products, or around 83 per cent of its total imports;

(b) The cost of oil and oil products imported from Iraq was about $335.5 million. It is noteworthy that this amount was not paid in cash but rather settled partly by the export of goods and services to Iraq and partly by Iraqi debt repayments. Taking into account an estimated value added of around 50 per cent for these goods and services, the burden of imported oil and oil products from Iraq in 1989 on the balance of payments of Jordan did not exceed $170 million;

(c) Jordan imported from Kuwait about 390,000 tons of oil products valued at around $40 million. This amount was not paid in cash, but rather was considered to come within the framework of Kuwaiti aid. Therefore, imports from Kuwait did not constitute a burden on the balance of payments of Jordan;

(d) The actual average cost of a barrel of oil from Iraq and Kuwait was around $8.

Table 2. Imports of crude oil and oil products, 1989

Source	Crude oil		Fuel oil		Solar		Liquefied gas		Total	
	Thousands of tons	Millions of dollars	Thousands of tons	Millions of dollars	Thousands of tons	Millions of dollars	Thousands of tons	Millions of dollars	Thousands of tons	Millions of dollars
Saudi Arabia	132	27.7 a/	--	--	--	--	--	--	132	27.7
Iraq	2 322	307	100	7.5	119	18.7	17	2.3	2 558	335.5
Kuwait	--	--	391	39.5	--	--	--	--	391	395
Total	2 454	346	491	47	119	18.7	17	2.3	3 081	402.2

Source: Jordan, Ministry of Energy and Mineral Resources.

a/ Including fees of Tapline Co.

The import pattern during the first half of 1990 was similar to that prevailing in 1989. Table 3 shows the quantities and costs of oil and oil products expected to be imported by Jordan in 1990 under normal circumstances.

The table indicates that the oil bill of Jordan for 1990 would have been about $400 million had the circumstances in the region remained unchanged. The burden on the balance of payments would have been much less. As mentioned earlier, the cost of imports from Kuwait are not paid in cash, and imports from Iraq are subject to barter agreements. Hence, the actual burden of the 2,985 million tons previously projected as imports by Jordan on the country's balance of payments would have be $192 million. It was therefore expected that the actual cost of a barrel of oil for Jordan in foreign currency would be around $8.

The Gulf crisis and the ensuring embargo imposed by the United Nations Security Council on Iraq have raised the oil bill of Jordan to about $564 million, as shown in table 4.

The table shows that the oil bill of Jordan will increase to $564 million, on the assumption that the average price of a barrel of oil reaching Al-Zarka Oil Refinery from the world markets during the period from 1 August 1990 to 31 December 1990 will be $38. As a result, the oil bill will increase by $168 million (564-396). The burden of this on Jordan's foreign reserves will increase from $192 million to about $450 million as a result of the embargo on Iraq and the loss of Kuwaiti aid.

3. Conclusion

The energy sector in Jordan has been considerably affected by the Gulf crisis. This new situation can be summarized in the following points:

(a) Loss of Kuwaiti aid, of which $40 million was allocated to the import of oil products;

(b) A $168 million increase in the costs of oil imports;

(c) An increase of payments in foreign currency by $258 million due to the increase in oil prices world-wide and since Jordan now has to pay in foreign currency for its oil imports from international oil markets.

There is an urgent need to take immediate measures to help Jordan weather the crisis. Compensation for the loss of the Kuwaiti aid is imperative. As this aid was agreed upon by the Arab summit of 1979, the Arab States and the regional funding agencies have an obligation towards Jordan in this regard.

It is also imperative to find ways and means to allow Jordan to continue its trade arrangements with Iraq, especially those concerning trade for importing oil.

Table 3. Quantities and cost of expected imports of oil and oil products, 1990

Material	Saudi Arabia		Iraq		Kuwait		Total	
	Thousands of tons	Millions of dollars	Thousands of tons	Millions of dollars	Thousands of tons	Millions of dollars	Thousands of tons	Millions of dollars
Crude oil	150	30.3 a/	2 100	276.7	--	--	2 250	307.0
Fuel oil	--	--	200	15.0	450	41.5	650	65.5
Solar	--	--	200	33.0	--	--	200	33.0
Liquefied gas	--	--	35	5.0	--	--	35	5.0
Total	150	30.3	2 535	324.7	450	41.5	3 135	396.5

Source: Jordan, Ministry of Energy and Mineral Resources.

a/ Including fees of Tapline Co.

Table 4. Imports of oil and oil products during 1990

Material	Imported from the beginning of the year to 31 July 1990		Expected imports during the period of the year		Total	
	Thousands of tons	Millions of dollars	Thousands of tons	Millions of dollars	Thousands of tons	Millions of dollars
Crude oil	1 200	162	950	264	2 250	426
Fuel oil	300	24	350	53	650	77
Solar	100	16	100	35	200	51
Liquefied gas	25	2	20	6	45	426
Total	1 725	206	1 420	358	3 145	564

E. Housing and environment

1. Introduction

Jordan is a highly urbanized country; over 70 per cent of its 3.1 million inhabitants live in cities and towns. The population is growing nationally at an annual rate of about 3.9 per cent. In major urban areas of the country, like Amman, the growth rate is about 5 per cent annually, due mainly to migration from villages and rural areas. By the year 2000, Jordan's urban population is expected to number about 4.5 million people.

Jordan's population is highly concentrated in urban centres. The Greater Amman area, for example, has a population of about 1.3 million, or around two thirds of the total urban population, and is expected to absorb most of the investment up to the year 2000. Other towns are considerably smaller and function primarily as local service centres for their agricultural hinterlands, with the exception of Aqaba, where growth has been mainly due to port-related activities and tourism.

As a result, much of the rapid population build-up in urban areas, especially in Greater Amman, has taken the form of illegal settlements populated by growing numbers of urban poor, who live without security of tenure in poorly constructed and overcrowded dwellings without basic public utilities or social facilities.

2. The housing situation prior to the Gulf crisis

According to World Bank studies, 34 per cent of the urban population live in cramped conditions, with four or more persons per room, in contrast to the national average of 2.6 persons per room. Planning and building regulations, coupled with high land prices, have made it difficult even for middle-income households to obtain serviced land.

With around 90 per cent of the housing construction business being controlled by the private sector, rent rigidity has distorted the housing market, thus leading to a situation of substantial key-money requirements, a condition which severely affects new families entering the housing market.

Housing needs in Jordan are estimated at about 27,000 housing units for 1990. This figure represents 19,000 housing units for new households and 8,000 housing units to relieve overcrowding and to replace obsolete and unsalvageable housing units. Even if the needed financial resources and skilled manpower were made available, the Jordanian housing strategy indicates that the private sector and the public sector could not provide more than 80 per cent of the country's housing needs.

3. Impact of the Gulf crisis

As a result of the Gulf crisis, a flood of people started crossing the Iraqi-Jordanian border into Jordan. People fleeing Kuwait have been of two categories:

(a) Workers in Kuwait and Iraq, mostly of Asian and Egyptian origin, fleeing to Jordan *en route* to their home countries. These workers spend an average of about two weeks in makeshift camps before they can be transported to their home countries. During the months of August through November, over 800,000 people crossed into Jordan. The negative effect of such large masses of people on the environment is quite evident. Garbage and sanitary waste produced by such large numbers of people, without adequate sanitary facilities, was, and still is, very detrimental to the environment. The Jordanian authorities have done their best to get rid of the garbage, but shortages in garbage and compaction trucks and the long distance between the camps and garbage dumps created huge problems. Furthermore, human waste created insurmountable problems and further added to the deterioration of the environment. It is quite obvious that a clean-up campaign is needed once the influx of people halts. However, the Jordanian authorities estimate that as at end October the cost of caring for foreign evacuees, other than health care costs, was around $50 million.

However, in a report published in October 1990 concerning the cost of medical care provided to non-Jordanian evacuees and Jordanian returnees, the World Health Organization (WHO) and the Government of Jordan indicated that such costs amounted to $176.3 million, comprising $16.3 million in maintenance and running costs and $160.0 million in capital costs;11/

(b) Jordanian workers in Kuwait (and Iraq) returning to Jordan for fear of war are estimated at about 120,000. In terms of families, various estimations indicate that these returnees represent over 420,000 people, thus implying more than one worker to a family.

Considering an average of six persons to a family, these families would represent 70,000 households. The estimations of the Jordanian authorities indicate that around 50 per cent of the families may settle down permanently in Jordan, implying a need to provide dwellings for about 35,000 households.

In the short run, it is expected that a significant number of these returnees may seek accommodation with relatives and friends, a common custom in the Arab world. Another proportion of returnees, considered to be better off because of having been able to rescue their financial resources, may enter the housing market. According to Jordan's housing strategy, the housing market in 1987 had around 10,000 middle-income housing units available for rent. However, official estimates indicate that as at mid-1990, the market could still offer around 50 per cent of these units. While this market situation may accommodate a number of the returnees, it will increase rent levels owing to the high demand for housing by the returnees. Already, current estimates indicate that rent rates have increased by around 20 per cent and may increase further if high demand continues.

11/ World Health Organization, "Plan and budget for providing health care to evacuees in the Hashemite Kingdom of Jordan", October 1990.

In the long run, however, it is expected that most returnees may seek permanent accommodations. The Jordanian housing strategy indicates that around 66 per cent of Jordan's citizens own houses. With an estimated cost of around $21,000 for a house size of 120 square metres per family, the total cost for providing accommodation for 23,100 families (i.e., 66 per cent of 35,000 families) would be around $500 million12/ -- an amount equal to around 100 per cent of total annual investments in the housing sector in 1986 prices, but equal to only 43 per cent in 1990 prices ($1,163 million). Jordan is hardly in a position to mobilize financing at such levels, considering the difficult present financial situation of the country.

4. Summary

The Gulf crisis has simply compounded the existing problems in the housing market. The impact of the crisis has been out of all proportion to the coping abilities of a small country like Jordan. The direct effect on the environment may be considered a one-time blow that could be contained through a clean-up campaign, provided funds are made available immediately. The impact on the housing sector, however, is seen as long term. Apart from the psychological and social effects, demand for 35,000 housing units in a short period of time would raise rents beyond affordable limits for a large segment of the population. It would also drain on savings and lead to higher costs of labour and building material, and thus to higher inflation rates -- a situation that would only put further burdens on those already suffering, who constitute a significant proportion of Jordanians.

To sum up, the financial burden on housing and environment is estimated as follows:

	Millions of dollars
Provision of accommodation for Jordanian returnees:	500.0
Health care provided to non-Jordanian evacuees and Jordanian returnees (current and capital costs):	176.3
Maintaining non-Jordanian evacuees and clean-up campaign:	50.0
Total	726.3

12/ The costs of housing Jordanian returnees have been added to the losses because they reflect a financial burden that would not have materialized had the Gulf crisis not occurred.

F. Transport

The impact of the Gulf crisis on the Jordanian transport sector was severe and economically depressing. The transport sector in 1989 accounted for more than 12 per cent of the gross national product in Jordan. The effects of the Gulf crisis ranged from very severe, as in the case of land transport, to rather moderate, as in the case of railway transport.

As concerns land transport, Jordanian businesses have invested during the last few years more than $250 million in purchasing trucks, out of which about 3,000 trailers and semi-trailers have operated exclusively in the transport business with Iraq. The revenues expected to be generated from the business of this fleet with Iraq and Kuwait were estimated at around $425 million in 1990. The same amount could be considered as an annual loss, although Iraq's trade via the Jordanian land transport system gradually increased during the last years. The unofficial boycott of Jordan by the GCC countries has affected about half of the 1,200 refrigerated containers which have been involved in the transport business of foodstuffs, including agri-products, to these countries as well as to Iraq. In addition, the over 3,000 trucks owned by Jordanians and carrying various Arab licence plates are finding it increasingly difficult to stay in business, owing to the Gulf crisis.

For sea transport, which is restricted to the only water passage in Jordan, i.e., the port of Aqaba, the losses due to the current Gulf crisis are no less pronounced. For example, an additional payment of approximately $25,000 per week is being imposed on every vessel that docks in Aqaba. This is due mainly to the imposition of a 0.25 per cent war-risk insurance premium on vessels calling at Aqaba. This represents a major deterrent to ships, many of which unload their cargo in en route ports such as Jeddah and Djibouti. The decrease in the number of ships docking in Aqaba restricts Jordan's vital transport sector and adds to the unemployment dilemma. The embargo on Iraqi imports hit the port of Aqaba very severely, since approximately 71 per cent of the goods that were unloaded at Aqaba before the crisis were destined for Iraq. The total volume of goods (in metric tons) that was loaded (exports) or unloaded (imports) at Aqaba in 1989 was as follows:

Table 5. Total volume of goods
(In metric tons)

	Jordan	Transit	Total
Imports	2 532 827	6 162 848	8 694 675
Exports	8 835 027	1 150 947	9 985 974
Total	11 367 854	7 313 795	18 680 649

The 1979 volume amounted to only 2.3 million metric tons, but increased to 18.68 million tons in 1989. This indicates that the total volume of goods the Aqaba port would have handled was more than 19 million tons in 1990. The total income expected to be generated from the port of Aqaba in 1990/1991 was $392 million (based on an average of 9 million tons of imported goods at an average of $43.5 per ton, which includes income generated from port charges, transportation, packing, storage of goods, etc.). The total Iraqi-bound imports would have generated an annual income of 0.71 X 43.5 X 8.69 = $268.0 million. In addition, the port of Aqaba serves the export of Jordan's potash and phosphates. Prior to the crisis, ships that unloaded in Aqaba used to take on their return-trip a load of either of these raw materials at a reasonable rate, thus representing an incentive to call at Aqaba. With the diminishing number of ships calling at Aqaba, Jordan is expected to resort to hiring ships exclusively for the transport of potash and phosphates, at much higher rates. The result would be a loss in the competitive edge of these commodities in the international markets and consequently a loss of market share.

The cost of shipping (for both containers and bulk freight) has risen with the eruption of the Gulf crisis. For example, for a 20-foot container, the shipping cost from ports in northern Europe and Britain has risen from $1,400 before the crisis to about $1,750. The Jordan National Shipping Lines Company is suffering an annual loss of $9 million, as a result of the crisis.

The Arab Maritime Bridge Company, owned by Iraq, Jordan and Egypt, will suffer an annual loss of $12.2 million as a consequence of suspending its ferry-boat operation between Aqaba and Nweibeh in Sinai.

The effects of the crisis on railway transport are not particularly pronounced, since Jordan has no passenger transport rail facilities. The transport of phosphates to Aqaba via railways was affected only by the slowness in exporting phosphates from the port of Aqaba. The daily shipping of minerals from Al-Abiad and Al-Hasa mines by rail has dropped to about one third of the volume transported before the crisis. The amount of loss to the Railway Line Corporation is estimated at JD 1 million per month.

For air transport, the crisis hit both Queen Alia International Airport and Aqaba Airport. The loss for the national carrier, Royal Jordanian (RJ), is estimated at $12.6 million monthly. The loss is attributed to the hike in insurance costs, the decline in the number of passengers (mainly transit passengers from Europe and the Far East), and the cancellations of flights to Baghdad, Kuwait and other Gulf countries. It is expected that RJ losses will further escalate due to increases in fuel prices and loss of income that was formerly generated from training pilots from both Arab and foreign countries. Air cargo with RJ has also been affected by the crisis. The major loss for Aqaba Airport relates to the cancellation of all chartered flights (whether with Royal Jordanian or foreign carriers).

The crisis also affected the Jordanian Civil Aviation Directorate (JCAD) by depriving it of monthly revenues of around $11 million resulting from landing rights to foreign carriers. The JCAD will still have to shoulder intensive maintenance costs on runways and other airport facilities as a result of the many landings and takeoffs by the airplanes transporting the hundreds of thousands of evacuees stranded in Jordan.

To sum up, the total losses encountered by the transport sector per annum based on estimates of direct losses are as follows:

	Millions of dollars
Land transport	425.0
Sea transport	293.5
Aviation	237.6
Railway transport	18.0
Total	974.1

III. SUMMARY AND RECOMMENDATIONS

A. Summary

The Jordanian Government's abiding by the international embargo against Iraq has resulted in direct as well as indirect negative impacts on the Jordanian economy. Judged by their weight in the country's GDP (110 per cent),[1/] and seen in a relative perspective, the negative impacts on the Jordanian economy are much more severe than on any other country's economy.

This study has highlighted the impact of the Gulf crisis on the specific sectors and economic activities considered to be hit hardest by the crisis. Based on the previous analysis, the total loss to the Jordanian economy, taken on a yearly basis starting with the crisis, adds up to $8,460.8 million, as follows:

1. In Jordan	Millions of dollars
Direct losses	
Exports of goods	280.0
Arab financial assistance	500.0
Expatriates' remittances	687.6
Industry	913.5
Tourism	580.0
Agriculture	233.1
Transport	974.1
Subtotal	4,168.3
Indirect losses (additional burden)	
Energy	494.2
Housing, health care and environment	676.3
Increase in cost and loss of imports	120.0
Direct foreign investments	52.0
Cost of evacuees	50.0
Subtotal	1,392.5
Total	5,560.8

1/ The loss of assets and deposits of Jordanian expatriates in Kuwait, as indicated below, is a one-time loss.

The 110 per cent weight in the GDP indicates that Jordan is losing more than its GDP -- an unrealistic situation, indeed. However, this weight becomes understandable, if one considers that the loss does not consider only lost income but also lost wealth and production.

2. Outside Jordan

Assets of Jordanian expatriates in Kuwait	1,400.0
Deposits of Jordanian expatriates in Kuwait	1,500.0
Total	2,900.0
Grand total[2/]	8,460.8

For the last five months of 1990 (2 August 1990 to 31 December 1990), the loss to the Jordanian economy is estimated at $1,360 million[3/] (or 31 per cent of GDP) and adds up as follows:

	Millions of dollars
Worker's remittances	138
Arab financial assistance	225
Trade[4/]	445
Tourism, travel and transit	540
Others[5/]	12

The impact of the Gulf crisis on the Jordanian economy is expected to continue to be felt. Most prominent among the effects of the impact is the significant increase in the rate of unemployment (by almost 10 per cent) caused by the Jordanian returnees. Another impact of the Gulf crisis has been the flood of foreign nationals, estimated at over 800,000, mostly of Asian and Egyptian origin, fleeing Kuwait and Iraq and entering Jordan on their way home. For the first three months of the crisis, the costs incurred from maintaining these people are estimated at around $50 million. In addition, over 120,000 Jordanian expatriates are estimated by the authorities to have

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2/ It is noted that other studies being made in this regard differ in their estimation of Jordan's losses. While, for instance, the study made by the Jordanian Ministry of Finance indicates these losses at around $2,144 million for the period starting with the Gulf crisis and ending December 1991, the Jordanian Ministry of Planning puts them at $3,250 million for the same period. The report of Mr. Ripert, the Special Representative of the Secretary-General on the Gulf crisis, gives an estimate of $4,933 million, considered on an annual basis. However, none of these studies considers the loss of assets and deposits of Jordanian expatriates in Kuwait.

3/ Excluding assets and deposits of Jordanian expatriates in Kuwait, estimated at $2,900 million.

4/ Including commodity exports ($350 million), commodity imports ($55 million) and freight and insurance premiums ($40 million).

5/ Including recurrent cost of provision of health care for Jordanian returnees ($6.6 million) and health care for evacuees ($5.3 million).

returned from Kuwait and other Gulf countries. The long-term effects of this impact are of great concern to the Jordanian authorities, especially as most of the returnees have come back with almost no income-generating assets, due to the overnight wiping out of these assets as a result of the suspension of the Kuwaiti dinar, which was the currency in which these assets were denominated.

The impact of the Gulf crisis is expected to produce a pronounced widening of the deficit of both the balance of payments and the government budget. Another major -- though indirect -- impact of the Gulf crisis on Jordan's financial standing involves the significant loss in the position of foreign currency deposits in the financial system, including the Central Bank of Jordan.

Taking into consideration the recessive conditions of Jordan's national economy prior to the Gulf crisis, then the losses caused by both the Gulf crisis and the sanctions against Iraq would only add further burdens to an already difficult economic situation of the country. As Mr. Ripert notes in his report to the Secretary-General, "Jordan is not a target of the embargo, but it may be its greatest victim. As it is, the economy will be crippled within a few weeks, if emerging financial support of the international community does not begin immediately."6/

B. Recommendations

In light of this study, the following recommendations are made:

1. Financial assistance to Jordan to meet the following urgent requirements:

(a) To compensate for unpaid Arab financial assistance and lost expatriates' remittances, estimated at $1,187.6 million;

(b) To finance cost of creation of jobs for Jordanian returnees, estimated at $500 million (i.e. $10,000 per job for at least 50 per cent of the returnees);

(c) To compensate for the increase in the current account deficit, estimated at $585 million;

(d) To compensate for the increase in the government budget deficit, estimated at around $770 million;

(e) To finance the increase in the oil import bill, estimated at $494 million, in case Jordan is forced to switch to the international oil markets;

(f) To compensate for the loss in foreign currency reserves, estimated at $500.0 million;

(g) To finance the cost of housing construction for the Jordanian returnees, estimated at $500 million;

6/ Jean Ripert: Report on a mission to Jordan, submitted to the United Nations Secretary-General, 17 October 1990.

(h) To finance the proposed monthly subsistence allowance for returnees, estimated at $6 million per month (i.e. $100 for each of at least 50 per cent of the returnees);

(i) To compensate for lost deposits of Jordanian expatriates with Kuwaiti banks, estimated at around $1,400 million;

(j) To compensate for loss of assets of Jordanian expatriates in Kuwait, estimated at $1,500 million;

(k) To relieve debt taken on for development and export-oriented projects.

2. Assistance to Jordan in the formulation of an economic emergency programme aiming at:

(a) Encouraging efforts to establish economic projects directed towards the creation of a self-reliant economic base. These projects could take the form of joint ventures, in order to encourage foreign investors and their Jordanian partners; such projects would reduce investment risk and assist in addressing the unemployment problem;

(b) Increasing government capabilities to take immediate action to cope with the flood of evacuees and Jordanian returnees;

(c) Promoting investment policies to encourage domestic investments to relieve the economy and improve its performance;

(d) Opening new markets to compensate for lost markets of Jordanian exports in Iraq and the Gulf countries, whereby Jordan would be given a favoured-country status, especially by the developed countries.

3. Assistance to Jordan in development finance at large:

The assistance should aim at making available resources for financing basic projects, particularly those aiming at food security, alleviating the unemployment problem and promoting import-substitution industries. The newly established Jordanian Fund for Employment and Development could be the institutional body capable of assisting in the encouragement of these investments. The assistance required for this institution, which initiates (productive) investment projects (particularly on a small scale) for the creation of employment opportunities for Jordanian citizens and helps explore ways to ease settlement efforts of Jordanian returnees, should preferably take the form of grants and soft loans.

Some circles at the United Nations have called for addressing the economic and financial impact of the Gulf crisis on developing countries through initiating proper adjustment programmes that apply to the current situation, while the IMF and the World Bank have indicated readiness to mobilize additional resources to help mitigate the effects of the crisis. The announced objectives of both institutions are not to seek full compensation for affected countries, but rather to make additional resources available at concessional terms.7/

Up to the preparation of this study, the response of the international community to Jordan's drastic needs for assistance has been negligible. Jordan has fully cooperated with the United Nations in the implementation of Security Council resolution 661. Jordan -- unlike the Gulf countries -- does not have adquate natural resources and is in dire need of financial assistance to avoid a crippling of its economy.

7/ Administrative Committee on Coordination (ACC) Consultative Committee on Substantive Questions (Operational Activities), summary report of the second regular session of 1990, New York, 2-4 October 1990.