THE IMPACT OF THE 1967 WAR ON THE
JORDANIAN ECONOMIC DEVELOPMENT

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This thesis is an analysis of the Jordanian economic developmental process which demonstrates that it expanded rapidly between 1948 and 1970.

During the period under study, Jordan had to face two wars, in 1948 and 1967, which had inverse effects on the economy. After each war, the economy experienced a period of recovery due primarily to government efforts to promote investment; the existence of a more educated people represented by the refugees; and the role of foreign aid.

Chapter I is a brief introduction to the Jordanian economy. Chapter II is a discussion of some theories of economic development. Chapters III and IV provide us with a more detailed description of the economic situation before and after the 1967 war. However, the purpose of Chapter V is to incorporate the theory that appears to handle the processes discussed in both Chapters III and IV.
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CHAPTER I
INTRODUCTION

The Hashemite Kingdom of Jordan in its present form was formally proclaimed in April, 1950. It incorporated the former Transjordan, which became an independent state in 1946 with the termination of the British mandate, and the hills of Palestine that remained in the Arab hands after the 1948-49 Arab-Israeli war. In 1947, around 375,000 people were living in Transjordan (East Bank), and 460,000 people were living in the portion of Palestine (West Bank) which was later incorporated into Jordan. During 1948, about 350,000 refugees entered the new state. The influx of refugees caused a severe unemployment problem and a vast decrease in wage rates.\(^1\) The loss of that part of Palestine, which became Israel, caused many economic problems to both east and west banks: it was the center of commerce and industry and it provided the key market for the agricultural output of the two banks. Jordan was directing its transportation network through the Haifa\(^2\) port. When the establishment of Israel closed off this traffic, Jordan was faced with the problem of its high cost and the need for a new transportation system.


\(^2\)Haifa: is a city located on the coast of Mediterranean sea which became part of Israel after 1947-48 war.
Jordan's natural resources were scarce during the 1940s, with the exception of phosphate deposits in Transjordan and mineral salts in the Dead Sea.

Even though the arable land constituted around 10% of the total land area, this area was eroded and of low quality. With the exception of the Jordan River, there were no surface water sources. Since most of the land suitable for cultivation is on hills, the potential irrigation is restricted by the high cost of pumping and the limited ground water resources.

The sequence of development in Jordan from the early 1950s was faced with several drawbacks; the most important was, and still is, the maintenance of security forces which required high expenditures. This, in turn, reduced available resources for capital formations. The recurrent crises between Israel and the Arab countries hindered potential entrepreneurs. This is a very important factor for Jordan because it allows private enterprises.

Jordan inherited very little manufacturing industry. Palestine's manufacturing was located in the area occupied by Israel, and Transjordan had no manufacturing. The establishment of new industries was hindered by the low per-capita income, the limited market for domestic goods, the high cost of power, the lack of hydroelectric potential, and
the lack of industrial raw materials other than olive oil, tobacco, and hides.\(^3\)

In 1955, Jordan's government designed two laws to attract foreign capital and encourage new industries. The "Law for Encouragement and Guidance of Industries" granted many privileges to new industries. Some examples of this are: exemption from all fees levied on imported and exported goods, protection against foreign competition through non-import of similar finished goods, and exemption from income and social security taxes for three years beginning on the date of production. The "Law for Encouragement of Foreign Capital Investment" granted many privileges to owners of foreign capital. For example: they were granted the same privileges affecting new industries mentioned above.\(^4\)

In order for Jordan to develop, it had to set up some developmental plans. The first serious plan was the five-year plan 1962-1967 which was replaced by a seven-year plan 1964-1970 which provided greater details about specific projects, and thus it was more usable as a means to attract financing. The Jordan Development Board tried to adapt "take-off" strategy in achieving the principal objectives of the plan. The major objectives of the plan were to decrease


foreign budgetary support and to balance the payment deficit. Moreover, it hoped to achieve self-sufficiency of food by increasing agricultural production and by becoming less dependent upon imports requiring hard currencies. It was aimed at expanding and improving tourism facilities since they were the main sources of foreign currency.

Jordan's government was trying to achieve a decisive transition in its society. It was trying to reach massive and progressive changes in the structural economic situation that existed before the 1967-war as the take-off strategy suggested.5

The Arab-Israeli conflict of 1967 caused tremendous economic problems for Jordan. The loss of the West Bank deprived Jordan of some of its important economic sources and caused the influx of around 400,000 refugees who crossed the Jordan River to the East Bank of Jordan. This war erupted in the same year in which Jordan succeeded in allocating around 41 percent of its total estimated expenditures for development, this time the West Bank contributed 48 percent of industrial establishments.

5Take-off is defined as "a decisive transition in a society history" - a period "when the scale of productive economic activity reaches a critical level and produces changes which lead to a massive and progressive structural transformation in economies and viewed as changes in kind than merely in degree. See Gerald M. Meier, Leading Issues in Economic Development, (New York, 1976), 3, 1:79.
employing 37 percent of total industrial employment and 53 percent of Jordan's trade establishments. 

In spite of the severe economic problems that Jordan faced, a period of recovery from 1968 through the first half of 1970 was sustained by the expansion of the defense forces and other economic sectors.

Jordanian financial grants were received from Kuwait, Saudi Arabia, and Libya after the Kartoum Arab summit meeting of 1967. These grants were intended to finance military activities only.

Industrial recovery was achieved by the year 1969, although industrial investment remained stagnant. As a result of the influx of refugees, land and capital to labor ratio on the East Bank decreased. This should raise the return on capital and land but reduce the return on labor in the short run.

After this brief introduction to the situation of the Jordanian economy before and after the war, in Chapter II we will be studying the different theories of economic development in order to provide an insight to the process of economic development in Jordan. Chapters III and IV will provide us with more detailed descriptions of the situation before and after the war in terms of GNP and the different sectors, the refugees and other variables. This description

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will be supported by the appropriate figures. However, the purpose of Chapter V is to investigate and incorporate the theory or the combination of theories that appear to handle the process discussed in both chapters, III and IV.
CHAPTER II

THEORETICAL BACKGROUND: SCHOOLS OF DEVELOPMENT THOUGHT

The purpose of this chapter is to present the basic concepts of the major schools of development; the way they work; and their basic assumptions in order to provide a clear insight of the development process which was taking place before and after the 1967 Arab-Israeli war.

There are two major systems for development at the present time in the world. One is presented by the market economies which is the private enterprise system, with a certain degree of government involvement, formerly known as "capitalist". On the other hand, there are the centrally planned economies known as "socialistic systems". Each system has a basic method for development as well as some drawbacks which will be discussed in Chapter V when the process of economic development in Jordan will be incorporated to show whether it was following one, or a combination of these different systems in its pattern of development. Particular attention will be focused on the fields of industry and agriculture. Both the Capitalist and Socialist systems are related to different schools of thought. The market economies are related to the liberal classical economics of the late eighteenth and early
nineteenth centuries, and modified in the twentieth century. The centrally planned economies are related to Marxist economics, which was also a nineteenth century product. Does either system provide a successful developmental process? To answer this question, let us look at the key features of these systems of thought.

The Classical Theory of Capitalist Development

Classical theory refers to some of the brilliant economists who lived in the late eighteenth and early nineteenth centuries, such as the Englishmen, Adam Smith, David Ricardo, Thomas Malthus and John Stuart Mills along with Frenchmen such as Dupuit and Cournot. These economists were searching for the conditions necessary for economic development and requirements for continued development. This school is considered to be the origin of liberal ideology, they believed in universal harmony, and so considered the market system as a tool of harmony in the economic world. Classical economic thought is considered to be the contrary (antithesis) of socialist economic thought because it advocates a free market, resulting in free competition, free trade and a general policy of Laissez-faire.

These classical economists believed in the natural forces of the competitive market, in other words, by leaving the market free from any government or private intervention, it will function automatically in allocating productive
resources to achieve the best advantages to the different economic units.

The classical school considered profits as the main spring of growth in relating surplus available for further investment and stimulating further expansion. They expected that profit motive would stimulate production, because individual efforts to maximize income would tend to maximize productivity of the economy as a whole. However, to do that, we will be faced by the major economics problem, that is, finding the best use of available resources in order to maximize total output and also income.

Smith, Ricardo, Malthus, and Mills devised the main elements. They theorized that total production depends on:

1. The factor endowment -- the supply of productive resources such as labour force, stock of capital, and the available land.

2. The extent by which these productive resources are combined.

3. The level of technology.

These conditions are considered to be the production function of the classical school.¹

Factors of production would be combined according to their relative abundance or scarcity. If abundant labour were available for agriculture, a farmer could engage in labour-intensive agriculture, such as vegetable cultivation or poultry farming, combining

relatively large amounts of labour with small amounts of land. If labour became scarce, a farmer would combine smaller amounts of labour with larger amounts of land. . . . Similar optional combinations for resources would be made--if wood were plentiful and cheap and metal were less plentiful and more costly, wood would be used in preference to metal--where practicable -- in the manufacture of a good.

As we might notice from above, the idea of the production function is to show that for each factor endowment there is an optimal combination of the productive resources and an optimal product mix. According to Adam Smith's "invisible hand" notion, the allocation of productive resources would be determined by the forces of the competitive market, that is, demand and supply. Moreover, classical economists believed that the market exhibits an equalizing effect; e.g. migration moves labor from low-wage to high wage regions or countries tending in the long run to equalize wages.

Generally, each factor of production moves automatically to regions or sectors where it was scarce because that means a higher rate. Likewise, movement of goods amongst countries through international trade would lead each country to specialize in those goods for which it had a comparative advantage. Each country has certain advantages relative to other countries which can be better exploited through foreign trade. If a country has the ability to supply another country with a cheaper good, it would be better for the latter to import this good and concentrate instead on the production of other goods in which it has comparative advantage. In this case, the first country has what is
called a comparative advantage over the second one, which may be due to the better climate conditions, cheaper labor, or better technology. A country might have an absolute advantage in several products, but it is best to specialize in the fields where the comparative advantage is highest. For example, one country which may be able to produce two commodities, say potatoes and wheat, cheaper than another country has absolute advantage in both commodities. But if the production of potatoes is comparatively cheaper than wheat, the first country can still benefit from trade by specializing in the production of potatoes and exchange some of it for the other country's wheat. And the second country will be better off by specializing in the production of wheat and exchange some of it for potatoes. In this case, the first country has a comparative advantage in potatoes.²

The Role of Government

Classical economists were not much concerned with government policy because they believed that as long as the country implemented an economic system based on free competition, Laissez-faire, free trade and minimum government interference, economic growth would take place. Classicists' recommended government intervention in those fields in which the market failed to be effective.³ Over

two hundred years ago Adam Smith advocated the following governmental duties:

According to the system of natural liberty, the sovereign has only three duties to attend to: three duties of great importance indeed, but plain and intelligible to common understanding. First, the duty of protecting the society from the violence and invasion of other independent societies; secondly, the duty of protecting, as far as possible, every member of the society from injustice or oppression of every other member of it or the duty of establishing an exact administration of justice; and thirdly, the duty of exacting and maintaining certain public works and certain institutions, which it can never be for the interest of any individual, or small number of individuals, to erect and maintain; because the profit could never repay the expense to any individual or small number of individuals, though it may frequently do much more than repay it to a great society.

One might observe that the first duty is obviously the protection of every individual in the society from coercion, which might come from inside or outside the society. Also, the government is required to prevent coercion through its use of police and military force, although it might not succeed.

The second duty is the "administration of justice." Smith suggested this to achieve a free society, which includes facilitating exchange among individuals by adopting general rules that could maintain economic and social freedom.

Smith's third duty of government takes different meanings; some economists interpret it as preserving and

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strengthening a free society, while others may interpret it as justifying unlimited extensions of government power. Another explanation could be that we should examine the costs and benefits of any governmental intervention before adopting it.

In their book Economic Development of a Small Planet, B. and J. Higgins, p. 31, believe that what Smith meant was the extension of public enterprise to fields of social importance which are not or should not be, allowed to become profitable for private enterprise.

The Classical System

The Classicists believed that a healthy economy may stagnate due to the existence of some limits to growth such as excess population and exhaustion of resources (diminishing returns). They also believed that the process of development is by achieving a compatibility between population growth and capital accumulation, technological progress and market expansion.

"Technological progress and capital accumulation were regarded as closely linked; capital accumulation permitted a finer division of labor, the introduction of new techniques and more tools and equipment per man. Expanding markets also permitted a finer division of labor through geographical

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specialization. These opportunities might encourage investment which in turn leads to the expansion of markets and so on. However, without a steady population growth this process is threatened by failure because of "diminishing return" to resources which lead to stagnation.

To explain the law of diminishing return, classical economists believed that if total agricultural output increased because of an increase in the labor force, after the total area of land became utilized, the addition to the total agricultural output will start to decline until it reaches zero. They assumed that the labor force, employment, and the population generally move together, for example, as population growth increases, labor force will increase and finally employment also increases.

The classical model of the economic system depends basically on technological progress on the one hand and the law of diminishing return on the other. The economists believed that there is a causation cycle in the economic system which leads either to prosperity or stagnation. The model, as classicists envisioned it, works as follows: Technological progress increases profits, which in turn increases investment, increasing the wages fund and raising industrial employment. As employment opportunities improve, population growth will increase creating diminishing returns to labor on the land, raising costs of subsistence

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6 Higgins and Higgins, p. 32.
and thus raising wages and decreasing profits. Reduced profits reduce investment, retarding technological progress, decreasing the wages fund, thus reducing employment opportunities and discouraging population growth.\(^7\)

In effect, we are saying that if technological progress keeps ahead of diminishing returns to land and the consequent rise in labour costs, the economy will progress, and eventually become stationary. However, according to Adam Smith, an unequivocal fact is that eventually, all capitalist economies will stagnate.

The Neoclassical School

The Neoclassical school refers basically to the theories of economists such as Stanley Jevons and Alfred Marshall in England, Carl Manger in Vienna, and Leon Walras in Lausanne, and was founded in the late nineteenth century. The neoclassicists' basic contribution to economic theory were the concepts of marginalism and opportunity cost. Even though our concern here is the development theories, neoclassical theory had little to say about development. However, they believed that technological progress would continue to outstrip population growth and standards of living would continue to rise.

Neoclassical theory aspires to a free market, that is, the world economy would continue to expand and thus

\(^7\)Ibid., pp. 32-35.
investment opportunity would also increase and capitalist economies continue to expand. Obviously, the neoclassicists were not trying to change or add new economic theory for development as much as they were interested in exploring the economic system.

Neoclassicists believed in some kind of government intervention. For example, imposing legislation to eliminate or control monopolies, and regulating the banking system, but they were not specific. They gave little attention to the developing countries' problems, but they believed that through using an international free trade policy, these countries might overcome many of their economic problems. Neoclassical design thought that with pure competition and the free movement of factors of production, there would be a tendency towards equalization of factors prices. For example, if we assume a free trade between Jordan, and say England, plus free mobility of factors of production, wages in both countries would tend to be equal, which would favor Jordan. Apparently, they regarded international trade as the mainspring motor for growth. Basically, the neoclassicists' idea was to show that as long as any of a country's fields of production is relatively cheap, it would have a comparative advantage in that field, which would lead to the expansion of exports. This analysis is considered to be a "static" because it does not incorporate population or labour saving technology effects.
The Neoclassical School does not seem to offer a practical and consistent policy to create economic development. However, they did introduce the concept of external "economies and diseconomies". They believed that revenue of a project may be increased because of the effect of external sources. For example, the establishment of a power plant, or the completion of a railroad close to projects utilizing these establishments may reduce costs creating external economies. On the other hand however, they may create external diseconomies through the pollution of air and water. In summary, the neoclassical economists advocated a policy of Laissez-faire and free trade to economic development, but did not go further than that.\textsuperscript{8}

\textbf{The Marxist System}

Karl Marx is one of the most respected thinkers, about whom more has been written than he himself ever wrote. He is considered as a prophet of doom for capitalism and the chief saint in communist hierarchy.

The Marxist conceptions concerning production function were the same as those of classical school, but he gave more attention to the technological progress, and regarded it as the engine of capitalist growth, likewise he assigned a more important role to the entrepreneurs. He believed that there is a two-way relationship between technological progress and

\textsuperscript{8}Ibid., pp. 30-35.
investment. Certainly investment is needed to take advantage of technological progress but technological progress also provides the opportunities for profitable investment.

Marxist theory deals with the labor force who are actually employed, and states that population and employment cannot be treated as moving together.\textsuperscript{9}

The Capitalistic Stage in the Marx Model

Marx believed that labor saving technologies would lead to the collapse of the economic system. To elaborate, he assumed that these technologies would create technological unemployment, and thus an ultimate decrease of profits and a final collapse of the system. However, he expected capitalism to break down for sociological reasons, not because of stagnation.

Assuming that wages are at the subsistence level, Marx believed that an increase in productivity (by introducing labor-saving technology) would permit an initial rise in profit. On the other hand, he considered technological progress to be labor-saving and capital absorbing, in other words, the amount of capital per worker or unit of output would rise as time went by, which would lead to a reduction in the rate of profit. This is the explanation Marx applies to the ultimate reduction on profit rather than the

\textsuperscript{9}\textit{Ibid.}, p. 39.
diminishing return to labor created by population growth which classical theory supports. As we notice above, Marx rejected the idea that population growth and employment move together as the classical school believed. He did believe, however, that as investment increases, it would tend to raise employment, but each additional unit of capital stock would tend to increase the "reserve army" of technologically displaced workers. In Marxist opinion technological unemployment would tend to decrease the purchasing power of the labor force, which in turn decreases profits.\footnote{Ibid., pp. 39-40.}

"What then determines the level of profit? Marx believed that, unfortunately for the capitalists, a contradiction exists at this point: maintaining profits requires reducing the wages bill relative to Gross National Product, but a successful reduction of the wages bill and its consequent reduction of worker's purchasing power would in turn mean that part of the output would go unsold, and profits would be reduced after all."\footnote{Higgins and Higgins, p. 40.} For Marx, these were the dilemmas that capitalism generated. He said that by keeping wages at a low level, the unemployment rate increases, which in turn weakens the bargaining power of the labor force, in addition the misery of the working class increases and the middle class starts to disappear.
Finally, all of this leads to a revolution and the breakdown of capitalism.

Marx considered capitalism as one of a series of stages in the evolution of a society towards the communist state, which is the final form of economic, social and political organization. He believed also that the true, essential, social loving nature of man must be realized by the abolition of private property and inherent rights.

Some of Marx's predictions for advanced countries such as labor exploitation, subsistence wages, extensive unemployment, misery, and the class structure with limited or nonexistent middle classes, are basically applicable to many of the poor countries and provide the basis for political instability and social unrest. For this reason, Marx is respected by many developing countries.

The Structuralist Theories

Structural theories of economic development are considered to be more recent than any of those previously discussed theories. Unfortunately, structuralists do not form a real homogenous or consistent body of concepts,

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12 Ibid., pp. 38-41.
however, they are regarded to be independent from other schools.

Structurists are basically concerned with the distribution of factors of production in the economy. They basically deal with the dual economy (which will be discussed later). In a dual economy, two specific sectors are considered, they may be industry and agriculture, or any other two sectors such as one which is domestically owned and oriented, and a foreign owned and oriented sector, such as an export enclave. Some structuralists fail to explain the origin of dualism claiming that its origin is traced to "an act of God" or some exogenous force. Obviously, this exposition should not be taken seriously.

Based on the dualistic concept structural economists believed that the relationship between the sectors is rigid and thus inelasticities abound replacing the benign elasticities of the neoclassicists. Consequently, movements in quantities supplied and demanded toward market equilibrium cannot be automatically assumed because prices are less powerful under inelastic conditions. Thus, all of this will lead to a disequilibrium instead of a self-equilibrating state of most economies.

\[1^{15}\] An export enclave is a sector that sells its output abroad and that buys the bulk of its imports abroad as well. Its lack of integration with the rest of the economy in which it is physically located is recognized by its designation as an "enclave".
We can differentiate structuralist and neoclassical theories on the above point as follows:

Microeconomics supply and demand curves are inelastic at any given moment and only become more elastic as the period of time under consideration becomes longer. The impatience associated with strong desires for development sometimes leads us to concentrate on a period of time so short that inelasticities predominate. The more leisurely approach of the neoclassicists, with its emphasis on long-run tendencies, logically sees high elasticities as more common.

As a structuralist, Keynes was against the preoccupation with the long-run, which evidenced by his words "in the long run we are all dead."\(^{17}\)

The different income elasticities of demand for all the exports and imports of poor countries used to "gaps in foreign exchange" which cannot be solved through movement of prices and responsive reallocation of resources. Instead, it can be filled through transfers of foreign exchange from rich countries or international agencies. Again, there is no automatic equilibrium can be seen in this case.

In order to deal with these gaps which reflect market imperfections, structuralists advocated the use of government planning which presents the different policy recommendations and models that uniquely deal with these imperfections. Moreover, they were interested in specific strategies and sectoral plans,

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\(^{17}\) Ibid., p. 187.
such as import-substitution strategies, investment in economic infrastructure and others.  

The Dualist Theory

When we speak about the social system of a country, we mean the interrelationship amongst the "social spirit" of that society, the type of organizations, and the techniques dominating them.

In order to define the dual economy, we will look at the homogeneous system. A homogeneous society is a society that is dominated by one social system. A dual system appears wherever two social systems prevail in the society. Each system dominates a part of the society. "In a dual society, one of the two prevailing social systems, as a matter of fact, always the most advanced, will have been imported from abroad and have gained its existence in the new environment without being able to oust or to assimilate the divergent social system that has grown up there, with the result that neither of them becomes dominant and characteristic for that society as a whole."  

Dualism also may refer to two sectors of an economy such as agriculture and industry or two regions such as rich or leading region and a poor or lagging region. These sectoral or regional differences may diminish through using the policy

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18 Ibid., p. 187
of comparative advantage which assumes free trade and factor mobility. Moreover, dualism is not a permanent phenomenon and exists because of market imperfection.

It is possible that a developing country may import an advanced component of the economy of a developed country, which leads to the existence of new modern sector in addition to the existence of a traditional or backword sector. The main features of the traditional sector are:

1. Small scale economic units, primarily in agriculture and handicrafts.
2. Lack of capital and public facilities such as electric power transportation, communications, water works, and medical protection.
3. Labor intensive methods of production with traditional technology and disguised unemployment.
4. Low productivity.

The modern sector is characterized by using capital-intensive policies, high productivity, and large-scale industries with sufficient public facilities. Petroleum, mechanized plantations, and large import-export firms may belong to the sector.

The importance of the new component differs from one country to another. In a colonialized country, the modern sector normally exists because of the existence of the

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entrepreneurs of the colonial country. If these underdeveloped countries that imported the modern component remain undeveloped, it means that this component did not promote sufficient expansion to help the country reach a highly developed stage or even, sometimes, an intermediate level.\(^{21}\)

In the overall concept of dualism we may include financial dualism, labor dualism, and technological dualism. Developing countries tend to promote industrialization, and use large amounts of capital in the modern sector while neglecting the traditional sector.

Financial dualism refers to the differences in available funds for each sector. The modern sector tends to organize credit markets which adopt low interest rates, and tends to channel money away from the traditional sector.

Technological dualism refers to the differences in the technology used in the traditional and modern sectors. The traditional sector usually produces food, textiles and other labor-intensive products for the domestic market while the modern sector utilizes capital intensive imported technology to produce basically products for export.

Labor dualism refers to differences in wages in the two sectors. Wages in the modern sector are usually higher than those of the traditional due to the differences in skills and thus productivity, cost of living, and strength of labor unions.

\(^{21}\) Meier, pp. 125-127.
"In the modern sector the need for a stable and regular labor force, capable of rhythm and discipline of factory production necessitates the use of attractive wages. All of this tends toward the discussion of labor, specialization, and higher productivity, while in the traditional sector the casual and temporary type of labor discourages specialization, industrial organization and managerial innovation."\textsuperscript{22}

In order for developing countries to grow, and integrate this sector there are different suggestions to do this. Sectoral dualism, especially in labor and finance leads to a disruption in the allocation of resources and hinders economic development in the long-run. "An integrated domestic market for capital and labor would provide more employment and higher standards of living for all people."\textsuperscript{23} Dualistic rigidities and obstacles are widening the gap between both sectors, leading to political and social instability.

Capital-using techniques by the modern industrial sector, are responsible for only a limited absorption of surplus labor. Furthermore, the modern sector needs personnel with skills and technical knowledge, less developed countries simply do not have the educational facilities and auxiliary institutions necessary to provide them. Because of these shortcomings small-scale industries may be more important in spreading myriads of simple improvements with small amounts of investment in the traditional sector.\textsuperscript{24}

\textsuperscript{22}Gianaris, p. 89.
\textsuperscript{23}Ibid., p. 89.
\textsuperscript{24}Ibid, p. 90.
The argument of internal economic integration, with emphasis on the neglected sector is useful and required in the long-run, since it is doubtful in the short-run to achieve economic development.

In the long run, local training programs, and public-service improvements can reverse the trend from the modern (advanced) sector, back to the traditional (lagging) sector, provided that equal or higher factor productivity is gradually established in the lagging sector.\(^{25}\)

After this brief discussion of the different theories of economic development, Chapter V purpose is to focus upon the process of economic development in Jordan, its drawbacks and to study what appears to be the relative theory or some combination. However, the classical theory seem to handle part of the process, in addition to some aspects of both the structuralist and the dualist theories.

\(^{25}\)Ibid., p. 90.
CHAPTER III

THE ECONOMY OF JORDAN: PRE 1967

Political and Economic Background

In 1921 the British Colonial Secretary, Winston Churchill, convened a conference in Cairo to design strategies for the Middle Eastern countries under British Mandate. Both France and Britain agreed to put Iraq, Palestine and Transjordan under British Mandate and Syria and Lebanon under French Mandate. As a result of this decision the Transjordan Emirate was proclaimed in that year under the stewardship of Amir (Prince) Abdullah, grandfather of the present King Hussein. This appointment was made, in part, to distract Prince Abdullah's attention away from his stated intentions of fighting the French to appease the ousting of his brother King Faisal from the throne of Syria.

In 1917 the British had issued the Balfour Declaration in which they promised to consider Palestine as a homeland for the Jewish people. This encouraged Jewish emigration from other countries, and the rise of the Nazi regime in 1933 in Germany increased this Jewish migration to Palestine.

In July, 1937 a British report was issued recommending a partition of Palestine into Jewish and Arab states. They then formed a Commission to study the cause of disturbances in Palestine and the question of partition which came to the
conclusion that the partition of Palestine was impracticable. The British government then called for a conference amongst Palestinian representatives, the Jewish Agency and adjoining Arab states. The Arab representatives refused to negotiate directly with the Jews, which finally led to a breakdown of the conference.¹

As a result of the 1948-49 Arab-Israeli war the state of Israel came into existence, thereby displacing many Palestinians living there.² These Palestinians were then forced to relocate in great numbers, many to Jordan.

Jordan is located in the heart of the Arab world, bounded on the north by Syria, on the northeast by Iraq, on the east and south by Saudi Arabia and on the west by occupied Palestine. During the period 1948-66 Jordan was affected by political instability, complicated considerably by the way it treated the Palestinian refugees, which differed radically from the other Arab states because it granted citizenship to all refugees in its territory and made efforts toward their integration and absorption into the Kingdom.

In 1955 the World Bank sent a mission to study the economy of Jordan and to make recommendations. It noted that:


There has been a rapid expansion of economic activity since 1948—(however) the expansion of economic activity has been far from sufficient to absorb the increase in the population of working age, and all those displaced by the Arab-Israeli war. More than half the refugee population was without any occupation (employment) even seasonal, in 1954, and most of the rest, as well as many of the indigenous population, found only casual or seasonal employment. Consequently, in 1954 the country was heavily dependent on foreign aid.

Until the late 1940s the economy of Transjordan had barely changed. Most of the citizens were engaged in farming or a nomadic existence raising livestock. Industry hardly existed, apart from handicrafts and a few processing facilities largely lacking in mechanical power. Modern transport was at an early stage of development and mainly oriented toward the area that became Israel. Transjordan was less developed than Palestine, agricultural land and natural resources were scarce, and the formation of Israel had cut Jordan off from the Mediterranean ports and commercial centers formerly used.

Transjordan's agricultural land was estimated to be around 5.5 to 6 million dunoms (550,000 to 600,000 hectares) in the early fifties. In 1953 the total arable land was estimated to be 575,500 hectares, out of which about 43,700 hectares were irrigated. In the same year, the cultivated area of the West Bank of Jordan was estimated to be 243,500 hectares which was about 30 percent of the whole area under

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cultivation in the entire Kingdom. The irrigated area of the West Bank was 32,200 hectares while the area devoted to fruit trees and vineyards was 58,300 hectares.

According to the 1965 Census of Agriculture there was a large decline in the irrigated area in Jordan from 75,900 hectares to 44,300 compared with the 1953 census. Twelve years passed from 1953 to 1965, and taking into account the fact that the water resources were improved and better utilized during this time, the decline in the irrigated area is amazing. The phenomenon can only be attributed to poor quality of data in the earlier census.

The Jordanian population was suffering poverty in 1947-48. Per capita income was only fifteen pounds sterling, while in Palestine it was fifty-three pounds for the same year. Jordan suffered from a very poor educational system, weak technical skills and little entrepreneurship. Jordan's natural resources were scarce, limited to high quality phosphates and mineral salts in the Dead Sea. Arable land was very limited, of low quality and eroded. Water resources were also poor. Only in the northern hills of the East and West Banks did average annual rainfall exceed 24 inches per annum. The average rainfall in the largest part of the cultivated area was below 16 inches. Rainfall was and is still characterized by irregularity. The high cost of irrigation methods prevented Jordan from expanding the sown

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4 Sayigh, pp. 187-191.
area because there was no surface water except for the Jordan River and its tributaries.

The limited markets in Jordan, the high cost of power and industrial raw materials hindered any potential industrial establishment. Jordan had to rely heavily on imports for consumer goods, investment goods and inputs into domestic industries. The country was penalized--both as an importer and exporter--by the high cost of transportation. In its early years, almost all Jordan's trade passed by way of Beirut and Damascus--a costly trip!  

The World Bank mission (IRBD) which visited Jordan in 1955 claimed that during the period 1952-54 Gross Domestic Product (GDP) had grown at an average of 10 percent per annum at the then current prices. The mission did not believe that this high rate of growth could be accelerated in the future. Throughout the period 1954-56 the rate of growth of GDP continued to average 10 percent a year at current market prices.

In Table I the figures show that production in mining and manufacturing grew rapidly from a very small base of $12.32 million in 1954-55 to $20.26 million in 1959, and $52.40 million in 1965-66. Construction growth, from $4.76 million in 1954-55 to $24.01 million in 1965-66 was basically attributed to the increased demand for housing.

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TABLE I

INDUSTRIAL ORIGIN OF GROSS NATIONAL PRODUCT
AVERAGES FOR 1954/55, 1959/60, AND 1965/66
(Million $U.S., current prices)

<table>
<thead>
<tr>
<th>Division</th>
<th>1954/55</th>
<th>1959/60</th>
<th>1965/66</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agriculture</td>
<td>34.40</td>
<td>41.58</td>
<td>86.46</td>
</tr>
<tr>
<td>Crops and forestry</td>
<td>25.30</td>
<td>27.0</td>
<td>54.64</td>
</tr>
<tr>
<td>Livestock</td>
<td>9.10</td>
<td>14.48</td>
<td>31.82</td>
</tr>
<tr>
<td>Mining, manufacturing, and electricity</td>
<td>12.32</td>
<td>20.26</td>
<td>52.40</td>
</tr>
<tr>
<td>Construction</td>
<td>4.76</td>
<td>12.82</td>
<td>24.01</td>
</tr>
<tr>
<td>Transport</td>
<td>14.84</td>
<td>30.55</td>
<td>37.83</td>
</tr>
<tr>
<td>Trade and Banking</td>
<td>30.52</td>
<td>54.95</td>
<td>91.32</td>
</tr>
<tr>
<td>Ownership of dwellings</td>
<td>9.80</td>
<td>18.80</td>
<td>30.65</td>
</tr>
<tr>
<td>Public administration and defense</td>
<td>24.50</td>
<td>43.04</td>
<td>60.82</td>
</tr>
<tr>
<td>Services</td>
<td>12.18</td>
<td>22.46</td>
<td>37.48</td>
</tr>
<tr>
<td>Gross domestic product at factor cost</td>
<td>143.32</td>
<td>244.46</td>
<td>420.97</td>
</tr>
<tr>
<td>Indirect taxes</td>
<td>12.46</td>
<td>24.41</td>
<td>52.57</td>
</tr>
<tr>
<td>Gross domestic product at market prices</td>
<td>155.78</td>
<td>268.57</td>
<td>473.54</td>
</tr>
<tr>
<td>Factor income from abroad</td>
<td>11.48</td>
<td>18.19</td>
<td>39.31</td>
</tr>
<tr>
<td>Gross national product at market prices</td>
<td>167.26</td>
<td>286.76</td>
<td>512.85</td>
</tr>
</tbody>
</table>

after the influx of refugees. It seems that the pattern of growth has changed in the different sectors during the same periods. For example, construction and transport sectors showed a very fast growth rate in the early years which slowed down in later years. On the contrary, the mining, manufacturing and electricity sectors were accelerated sharply in later years (Table II).

In 1961-62 the value added was 21 percent of the agricultural sector, compared with a typical ratio of 37 percent. This difference is not compensated in the mining, manufacturing and construction sectors, whose share of the 1961-62 total value added which was 66 percent and is considered to be a high share compared with an average of 42 percent in developing countries (see Table III).

Throughout the 1954-66 period, the 10 percent growth in food production per annum was slightly higher than that of the 9 percent increased demand. The causes for this high rate of growth in food consumption were as follows: firstly, Jordan experienced a high rate of population growth (about 3 percent per year), secondly, the increased rate of food consumption which amounted to 6 percent per annum can be attributed to the speedy growth in disposable income.

The manufacturing sector did not show a significant role in the growth of the Jordanian economy. In 1966 only 9.5 percent of the National Income originated in the manufacturing sector, compared with 15.1 percent of a
<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Agriculture, value added</td>
<td>7</td>
<td>7.5</td>
<td>7</td>
<td></td>
</tr>
<tr>
<td>Value added in crops and forestry</td>
<td>5</td>
<td>7</td>
<td>3.5</td>
<td></td>
</tr>
<tr>
<td>Value of crops and forestry output</td>
<td>5</td>
<td>6.5</td>
<td>4</td>
<td></td>
</tr>
<tr>
<td>Intermediate costs</td>
<td>6.5</td>
<td>6</td>
<td>7</td>
<td></td>
</tr>
<tr>
<td>Value added in livestock</td>
<td>12</td>
<td>10</td>
<td>14</td>
<td></td>
</tr>
<tr>
<td>Value of livestock output</td>
<td>11.5</td>
<td>8.5</td>
<td>15</td>
<td></td>
</tr>
<tr>
<td>Intermediate costs</td>
<td>11</td>
<td>3</td>
<td>18</td>
<td></td>
</tr>
<tr>
<td>Nonagricultural value added</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Mining, manufacturing, and electricity</td>
<td>14</td>
<td>10.5</td>
<td>17</td>
<td></td>
</tr>
<tr>
<td>Construction</td>
<td>16</td>
<td>22</td>
<td>11</td>
<td></td>
</tr>
<tr>
<td>Transport</td>
<td>9</td>
<td>15.5</td>
<td>3.5</td>
<td></td>
</tr>
<tr>
<td>Trade and banking</td>
<td>10.5</td>
<td>12.5</td>
<td>9</td>
<td></td>
</tr>
<tr>
<td>Ownership of dwellings</td>
<td>11</td>
<td>14</td>
<td>8.5</td>
<td></td>
</tr>
<tr>
<td>Public administration and defense</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Services</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>GDP at factor cost</td>
<td>10</td>
<td>12</td>
<td>8.5</td>
<td></td>
</tr>
<tr>
<td>Indirect taxes</td>
<td>14</td>
<td>14</td>
<td>14</td>
<td></td>
</tr>
<tr>
<td>GDP at market prices</td>
<td>10.5</td>
<td>12</td>
<td>9</td>
<td></td>
</tr>
<tr>
<td>Factor income from abroad</td>
<td>12</td>
<td>10</td>
<td>14</td>
<td></td>
</tr>
<tr>
<td>GNP at market prices</td>
<td>10.5</td>
<td>12</td>
<td>9</td>
<td></td>
</tr>
</tbody>
</table>

Source: Cooper and Alexander, p. 216.
normal country with Jordan's 1966 population and per capita income.  

### TABLE III

**SHARE OF INDUSTRIAL SECTORS, JORDAN AND "NORMAL" COUNTRY**

(Percent)

<table>
<thead>
<tr>
<th>Sector</th>
<th>Value Added</th>
<th>Labor Force</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Primary production</td>
<td></td>
<td></td>
</tr>
<tr>
<td>A. Agriculture</td>
<td>22.2</td>
<td>36.6</td>
</tr>
<tr>
<td>B. Mining</td>
<td>1.1</td>
<td>1.4</td>
</tr>
<tr>
<td>2. Industry</td>
<td>11.4</td>
<td>17.2</td>
</tr>
<tr>
<td>A. Manufacturing</td>
<td>6.6</td>
<td>12.4</td>
</tr>
<tr>
<td>B. Construction</td>
<td>4.9</td>
<td>4.8</td>
</tr>
<tr>
<td>3. Services</td>
<td>66.4</td>
<td>42.3</td>
</tr>
<tr>
<td>A. Transport</td>
<td>11.5</td>
<td>5.8</td>
</tr>
<tr>
<td>B. Commerce</td>
<td>21.1</td>
<td>12.6</td>
</tr>
<tr>
<td>C. Other services</td>
<td>32.8</td>
<td>22.2</td>
</tr>
</tbody>
</table>


Gross National Product

Prior to the Israeli aggression of June, 1967, most of the economic goals were achieved. GNP, at market prices,

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increased from JD\(^7\)68 million in 1956, to JD\(130.8\) million in 1962, at an average annual rate of growth of 11.5 percent. Furthermore, GNP increased to JD\(185.8\) million in 1966, an average rate of growth of 9.1 percent per year. This rate was one of the highest in the world during this period. This high rate of growth was accompanied with a price stability (a rise of not more than one percent per year) and a population growth rate of 3.1 percent per annum. This improved the living standards because it was a real growth since the inflation effect was not involved.\(^8\) "The citizens benefitted from this increase in GNP: increase in the level of employment, in per capita income, in the volume of saving and investment, in consumption and in raising the standards of public services and expanding their effectiveness over the whole Kingdom"\(^9\)

This increase in GNP from 1959-66 resulted from the increase in output by various sectors. The average annual growth rates were Agriculture (including crops, forestry and livestock) 9.1%; Industry and Mining, Electricity and Water Supply 16.0%; Construction 10.3%; and Services 7.0%.

As a result of these increases in GNP, income from agriculture, industry, tourism and construction rose at

\(^7\)JD = Jordanian Dinar.


\(^9\)Ibid, p. 2.
remarkable rates. These figures indicate that Jordan's take-off stage in its economy had taken place.\textsuperscript{10}

\textbf{Agriculture}

Jordan was basically an agricultural country, but only about 16 percent of its total land area was suitable for cultivation and the possibility of expanding the sown area was costly due to factors of erosion and the low quality of the land.\textsuperscript{11} The prospects of irrigation are limited reflecting shortages of water resources.\textsuperscript{12} There are no perennial surface waters except the Jordan River and its tributaries. In the 1961 census, the percentage of employment in the agricultural sector was fairly high, about 35 percent, which constitutes around 23 percent of gross domestic product. The East Bank was far behind the West Bank in terms of farming methods during the early 1950s. Jordan's agricultural development was hindered by periodic droughts, poor marketing, and low productivity of land and labour.\textsuperscript{13}

\textsuperscript{10}\textit{Ibid}, p. 2.


\textsuperscript{13}\textit{Jordan National Planning Council, Chapter on Agricultural Sector of Jordan}. 
Government programs have done much to improve the farm sector since the early 1950s. Irrigation was extended (mainly in the East Bank). The main project was the construction of the East Ghor Canal (1958-64). The canal's length is seventy Kilometers and runs parallel to the Jordan River.\(^\text{14}\)

Agricultural credit institutions were introduced and were helpful in advancing the agricultural sector's growth. The extension of newly irrigated lands were devoted primarily to fruits and vegetables which led to the improvement of farming methods. In 1965 the irrigated land was estimated to be 100,000 acres out of 2.5 million acres of arable land which produced 35 percent of Jordan's farm production. It is obvious that the remarkable increase in farm output was in those crops that were irrigated.\(^\text{15}\) It was estimated that in 1959-61, 51 percent of total agricultural production came from fruits and vegetables; 27 percent from livestock, poultry and fish; and less than 20 percent from grains, legumes and tobacco.\(^\text{16}\)


In its seven year plan of 1964-70, Jordan devoted 27 percent of its public and private expenditures toward the agricultural sector and water projects. One of the major projects was to be the completion of the East Ghor Canal which by the year 1963 had already added about 30,000 acres to the irrigated area of the East Bank.

Agricultural exports grew rapidly. In 1964-66 they were about 2.25 times their level in 1952-54. Olive oil and tobacco constituted about 20 percent of the total agricultural products. However, the wide gap between agricultural exports and imports continued to grow. In 1964-66 the gap between farm exports and imports was about 2.5 times the level of 1952-54. This was attributed to the high rate of population growth, and the rising standards of living.\(^\text{17}\)

Exports of agricultural products formed, on the average, about 42 percent of total exports during the period 1955-1975. During the same period imports of agricultural products accounted for an average of 27 percent of total imports.\(^\text{18}\) The share of the agricultural sector ranged between 11 percent and 31 percent of total GDP during the period 1955-75. These fluctuations were due to weather conditions—the main affect of these conditions was on the

\(^{17}\)Ibid., p. 359.

field crops, mainly wheat and barley, which use about 79 percent of the cultivated area and which depend heavily on rainfall. The timing and quantity of rainfall in Jordan varies frequently from year to year. 19

The predominant form of agriculture in Jordan is that of the owner-operator. The census of 1965 showed that 75 percent of the agricultural area was cultivated by owners. The rest of the area, about 25 percent of the total, was operated by tenants. The main types of agricultural output in Jordan are field crops, vegetables, and fruit products. Vegetable production constitutes the major component of agricultural output, and averages 48 percent of the total value during the period 1965-75. Tomatoes are the main vegetable product in Jordan. They account for about 40 percent of total vegetable production. Field crops were the second most important output of the agricultural sector, averaging 34 percent of total value of agricultural production during the period 1965-1975. 20

Industry and Mining

Industry was a small part of the Jordanian economy during the 1950's (see Table IV) 21 even though it did show a

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19 Ibid, p. 8, 41.
20 Ibid, p. 9, 14.
TABLE IV

SHARE OF NATIONAL PRODUCT OF INDUSTRY AND BY SOURCE OF EXPENDITURES

<table>
<thead>
<tr>
<th>Country</th>
<th>Gross National Product</th>
<th>Origination in Industry (in percent)</th>
<th>Share Originating in Manufacturing Alone (in percent)</th>
<th>Expenditures by Source (in percent)</th>
<th>Net Exports</th>
</tr>
</thead>
<tbody>
<tr>
<td>Egypt (in millions of Egyptian pounds)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1950</td>
<td>800.6</td>
<td>9</td>
<td>8</td>
<td>n.a.</td>
<td>n.a.</td>
</tr>
<tr>
<td>1954</td>
<td>882.5</td>
<td>12</td>
<td>11</td>
<td>n.a.</td>
<td>n.a.</td>
</tr>
<tr>
<td>1960</td>
<td>1,456.2</td>
<td>20</td>
<td>n.a.</td>
<td>15</td>
<td>65</td>
</tr>
<tr>
<td>1971</td>
<td>3,336.7</td>
<td>21</td>
<td>18</td>
<td>11</td>
<td>66</td>
</tr>
<tr>
<td>Iraq (in millions of dinars)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1953</td>
<td>344.6</td>
<td>46</td>
<td>6</td>
<td>12</td>
<td>52</td>
</tr>
<tr>
<td>1960</td>
<td>601.4</td>
<td>45</td>
<td>9</td>
<td>20</td>
<td>45</td>
</tr>
<tr>
<td>1965</td>
<td>877.0</td>
<td>42</td>
<td>8</td>
<td>15</td>
<td>49</td>
</tr>
<tr>
<td>1971</td>
<td>1,483.9</td>
<td>45</td>
<td>9</td>
<td>13</td>
<td>46</td>
</tr>
<tr>
<td>Jordan (in millions of dinars)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1959</td>
<td>93.5</td>
<td>8</td>
<td>n.a.</td>
<td>19</td>
<td>93</td>
</tr>
<tr>
<td>1965</td>
<td>167.6</td>
<td>11</td>
<td>8</td>
<td>14</td>
<td>62</td>
</tr>
<tr>
<td>1972</td>
<td>249.0</td>
<td>11</td>
<td>9</td>
<td>16</td>
<td>70</td>
</tr>
<tr>
<td>Kuwait (in millions of dinars)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1962</td>
<td>653.0</td>
<td>n.a.</td>
<td>n.a.</td>
<td>13</td>
<td>29</td>
</tr>
<tr>
<td>1966</td>
<td>854.0</td>
<td>66</td>
<td>4</td>
<td>18</td>
<td>27</td>
</tr>
<tr>
<td>1972</td>
<td>1,497.0</td>
<td>70</td>
<td>3</td>
<td>8</td>
<td>79</td>
</tr>
</tbody>
</table>

high rate of growth throughout the 1950s and 1960s. For example, phosphates production increased from 2,000 tons in 1952 to 14,000 tons in 1955 and to 25,000 tons in 1958 finally reaching 62,000 tons in 1966. (See Table V).

Jordan suffered from the political instability which was a consequence of the 1948 Arab-Israeli war and suffered the effects of an underdeveloped transportation system and other infrastructure. However, after the establishment of the oil refining industry and the expansion of cement output, Jordan's growth of value added in manufacturing was increased by about 33 percent from 1959-1966.

From 1959-66 Jordan's industrialization rate grew at almost twice the rate of the GDP. Most manufacturing establishments were very small and employed less than 10 persons. However, 64 percent of the manufactured products were for direct consumption and only 31 percent went for intermediate uses.

Petroleum refining started by the end of 1960 using crude oil from Saudi Arabia, and exported to Syria and Lebanon. This industry employed about 800 workers in 1966. Exports and production of phosphates--the most important industry--developed rapidly during the same period. In 1966, phosphates output were about one million tons and exports in that year were worth about $8.8 million which

\[ 22 \text{ Rees, p. 122. } \]
\[ 23 \text{ Askari and Cummings, p. 233. } \]
\[ 24 \text{ Michael P. Mazur, } \textit{Economic Growth and Development in Jordan}, \text{(Colorado, 1979), pp. 204-212. } \]
TABLE V

OUTPUT INDICES OF MAJOR INDUSTRIAL PRODUCTS, JORDAN, 1952-75
(in thousands of tons; 1968 = 100)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Cement</td>
<td>n.a.</td>
<td>23</td>
<td>30</td>
<td>62</td>
<td>98</td>
<td>99</td>
<td>174</td>
</tr>
<tr>
<td>Phosphates</td>
<td>2</td>
<td>14</td>
<td>25</td>
<td>59</td>
<td>89</td>
<td>79</td>
<td>61</td>
</tr>
<tr>
<td>Soap</td>
<td>n.a.</td>
<td>59</td>
<td>80</td>
<td>152</td>
<td>204</td>
<td>82</td>
<td>121</td>
</tr>
<tr>
<td>Cigarettes</td>
<td>26</td>
<td>37</td>
<td>54</td>
<td>64</td>
<td>93</td>
<td>101</td>
<td>94</td>
</tr>
<tr>
<td>Alcohol</td>
<td>n.a.</td>
<td>n.a.</td>
<td>171</td>
<td>138</td>
<td>179</td>
<td>97</td>
<td>88</td>
</tr>
<tr>
<td>Leather</td>
<td>n.a.</td>
<td>n.a.</td>
<td>n.a.</td>
<td>92</td>
<td>142</td>
<td>78</td>
<td>110</td>
</tr>
<tr>
<td>Iron</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>140</td>
<td>175</td>
</tr>
<tr>
<td>Refined petroleum</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>58</td>
<td>110</td>
<td>113</td>
<td>154</td>
</tr>
<tr>
<td>products</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Electricity</td>
<td>n.a.</td>
<td>6</td>
<td>13</td>
<td>67</td>
<td>113</td>
<td>120</td>
<td>102</td>
</tr>
</tbody>
</table>

valued 35.7 percent of the total exports. The phosphate industry employed more than 1,500 persons, and their export was planned to increase to two million tons by the end of the seven-year development plan of 1964-1970.

The extraction of potash from the Dead Sea was one of the major projects of the seven year plan of 1964-1970. It was aimed at exporting 500,000 tons of potash by the end of the period. The World Bank Mission that visited Jordan in March, 1955, recommended this project strongly.

One of the most important manufacturing industries in Jordan was, and still is, the cigarette industry. Cigarette production doubled during the 1959-1966 period, and used almost 70 percent of local tobacco in the manufacturing process.

The production of batteries for cars was established in 1961 and developed rapidly to produce 60,000 units in 1966. Most of the output was devoted for export to the neighboring Arab countries. The value of these exports totalled $600,000.25

Jordanian industry faced many difficulties which were hard to overcome due to factors inherent in the country itself, namely:

---

1. The scarcity of local raw materials other than olive oil, tobacco and hides.

2. The limited domestic market.

3. The absence of a sophisticated and aggressive business community.

4. The lack of capital for financing industrial enterprises and mineral explorations.  

**Other Economic Sectors**

The tourist industry expanded relatively slowly in the 1950s. Income from tourism was increased from $6 million in 1954 to $9 million in 1960. During the first half of the 1960s much more attention was given to this sector, including the building of hotels and other facilities.  

The number of tourists that visited Jordan during 1950-1954, and the revenue they generated is shown in Table VI.

**TABLE VI**

<table>
<thead>
<tr>
<th>NUMBER OF TOURISTS (in thousands)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1950</td>
</tr>
<tr>
<td>------</td>
</tr>
<tr>
<td>Tourists (in thousands)</td>
</tr>
<tr>
<td>Revenue Generated (in JD millions)</td>
</tr>
</tbody>
</table>


---

28 Jordanian Dinar (JD) = 2.8 American Dollars during the 1950s.
The above table shows the rapid increase of tourists throughout the first half of the 1950s. By having Jerusalem and other religious sites within its boundaries Jordan was characterized by a comparative advantage in its tourist attractions. During 1961-62 Jordan's foreign currency income from tourism was estimated to be 4.3 percent of the Gross Domestic Product.\(^{29}\)

The Services Sector includes government, trade, financial institutions, and transport and communications. The value of services production accounted for 65 percent of the GDP. It increased from JD30.10 million in 1955 to JD204 million in 1975. The services sector employed 44 percent of the total labour force in 1961, compared with 63 percent in 1975.\(^{30}\) This sector was responsible for increasing domestic demand in the economy. Since the economy could not satisfy domestic demand, imports for consumption and investment, particularly in infrastructure projects, increased.

The main reasons behind the inflated size of the services sector in Jordan were: 1. As a result of the events in 1948, Jordan was forced to transform its transportation routes from an east-west oriented system to a north-south system, 2. The severe housing shortage after 1948 led to an intensive concentration on construction of


houses, which increased the value of building services. 3. As a result of large amounts of external resources received by the government, they expanded their activities, 4. The expansion of imports, as a result of the inflow of external financial resources, induced the expansion of services activities such as trade, banking and transport. 31

The transport and communication sector showed a relatively "moderate retreat" in its contribution to GDP, decreasing from 11 to 8.1 percent during 1954-56. However, in absolute terms its share increased from an average of JD5.6 million to JD17.7 million. This expansion was due to the improving to Aqaba from a small port to a large one, being equipped with modern facilities and the growth of a transportation network. The total amount of goods handled at this port increased from 92,351 tons to 1,483,597 tons during the period 1954-1974. However, during the period 1966-1969, the tonnage decreased from 1.2 million tons to 743,549 tons due to the Israeli occupation of the West Bank in 1967. 32

Other important components in the expansion of the (transport) sector are the development of ALIA, the national airline, and of Amman and Jerusalem airports. Generally speaking, the country is now well equipped with good roads, especially after the construction of three of four major highways leading to Aqaba, to Syria

31 Ibid, p. 38.

and to Jerusalem, and the development of linkage networks between towns, and between the countrywide and urban centres.  

Foreign Trade

Imports: After the 1948 Arab-Israeli war and the in-flow of refugees, Jordan adopted a liberal import policy in order to meet the increase in domestic demand resulting from the decrease of resources after the war. During 1950-51 imports increased rapidly, however, they increased at a decreasing rate during the period 1952-54. Tobacco, foodstuffs, and beverages constituted 35 percent of total imports in 1954, while in 1951 they comprised about 50 percent of the total (Table VII). The latter decline was due to the decrease in the value of cereal imports during 1951-52 and 1953-54.

Textile imports were increased rapidly during 1950-54, they constituted 22 percent of the total imports in 1954. Metal manufacturer's imports rose from JD 1,433,000 in 1950 to JD 3,255,000 in 1954 with road vehicles comprising a large part of the increase. In 1954, imported cement was replaced by the domestic one.

The United Kingdom was considered to be the major supplier of imports followed by Syria during 1950-54 (Table

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33 Ibid., p. 217.
34 Rees, p. 144.
<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Metal manufactures</td>
<td>363</td>
<td>514</td>
<td>592</td>
<td>525</td>
<td></td>
</tr>
<tr>
<td>Machinery</td>
<td>363</td>
<td>961</td>
<td>1,028</td>
<td>1,319</td>
<td></td>
</tr>
<tr>
<td>Transport equipment</td>
<td>190</td>
<td>142</td>
<td>194</td>
<td>275</td>
<td></td>
</tr>
<tr>
<td>Electrical equipment</td>
<td>722</td>
<td>750</td>
<td>792</td>
<td>1,106</td>
<td></td>
</tr>
<tr>
<td>Other</td>
<td>2,219</td>
<td>2,002</td>
<td>3,347</td>
<td>3,348</td>
<td>4,428</td>
</tr>
<tr>
<td>Textiles and clothing</td>
<td>910</td>
<td>1,642</td>
<td>1,397</td>
<td>1,742</td>
<td></td>
</tr>
<tr>
<td>Cotton</td>
<td>1,092</td>
<td>1,705</td>
<td>1,951</td>
<td>2,686</td>
<td></td>
</tr>
<tr>
<td>Other</td>
<td>1,320</td>
<td>2,002</td>
<td>2,756</td>
<td>2,921</td>
<td>3,455</td>
</tr>
<tr>
<td>Other manufactures</td>
<td>336</td>
<td>577</td>
<td>551</td>
<td>478</td>
<td>607</td>
</tr>
<tr>
<td>Medical, chemical and toilet</td>
<td>n.a.</td>
<td>113</td>
<td>184</td>
<td>173</td>
<td>244</td>
</tr>
<tr>
<td>Hides and leather manufactures</td>
<td>n.a.</td>
<td>255</td>
<td>231</td>
<td>205</td>
<td>258</td>
</tr>
<tr>
<td>Rubber manufactures</td>
<td>314</td>
<td>314</td>
<td>306</td>
<td>405</td>
<td>505</td>
</tr>
<tr>
<td>Lumber and wood manufactures</td>
<td>188</td>
<td>290</td>
<td>225</td>
<td>211</td>
<td>398</td>
</tr>
<tr>
<td>Paper and paper manufactures</td>
<td>n.a.</td>
<td>142</td>
<td>218</td>
<td>229</td>
<td>150</td>
</tr>
<tr>
<td>Shoes and hedgegear</td>
<td>102</td>
<td>150</td>
<td>103</td>
<td>153</td>
<td>190</td>
</tr>
<tr>
<td>Earthenware, pottery and glass</td>
<td>n.a.</td>
<td>181</td>
<td>938</td>
<td>1,067</td>
<td>1,103</td>
</tr>
<tr>
<td>Other</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Grand Total</td>
<td>11,840</td>
<td>15,670</td>
<td>17,335</td>
<td>18,395</td>
<td>19,840</td>
</tr>
</tbody>
</table>
VIII). However, Germany, France, Italy and the U.S.A. were also considered to be large suppliers to Jordan.

During the early 1950s, Jordan's imports were nine times its exports, and consisted mainly of consumer goods. Although in 1964 and 1966 exports increased, especially agricultural products, the ratio of food imports to all agricultural exports was still 3.7:1. During the same period, food stuff imports constituted about 29.1 percent of total imports, while consumer goods accounted for 53.5 percent. The major reason behind the unstable import position was the weather. For example, imports increased in years of drought and the deficit (imports of goods and services minus exports) increases. Throughout the period 1963-1966, the deficit was about JD 28.3 million ($79.1 million). In the year 1966 (a poor crop year) the deficit was $100 million.36

Exports: Three features characterized the export composition during the period 1950-1954: 1. The predominance of agricultural products; 2. the rapid growth of olive oil and vegetable exports; and 3. surplus fluctuations of cereals available for export. The value of wool exports in 1950 and 1951, JD 221,000 and JD 483,000 respectively, were considered to be relatively very high (see Table IX). Although phosphate is considered to be one of Jordan's important resources in terms of production

36 Ibid., p. 36.
# TABLE VIII

**IMPORTS BY COUNTRY OF ORIGIN**

<table>
<thead>
<tr>
<th></th>
<th>1950</th>
<th>1951</th>
<th>1952</th>
<th>1953</th>
<th>1954</th>
</tr>
</thead>
<tbody>
<tr>
<td>United Kingdom</td>
<td>2,805</td>
<td>2,265</td>
<td>3,033</td>
<td>3,034</td>
<td>3,055</td>
</tr>
<tr>
<td>Other EPU*</td>
<td>2,166</td>
<td>2,526</td>
<td>3,924</td>
<td>3,490</td>
<td>4,529</td>
</tr>
<tr>
<td>Eastern European</td>
<td>746</td>
<td>898</td>
<td>827</td>
<td>578</td>
<td>1,053</td>
</tr>
<tr>
<td>Other Europe</td>
<td>40</td>
<td>130</td>
<td>305</td>
<td>66</td>
<td>133</td>
</tr>
<tr>
<td><strong>Total Europe</strong></td>
<td>5,757</td>
<td>5,819</td>
<td>8,089</td>
<td>7,168</td>
<td>8,770</td>
</tr>
<tr>
<td>Syria</td>
<td>1,326</td>
<td>1,911</td>
<td>1,931</td>
<td>2,713</td>
<td>2,202</td>
</tr>
<tr>
<td>Lebanon</td>
<td>--</td>
<td>--</td>
<td>671</td>
<td>944</td>
<td>853</td>
</tr>
<tr>
<td>Iraq</td>
<td>425</td>
<td>1,775</td>
<td>738</td>
<td>759</td>
<td>666</td>
</tr>
<tr>
<td>Saudi Arabia</td>
<td>15</td>
<td>301</td>
<td>386</td>
<td>408</td>
<td>453</td>
</tr>
<tr>
<td>Egypt</td>
<td>634</td>
<td>354</td>
<td>170</td>
<td>84</td>
<td>516</td>
</tr>
<tr>
<td><strong>Total Arab League</strong></td>
<td>2,400</td>
<td>4,341</td>
<td>3,896</td>
<td>4,908</td>
<td>4,690</td>
</tr>
<tr>
<td>Asia</td>
<td>1,481</td>
<td>1,073</td>
<td>595</td>
<td>841</td>
<td>1,130</td>
</tr>
<tr>
<td>United States</td>
<td>507</td>
<td>1,115</td>
<td>1,181</td>
<td>1,137</td>
<td>1,917</td>
</tr>
<tr>
<td>Other American</td>
<td>139</td>
<td>266</td>
<td>266</td>
<td>500</td>
<td>164</td>
</tr>
<tr>
<td>Rest of world</td>
<td>1,556</td>
<td>3,058</td>
<td>3,308</td>
<td>3,841</td>
<td>3,169</td>
</tr>
<tr>
<td><strong>Total imports</strong></td>
<td>11,840</td>
<td>15,672</td>
<td>17,335</td>
<td>18,395</td>
<td>19,840</td>
</tr>
</tbody>
</table>

Source: IBRD, p. 457

*EPU: European Payments Union*
exports, it was of minor importance during 1950-54. Most of Jordan's exports were sold in Lebanon, Syria and later to Iraq. Vegetable exports were increasing rapidly; in 1950 the value of these exports was JD 114,000, while in 1954, it was 848,000 (see Table IX). 37

Exports increased rapidly during the period from 1954 to 1960, however, it was more rapid between 1960 and 1966, and attributed to expansion of the production of phosphate, and some other industrial products, such as cigarettes and vegetable oil. The export of phosphates constituted more than 30 percent of total exports during 1964-66, and agricultural products (basically fruits and vegetables) accounted for 58 percent. Phosphates were mainly exported to India and Yugoslavia, while the agricultural products were exported to other Arab countries. 38

"Of greater importance than the expansion of commodity exports was the growth in the export of services (primarily tourism), remittances from Jordanians working abroad, income from investment abroad, and oil transit fees." 39 Between 1964-66, tourism accounted for 28.9 percent of all foreign currency earnings. On the other hand, commodity exports accounted for 22.8 percent. Moreover, remittances from

37 IBRD, pp. 454-460.
38 Kanovksy, p. 353.
### TABLE IX

**EXPORTS BY COMMODITIES**

<table>
<thead>
<tr>
<th></th>
<th>1950</th>
<th>1951</th>
<th>1952</th>
<th>1953</th>
<th>1954</th>
</tr>
</thead>
<tbody>
<tr>
<td>Animal products</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Wool</td>
<td>221</td>
<td>483</td>
<td>64</td>
<td>48</td>
<td>45</td>
</tr>
<tr>
<td>Hides</td>
<td>29</td>
<td>69</td>
<td>71</td>
<td>66</td>
<td>42</td>
</tr>
<tr>
<td>Other</td>
<td>15</td>
<td>29</td>
<td>14</td>
<td>16</td>
<td>38</td>
</tr>
<tr>
<td>Vegetables</td>
<td>114</td>
<td>182</td>
<td>440</td>
<td>632</td>
<td>848</td>
</tr>
<tr>
<td>Tomatoes</td>
<td></td>
<td></td>
<td>85</td>
<td>197</td>
<td>266</td>
</tr>
<tr>
<td>Cucurbits</td>
<td></td>
<td></td>
<td>147</td>
<td>161</td>
<td>188</td>
</tr>
<tr>
<td>Lentils</td>
<td></td>
<td></td>
<td>52</td>
<td>90</td>
<td>121</td>
</tr>
<tr>
<td>Other</td>
<td></td>
<td></td>
<td>156</td>
<td>174</td>
<td>273</td>
</tr>
<tr>
<td>Fruit</td>
<td>n.a.</td>
<td>82</td>
<td>94</td>
<td>132</td>
<td>134</td>
</tr>
<tr>
<td>Bananas</td>
<td></td>
<td></td>
<td>63</td>
<td>93</td>
<td>60</td>
</tr>
<tr>
<td>Other</td>
<td></td>
<td></td>
<td>31</td>
<td>39</td>
<td>74</td>
</tr>
<tr>
<td>Crops</td>
<td>n.a.</td>
<td>--</td>
<td>254</td>
<td>137</td>
<td>501</td>
</tr>
<tr>
<td>Wheat and flour</td>
<td>271</td>
<td>--</td>
<td>66</td>
<td>4</td>
<td>71</td>
</tr>
<tr>
<td>Barley</td>
<td>120</td>
<td>--</td>
<td>140</td>
<td>1</td>
<td>147</td>
</tr>
<tr>
<td>Sesame</td>
<td>n.a.</td>
<td></td>
<td>35</td>
<td>122</td>
<td>142</td>
</tr>
<tr>
<td>Other</td>
<td>n.a.</td>
<td></td>
<td>13</td>
<td>10</td>
<td>141</td>
</tr>
<tr>
<td>Olive oil</td>
<td>n.a.</td>
<td>28</td>
<td>190</td>
<td>627</td>
<td>547</td>
</tr>
<tr>
<td>Raw phosphate</td>
<td>n.a.</td>
<td>7</td>
<td>25</td>
<td>50</td>
<td>51</td>
</tr>
<tr>
<td>Other</td>
<td>n.a.</td>
<td>161</td>
<td>128</td>
<td>202</td>
<td>228</td>
</tr>
<tr>
<td><strong>Total domestic exports</strong></td>
<td>1,537</td>
<td>1,041</td>
<td>1,280</td>
<td>1,900</td>
<td>2,434</td>
</tr>
<tr>
<td><strong>Re-exports</strong></td>
<td>35</td>
<td>413</td>
<td>253</td>
<td>198</td>
<td>390</td>
</tr>
<tr>
<td><strong>Grand total</strong></td>
<td>1,572</td>
<td>1,454</td>
<td>1,533</td>
<td>2,098</td>
<td>2,824</td>
</tr>
</tbody>
</table>

Source: IBRD, p. 458.
citizens working mainly in oil rich Arab states accounted for 26.9 percent. However, from 1964-66 exports of all goods and services constituted more than 50.8 percent of all foreign currency receipts.

The increasing importance of tourism and remittances decreased the annual fluctuations in foreign trade during the 1960s. 40

Labour Force

During the early 1950s it was hard to estimate the size of the labour force for the following reasons:

1. the existence of a large community of refugees who received free governmental payments;

2. the inability of the economy to provide jobs to all who were looking to be employed; and

3. the irregularity and seasonability of employment for those who were neither fully employed nor totally unemployed. The IBRD Mission report estimated the labour force to be 25 percent of the population of whom 23.8 percent was male and 1.2 percent female (working age was considered to be between 15 and 65 years old). In 1953, the IBRD estimated the number of working refugees to be between 71,000 and 80,000 which accounted for no more than 15 percent of the total labour force.

40 Ibid, p. 35.
In 1955, the IBRD divided the total labour force (excluding women in agriculture) as shown in the following table:

<table>
<thead>
<tr>
<th></th>
<th>Total Work Force in Employment, 1955</th>
</tr>
</thead>
<tbody>
<tr>
<td>Public sector</td>
<td></td>
</tr>
<tr>
<td>Urban enterprises</td>
<td></td>
</tr>
<tr>
<td>Total urban</td>
<td>114,000</td>
</tr>
<tr>
<td>Agriculture</td>
<td>195,000</td>
</tr>
<tr>
<td>Refugees without occupation</td>
<td>61,000</td>
</tr>
<tr>
<td>Total</td>
<td>370,000</td>
</tr>
</tbody>
</table>


However, in his book "The Economies of the Arab World," Yusif A. Sayigh considered this above distribution to be vague, broad and not realistic because it assumed that all non-refugees were employed. The first reliable information about labour force was in the 1961 population census. According to this census, 390,000 was the active labour force, of whom 57 percent were in commodity-producing sectors while 43 percent in service producing sectors. There were about 27,300, or 7 percent of the labour force seeking employment. Even though the 1955 and 1961 census were not very precise in estimating the unemployment rate, there is

41 Sayiah, pp. 205-206.
little doubt that economic growth produced a large increase in employment during the same period.\textsuperscript{42}

Direct evidence on the change in employment and unemployment between 1961 and the June War is even less adequate than for 1955-61. Data gathered for Amman\textsuperscript{43} suggests a declining rate of unemployment in the capital and largest city of Jordan may be a poor indicator of trends in the country as a whole. Another indicator of diminishing unemployment during the 1961-66 period is the marked rise in the wage of unskilled labour which took place.

In the 1960s, a sample survey was conducted to estimate the residents of Amman's refugee camps who had been excluded from the rest of the population. The survey showed that the unemployment rate amongst adult males in and off camps was 10 and 15 percent respectively.\textsuperscript{45} These numbers show again that Jordan experienced a high growth in the 1950s which reduced the refugee unemployment.\textsuperscript{46}

The Seven Year Development Plan of 1964-1970

In 1952, Jordan established a Development Board to carry out the following objectives: 1. establishing

\textsuperscript{42} Mazur, p. 30.

\textsuperscript{43} Amman is the Jordanian capital city.

\textsuperscript{44} Mazur, p. 30.

\textsuperscript{45} Calculated from figures in Ministry of Local Affairs, pp. 89, 95, 97, 103. The figures cover males 15-60 (plus a few males over 60 actively seeking work). The unemployed are here taken to be both those actively seeking work and those reporting that they did not wish to work.

\textsuperscript{46} Mazur, p. 32.
development plans and, 2. supervising the investment loans from the United Kingdom. In 1972, the Board was replaced by the National Planning Council which had higher governmental authority.47

The first development plan was the five-year plan covering the 1962-67 period.48 The total value of expenditures as shown by Table XI was JD 127.3 million or an average of JD 25.5 million per annum. The major objectives of the Plan, listed in their order of priority were as follows: 1. Increase in national income; 2. decrease unemployment rate; and 3. reduction of balance of payment deficit. In 1962 the government requested the Board to change the order of the different objectives to be as follows: 1. decreasing the dependence on foreign aid by reducing the balance of payments deficit; 2. increasing per capital income; and 3. raising job opportunities.49 "The strategy of the plan was to be based on the basic sectors of agriculture (especially the development of water resources and irrigation); mining; tourism; manufacturing industry; and on supporting services such as education, health, transport, communications and housing."50

47 Sayigh, p. 219.
49 Sayigh, p. 220.
50 Ibid., p. 220.
<table>
<thead>
<tr>
<th></th>
<th>JD million</th>
<th>Percent of Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agriculture</td>
<td>40.3</td>
<td>31.7</td>
</tr>
<tr>
<td>Industry</td>
<td>22.8</td>
<td>17.9</td>
</tr>
<tr>
<td>Tourism</td>
<td>6.4</td>
<td>5.0</td>
</tr>
<tr>
<td>Construction and public</td>
<td>19.9</td>
<td>15.6</td>
</tr>
<tr>
<td>Transport</td>
<td>13.2</td>
<td>10.4</td>
</tr>
<tr>
<td>Communication</td>
<td>4.2</td>
<td>3.3</td>
</tr>
<tr>
<td>Public services (education, health, social affairs)</td>
<td>10.3</td>
<td>8.1</td>
</tr>
<tr>
<td>Municipalities</td>
<td>7.3</td>
<td>5.7</td>
</tr>
<tr>
<td>Trade and services</td>
<td>2.0</td>
<td>1.6</td>
</tr>
<tr>
<td>Other (government administration, statistics, fiscal programme)</td>
<td>0.8</td>
<td>0.6</td>
</tr>
<tr>
<td><strong>Total (rounded)</strong></td>
<td><strong>127.3</strong></td>
<td><strong>100.0</strong></td>
</tr>
</tbody>
</table>

Throughout the 1964-67 period, the plan was working according to its priorities, i.e., the reduction of the balance of payments deficit on current account, and the increase of per capita income. However, the weakest performance was in decreasing the unemployment rate, especially after the Israeli aggression of 1967 when the number of refugees increased by more than 300,000 persons.\textsuperscript{51}

Quantitatively, the plan aimed at encouraging investment projects. The average annual level of investment was JD 17.4 million during the 1961-63 period. While the projected rate of investment was JD 39.2 million. This shortfall was attributed to the limited size of the market (because of the small population and low incomes), the inability to compete in foreign markets and the lack of entrepreneurs, skilled and technical people.\textsuperscript{52}

In order for Jordan to eliminate the balance of payments deficit, it had to restrict private consumption to 4 percent per annum, and public consumption to 3.3 percent per annum. By doing that the country would raise the domestic resources available for investment projects and decrease the large dependence on foreign aid for development and growth. Moreover, the decrease in consumption would decrease the growth of imports, while efforts were supposed to be made to increase exports by 16.5 percent annually.

\textsuperscript{51}Sayigh, p. 221.

\textsuperscript{52}Kanovsky, p. 375.
This rate was achieved during the first three years of the plan 1964-66. The import deficit did not show any decrease, on the contrary, it increased by an average annual rate of 3 percent.\textsuperscript{53}

The planners had projected that net factor income from abroad would rise slowly from JD 8.6 million in 1963 (the base year) to JD 11.1 million in 1970 (the final year of the plan). In reality, it reached JD 15.2 million in 1966. This compares with the JD 32.1 million derived from the export of goods and services in 1966. The unusually large increase in this item in the Jordanian balance of payments is accounted for mainly by the large increase in the remittance from Jordanians working abroad, reflecting rising emigration. Also noteworthy is the sharp increase in income from investment abroad, from JD 1.1 million in 1963 to JD 3.6 million in 1966. This income is derived from interest paid on Jordanian deposits of reserves in foreign banks, mainly in London.\textsuperscript{54}

Although exports were increasing at a remarkable rate during the 1964-66 period, imports of consumer, capital goods, and military equipment were increasing excessively. While the import of capital goods and raw materials would reflect the development efforts of the country, the increase in consumer imports may be due to the high population growth rate, and the failure to decrease private consumption and to stimulate an import substitution strategy.

Throughout the 1960-63 period, private consumption expenditures increased at an average annual rate of 9.7 percent, while between 1963 and 1966 the average annual rate

\textsuperscript{53}Ibid., p. 381.

\textsuperscript{54}Ibid., p. 380-381.
was 8.6 percent. While this might appear to reflect a slight improvement, it exceeded the planned rate of 4 percent.

This rapid increase in consumption expenditures (for domestic and foreign products) meant a higher dependence on foreign aid to finance investment.55

55 Ibid., pp. 381-382.
CHAPTER IV
THE ECONOMIC IMPACT OF THE 1967 WAR

The Refugees

The Arab Israeli conflict of 1967 caused tremendous economic problems for Jordan. The loss of the West Bank deprived Jordan of some of its important economic resources, and the influx of about 400,000 refugees\(^1\) who crossed the Jordan River to the East Bank of Jordan increased the population by about 25 percent.\(^2\)

This influx of refugees caused a significant decrease in average per capita GNP on the East bank—mainly caused by too many people being thrown onto very limited resources (both capital and natural).\(^3\) Emergency programs had to be established in the fields of health, education, housing, security, food, electricity and water to help those refugees live until the situation improved. Most of the direct support for the refugees came in the form of cash grants by foreign governments and agencies which amounted to $59 million within the first few months following the war, in addition to 40 million in annual aid from Arab countries.


(Kuwait, Saudi Arabia, and Libya) following the Khartoum conference of the Arab countries.

The detrimental impact of the 1967 War can be traced to the maintenance of security, which hindered rapid economic development and growth and aggravated the rising level of unemployment\textsuperscript{4} Jordan had to offer new employment opportunities, not only for the refugees, but also for some of the West Bank's permanent residents, especially those whose employment was closely bound to those Palestinian areas that came under Israeli control.\textsuperscript{5}

The direct and indirect effects of the influx of the 400,000 refugees from the West Bank to the East Bank are summarized as follows:

1. Need for greater amounts of food, shelter, health care and clothing,

2. Labour-Market pressures: The increase of labour supply which accompanied poor job opportunities, and

3. The unfavourable effects on business confidence, which caused a reluctance in investment.

However, there were many inverse consequences of the Six-Day War that we will explain later.

\textsuperscript{4}Kanovsky, pp. 397-399.

The Military Cost

Expenditures for military and security purposes constituted a heavy burden on the government budget and forced them to shift a large part of its revenue from investments in more productive services. Thus money previously allocated for development projects had to be used for military purposes. 6

As a result of the 1967 War, the Jordanian army was defeated and lost most of its weapons and equipment, which was estimated to be worth $150-200 million. Jordan's main suppliers of military equipment were Great Britain and the United States. These expenditures were covered by special grants from Kuwaite, Saudi Arabia, Libya, and the United Arab Emirate. The first three were providing JD 15 million per year. In addition, Saudi Arabia promised, as a special grant, of $36 million to buy British arms. Libya had provided Jordan an additional grant in October, 1968 for purchases of military equipment. 7 "Defense expenditures (including public security) rose moderately before the war, from JD 21 million in 1964 to JD 23 million in 1966. In relation to total government expenditures (including development), there was a decline from over 50 percent in 1964 to 43 percent in 1966." 8 In comparison these

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7 Kanovsky, pp. 388-389.
8 Ibid., p. 389.
expenditures rose sharply after the war. In 1968 defense expenditures increased to JD 39.4 million, or 49 percent of total government spending. In 1969 the defense expenditures experienced a further increase to JD 43.5 million.

As a result of the 1967 War and the continued hostilities after June, great losses were also inflicted upon the civilian economy. These losses were due partly to the damage and destruction to non-military buildings and equipment during the war. For example, the Amman airport was bombed and some public buildings were damaged. A more serious consequence of the continued hostilities has been the effect on farm activities in the Jordan valley in which losses were estimated at $25 million for 1968.

Total cost estimates were either unavailable or contradictory. However, the indirect losses (i.e., by how much more the economy could have grown in the absence of hostilities) were probably of greater importance.9

Gross National Product

As we noticed earlier, the average annual rate of growth in GNP at market prices was 9.1 percent between 1962 and 1966 which was considered to be one of the highest in the world at that time.10 As a result of the Six Day War, GNP did not reach its pre-1967 level until 1975-76--with

10 Ibid., pp. 1-2.
different land, resource, and population base. A sectoral analysis of the Jordanian economy shows the following:

Agriculture

Dryland Crop Production.--The most important rain-fed crop product is wheat. Barley is also another important crop that grows in the more arid areas. Two or three year crop rotations are widespread and commonly involve wheat, lentils and a summer crop, such as watermelons. Fruit and olive trees were replacing crops in the hills where land was eroded, steep and stony. Since wheat in Jordan is the most important crop, and accounts for 60 percent of the total value of dryland crop production, the government concentrated on its development after the 1967 period. The East Bank average annual wheat-cultivated area for the period 1967-1971 was 2.1 million dunums which was more than 33 percent of the cultivated land. Average annual production of wheat for the same period was 134,000 tons, while average consumption was 246,000 tons, which shows a deficit of 112,000 tons, valued at JD 3.3 million or 20 percent of total agricultural imports.

12Mazur, pp. 157-158.
Jordan suffered stagnation in its dryland crop production in the post-war period which was an extension of the stagnation which occurred before the war when grain production and growth were negligible for almost a decade. However, the post-war stagnation was difficult to understand due to intensified government efforts and help from assistance agencies in this area during the mid-1960s. These efforts were undoubtedly hampered by the 1967 War and they were not resumed completely until 1969. Lack of new technologies was the main drawback that hindered any attempt to develop dryland production. This includes improved seed varieties, increased water supplies, and new inputs such as chemical fertilizers. There were several possible reasons why the adoption of new technology was so limited: 1. The newer technologies were not appropriate to meet the Jordanian dryland needs and the existing technologies were too costly. The best technology used in LDCs agriculture was the so-called "Green Revolution" plant varieties, was not appropriate since it requires great water supply. However even if these technologies were adapted, they could not be productive in Jordan to justify their cost, especially because of the extremely and character of much of the rainfed land; or 2. efficient new technologies appropriate to Jordanian agriculture existed, but were not adopted because (a) the low human capital (e.g., lack of education) of Jordan's dryland farmers; and (b) low diffusion of
technology (farm input suppliers, agricultural cooperatives).

It is hard to say conclusively that the war made any tangible difference to the dryland crop production; however, there is no doubt that progress could have been made with more financial resources which, during and after the 1967 War, were mainly devoted to defense.

**Irrigated Land Production.**—The irrigated land is mainly concentrated in the Jordan Valley, and is due to the close proximity of the East Ghor Canal. In 1967 there were three sample surveys prepared to study the agricultural base in the Jordan Valley, it concluded that this area was far more advanced than the arid area. This was mainly due to the greater use of modern growing methods such as chemical fertilizers and imported certified vegetable seeds. Vegetables, especially tomatoes, predominated, however, 30 percent of the area grew wheat for home consumption.

The incidence of the 1967 War hindered the completion of the East Ghor Canal project, the cost of this canal was estimated in 1957 to be $18 million and the U. S. government donated $13 million of the total. This canal was part of

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14 The Jordan Valley is one of the most important areas of the kingdom from the point of view of being endowed with natural qualities (land resources, water resources, and a temperate climate) which are highly conducive to expansion and diversification.
the Yarmouk project designed to produce electricity and increase the irrigated land in the Jordan Valley area. The other components of the Yarmouk project were: (1) providing water for irrigation and hydroelectric power by constructing two dams and two plants on the Yarmouk River, (2) extending the existing East Ghor Canal 40 kilometers southward to the Dead Sea; (3) the construction of seven new dams to regulate the seasonal flow of seven perennial streams flowing into the Jordan Valley from the east; and (4) land improvement and construction of lateral canals and flood protection.

The 1967 Arab-Israeli War disrupted the progress of the Yarmouk project. In addition, agricultural output declined during the War due to the damage to the East Ghor Canal and the flight of farmers from the Jordan Valley to the Central Plateau. Only the construction of three dams to regulate the flow of perennial streams, and construction of the sides of the East Ghor Canal were completed by 1968. The Israeli occupation of Syrian land to the north of Jordan on the opposite bank of the Yarmouk River hindered the construction of the Khalid Ibn El-Walid Dam which was one of the two proposed Yarmouk River Dams.15

After the 1967 War the East Jordan Valley (EJV) was increasingly used by the growing Palestinian cammando movement. Israeli reprisal attacks and shelling seriously damaged the East Ghor Canal and destroyed buildings and fruit trees. Agricultural activities in the EJV greatly diminished as most of the population sought refuge in the highland of the East Bank.16

15Mazur, pp. 158-179. 16Ibid., p. 179.
The effect of these attacks were two-fold, by damaging projects underway and by hindering a continuation of the pre-war high growth rate. Not until mid-1971 did the citizens of the EJV begin to return to their homes. In 1973 the population of the EJV reached 64,000, which was slightly below its level of 1967.17

Industry and Mining

During the 1967-71 period, the industrial sector exhibited little overall development. However, the recession that followed the defeat of the Jordanian army was followed by a recovery in 1968-69, then hindered again by civil war in 1970-71, with a recovery starting in 1971. In 1971 the industrial production in the East Bank, in constant prices was not much different from its 1966 level.18

The immediate impact of the 1967 War on East Bank manufacturing was the loss of the West Bank market.19 "The imposition of high Israeli tariffs on West Bank imports from the East Bank, plus the elimination of barriers to trade in manufacturing between Israel and the West Bank, both diverted West Bank purchases of manufacturing away from the East Bank toward sources in Israel."20 However, the major foreign exchange earning mining activity was phosphate, and it did not depend on the market of the West Bank. Therefore

17 Ibid., p. 179  18 Ibid., p. 212.
it resumed its growth, recording the levels of production shown in Table XII.

| TABLE XII |
| MAJOR INDUSTRIAL PRODUCTS |

<table>
<thead>
<tr>
<th>Industrial Product</th>
<th>1966</th>
<th>1967</th>
<th>1968</th>
</tr>
</thead>
<tbody>
<tr>
<td>Phosphate</td>
<td>1,001*</td>
<td>1,237</td>
<td>1,591</td>
</tr>
<tr>
<td>Cement</td>
<td>375</td>
<td>289</td>
<td>376</td>
</tr>
<tr>
<td>Petroleum Products</td>
<td>430</td>
<td>393</td>
<td>393</td>
</tr>
<tr>
<td>Spirits, Alcoholic Drinks</td>
<td>2,321</td>
<td>1,911</td>
<td>2,189</td>
</tr>
<tr>
<td>Leather</td>
<td>2,354</td>
<td>1,671</td>
<td>1,678</td>
</tr>
<tr>
<td>Textiles</td>
<td>370</td>
<td>443</td>
<td>486</td>
</tr>
</tbody>
</table>

*in one thousand tons.  

The fall in the production of cement in 1967 was due to both a slump in the construction sector, whose average annual growth rate was only 3.5 percent due to the migration of many of the West Bank citizens to the East Bank and other Arab countries after the war, and the loss of the West Bank Markets. However, cement production accelerated in 1968 to reach the same level of 1966.

The Central Bank of Jordan's report for the first quarter of 1969 states, "The quarterly overall level of (industrial) production recorded a remarkable 27 percent

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20 Mazur, p. 213.  
21 Kanovsky, p. 433.  
22 National Planning Council, p. 6.
increase when compared with the corresponding quarter in 1968. Most of the industrial institutions (establishments) have contributed to this impressive stride that brought industrial production fairly close to a normal pre-war growth pattern.\textsuperscript{23} Furthermore, the rapid increase in industrial exports added strength to the expansion of this sector, for example, the value of phosphate exports increased from JD 2,364,000 in 1964 to JD 3,127,000 in 1966 and finally to JD 4,212,000 in 1968 (see Table XIII).

Although the private sector was reluctant to invest either to establish new industries or expand existing ones, the government was trying to stimulate private investment in various industries such as ceramics and glass, housewares, sugar, power and pharmaceuticals.

At the end of 1967 an agreement was signed with Denmark providing for financial and technical aid in the construction of a number of agriculture based industries, including a slaughterhouse, a compost plant, a dairy plant, cold storage facilities, and various food processing plants. The petroleum refinery ordered an oil refining plant from a Japanese firm, with a view towards making the country self-sufficient in refined oil products by 1971. In February, 1969, new port installations were completed at Aqaba, including a power station and large warehouses for phosphates.\textsuperscript{24}

From the above, we can see that the government with the help of international aid put remarkable efforts into stimulating industrial investment in order to overcome the stagnation state that followed the 1967 war. In mid-1969, a

\textsuperscript{23}Kanovsky, p. 408. \hspace{1cm} \textsuperscript{24}Kanovsky, p. 408.
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<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Exports</td>
<td>7,012</td>
<td>7,753</td>
<td>8,759</td>
<td>9,984</td>
<td>12,172</td>
<td>5,742</td>
<td>5,774</td>
</tr>
<tr>
<td>Total Foodstuffs</td>
<td>3,228</td>
<td>3,963</td>
<td>4,116</td>
<td>4,884</td>
<td>5,777</td>
<td>3,020</td>
<td>2,620</td>
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<tr>
<td>Tomatoes</td>
<td>1,132</td>
<td>839</td>
<td>1,923</td>
<td>1,758</td>
<td>2,267</td>
<td>1,558</td>
<td>1,308</td>
</tr>
<tr>
<td>Phosphates</td>
<td>2,364</td>
<td>2,430</td>
<td>3,127</td>
<td>3,476</td>
<td>4,212</td>
<td>1,758</td>
<td>1,778</td>
</tr>
<tr>
<td>Cigarettes</td>
<td>592</td>
<td>415</td>
<td>323</td>
<td>663</td>
<td>536</td>
<td>280</td>
<td>321</td>
</tr>
<tr>
<td>Cement</td>
<td>70</td>
<td>67</td>
<td>61</td>
<td>62</td>
<td>419</td>
<td>55</td>
<td>213</td>
</tr>
<tr>
<td>Batteries</td>
<td>32</td>
<td>123</td>
<td>214</td>
<td>140</td>
<td>168</td>
<td>68</td>
<td>135</td>
</tr>
<tr>
<td>Total Imports</td>
<td>50,348</td>
<td>56,052</td>
<td>68,211</td>
<td>55,048</td>
<td>57,492</td>
<td>26,374</td>
<td>31,234</td>
</tr>
<tr>
<td>Foodstuffs</td>
<td>14,241</td>
<td>14,974</td>
<td>18,202</td>
<td>14,097</td>
<td>16,238</td>
<td>5,986</td>
<td>7,064</td>
</tr>
<tr>
<td>Nondurable</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Consumer Goods</td>
<td>9,098</td>
<td>10,208</td>
<td>10,785</td>
<td>7,889</td>
<td>9,264</td>
<td>3,132</td>
<td>3,709</td>
</tr>
<tr>
<td>Durable Consumer Goods</td>
<td>1,914</td>
<td>2,024</td>
<td>2,346</td>
<td>1,884</td>
<td>2,104</td>
<td>323</td>
<td>381</td>
</tr>
<tr>
<td>Oil, Fuels</td>
<td>2,753</td>
<td>3,243</td>
<td>3,425</td>
<td>2,987</td>
<td>3,217</td>
<td>1,575</td>
<td>1,769</td>
</tr>
<tr>
<td>Other Raw</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Materials</td>
<td>6,829</td>
<td>8,507</td>
<td>11,271</td>
<td>10,735</td>
<td>8,996</td>
<td>2,963</td>
<td>4,798</td>
</tr>
<tr>
<td>Capital Goods</td>
<td>12,605</td>
<td>12,569</td>
<td>15,100</td>
<td>14,774</td>
<td>13,922</td>
<td>4,794</td>
<td>6,228</td>
</tr>
</tbody>
</table>


Note: Export of foodstuffs includes olive oil. Tomato exports include some sales of tomato juice.
report from the U. S. Embassy in Jordan stated that the oil refinery was doubling its capacity, the soft drink company tripled its production, a dairy plant was opened, and the improvement of plastics manufacturing by adding new facilities to make storage batteries and furniture (considering 1966 as the base year). In 1965, Jordan established the Industrial Development Bank which provided long-term investment financing for the industrial, tourist sectors, and encourage the expansion of the business sector. This bank is a semiautonomous agency with governmental and private participation in its capital.\textsuperscript{25} The amount of loans that this bank offered during the latter half of 1968 was JD 279,000, whereas during the corresponding period in 1966 the value was JD 249,000. During the first half of 1969, the loans paid out were JD 265,000, as compared with JD 235,000 during the first half of 1966.\textsuperscript{26}

**Tourism**

Although tourism is an industry, its separation from the industrial sector in this sequence is due to its importance as the best single earner of foreign exchange in the Jordanian economy. The tourist industry was the worst hit by the 1967 War and the number of tourists showed a

\textsuperscript{25} Kanovsky, p. 409.

marked decline from its pre-war level due to the fact that most of the holy places were located on the West Bank. It was estimated by the Central Bank of Jordan that the number of tourists in 1968 was 12 percent less than that of 1967, and 39 percent less than 1966. In 1968, revenue from tourism declined by 32 percent from 1967, and 59 percent from 1966.27

There is little indication that tourism revenues will be restored to its pre-war level, as long as the future of the West Bank remains obscure; and any future settlements will pose many questions as to the share of Jordan in tourism.28

Other Economic Factors

There was no significant change in the transportation sector after the war, except for the amount of goods that the port of Aqaba handled. During the 1966-69 period, the tonnage decreased from 1.2 million to 743,549 tons due to the Israeli occupation of the West Bank.29

As we noticed earlier, the average annual growth rate of the GNP decreased significantly to only 3.8 percent after the 1967 War. Between 1967 and 1971 the annual growth rates of various sectors decreased to the following levels:

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28 Sayigh, p. 218.
Agriculture, -1.5 percent; Industry, Mining, Electricity and Water Supply, 5.2 percent; Construction, 3.5 percent; Services, 5.0 percent.

Defense expenditures grew rapidly, curtailing initial development allocations. 30

Trade Balance

Commodity Exports

The loss of the West Bank had little effect on the steady growth of exports. The continuing growth could be attributed to the fact that most of the export oriented industries and export potential crops were in the East Bank, coupled with the presence of the port of Aqaba in the East Bank. However, the closure of the Suez Canal resulted in changing the Jordanian routes toward Syria and Lebanon which was costly, and led to the loss of some European markets. 31

Domestic commodity exports increased by 10.6 percent in 1965, 13 percent in 1966, 14 percent in 1967 and jumped to 21.9 percent in 1968. This latter increase could be attributed to exports of tomatoes totaling 57 percent of the increase in 1968. Food exports declined in 1969 reflecting a year of mild drought (see Table XIII). Other

30 National Planning Council, p. 6.

non-food exports continued to grow steadily, in 1965 by 5.6 percent, and 16.8 percent in 1966. The year 1967 witnessed a fall in the growth of these non-food exports, down to 9.8 percent due to the state of uncertainty which domestic industry was experiencing during the war. However, in 1968 the pre-war export growth rate was resumed, i.e. to 25.4 percent. The most rapid growth was in the export of cement, batteries and cigarettes.\(^{32}\)

**Commodity Imports**

Prior to the loss of the West Bank, commodity imports decreased from 21.7 percent of GNP in 1966 to 19.3 percent in 1967. Part of this decline could be attributed to a decline in foodstuff imports in a year of good food crops. Total imports declined after the war reflecting uncertainties on behalf of consumers and the business community. Total imports increased by 4.4 percent in 1968, but this rise reflected a 15.2 percent increase in the import of foodstuffs due to a mild drought that year.

Imports of durable consumer goods continued the pre-war growth level of around 11.7 percent until 1968, then increased to 18.4 percent during the first half of 1969 compared with the corresponding period of 1968. Imports of both durable and non-durable consumer goods increased by 18 percent after the war reflecting rising personal income

\(^{32}\)Kanovsky, p. 402.
levels (see Table XIII). Of greater significance is the rise of imports of capital goods to 30 percent in the first half of 1969 compared with the corresponding period in 1968. The imports of raw materials, excluding oil and fuels, rose by 61.9 percent during the same period. The last two indicators show that Jordan was experiencing a period of recovery in 1969. The level of investment in 1969 in the East Bank alone was equal to, or more probably greater than, that in pre-war Jordan.

The Trade Deficit

If we look at Table ..., we notice that the commodity trade deficit showed a decline from JD 59.5 million in 1966 to JD 45.1 million in 1967, then increased to JD 45.3 million in 1968. The decline of the trade deficit could be attributed to a smaller population in Jordan coupled with a year of good agricultural crops. However, the relatively small deficit in 1968 can also be attributed to a rise in the export of industrial products; (e.g., cement exports increased from a total value of JD 62,000 in 1968 to JD 419,000 in 1968 (see Table XIII), and an increase in the output of irrigated crops.™

Services -- Exports and Imports

In contrast to the improvement in the commodity trade balance after 1968, there was a sharp decline of net

™ Kanovsky, pp. 403-404.
earnings from services. Tourism earnings of foreign exchange declined to JD 6.18 million in 1967 and JD 4.6 million in 1968, compared with JD 11.3 million in 1966.34 Also, due to the financial uncertainty created by the war, remittances from Jordanians working abroad to their families, was the second activity to be hardest hit. Foreign exchange earnings from remittances declined from about JD 13 million in 1966 to about JD 5 million in 1971.35

Another category of services to be affected by the 1967 War were oil transit dues which dropped from JD 1.4 million to 1966 to 1.1 million in 1967 due to a decrease in Arab oil shipments to a number of western countries during the first few months after the war.

Investment income (interest payments on the Central Bank's holdings of foreign exchanges invested abroad, mostly in Europe) witnessed an increase from JD 317 million in 1966 to JD 4.5 million in 1967 and JD 5.9 million in 1968. This could be attributed to the ability of the Jordanian government to divert part of the Arab grants to Central Bank holdings.36

34Ibid., pp. 404-405.
36Kanovsky, p. 404.
The Balance of Payments

The deficit was fluctuating before the war as a result of several factors, including crop yields, the level of investment and personal income. The trade deficit (commodities) had been partially offset by services exports, basically tourism, remittances, and investment income. Foreign exchange declined from JD 43.1 million in 1966 to JD 35.9 million in 1967 and JD 32.1 million in 1968. Although, during the first half of 1969 foreign currency earnings (receipts from the export of goods and services) were 31.5 percent higher than during the first half of 1968, they were still 10.1 percent below their 1966 peak.

In summing up the balance of goods and services, we find that the net deficit of goods and services declined from JD 35.6 million in 1966 to JD 27.8 million in 1967. This improvement was offset by a sharp decrease in wheat production in 1968 due to the drought which resulted in a trade deficit of JD 44.4 million. However, this deficit was offset by JD 20.4 million in transfer payments from other arab countries. Thus we see that the foreign exchange holdings of the Central Bank of Jordan increased from JD 69.8 million by the end of 1966 to JD 109.4 million in 1968 (see Table XIV). 37

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37 Kanovsky, pp. 405-406; also Charles A. Cooper and Sidney S. Alexander, Economic Development and Population Growth in the Middle East, p. 238.
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<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Exports (FOB)</td>
<td>4.0</td>
<td>5.3</td>
<td>5.9</td>
<td>6.6</td>
<td>8.7</td>
<td>9.9</td>
<td>10.4</td>
<td>11.3</td>
<td>14.3</td>
<td>7.0</td>
</tr>
<tr>
<td>Imports (CIF)</td>
<td>42.8</td>
<td>41.7</td>
<td>44.9</td>
<td>53.6</td>
<td>49.4</td>
<td>55.8</td>
<td>67.3</td>
<td>54.2</td>
<td>57.3</td>
<td>26.3</td>
</tr>
<tr>
<td>Trade Deficit</td>
<td>38.8</td>
<td>36.5</td>
<td>39.0</td>
<td>47.1</td>
<td>40.7</td>
<td>45.9</td>
<td>56.9</td>
<td>42.9</td>
<td>43.0</td>
<td>19.3</td>
</tr>
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<td>Travel Receipts</td>
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<td>69.8</td>
<td>94.5</td>
<td>109.4</td>
<td>104.8</td>
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</table>

The Budget

Indirect taxes constitute the major component of domestic revenues in Jordan, and includes income from the services of the post office, telephones and telegraph (owned and operated by the government); transit dues from the Arabian-American Oil Company; investment income on Central Bank holdings of foreign exchange; and rental income from government owned land and buildings. During the last seven months of 1967, domestic revenues declined by 32 percent below their level in the corresponding period of 1966. This decline was mainly attributed to the loss of the West Bank and partially to the devaluation of the pound Sterling, in November, 1967. [The Central Bank of Jordan's loss (i.e. the revaluation of its assets held in Sterling) was JD 6.4 million or $18 million.] In the 1968 proposed budget, the Jordanian government, pessimistically, underestimated the volume of domestic revenues and anticipated that domestic revenues would total JD 18.5 million. Actual domestic revenues were JD 26.3 million of which 72.7 percent was tax receipts.

The Jordanian economy continued its rapid uptrend and domestic revenues increased by 20.8 percent during the first half of 1969 over their level during the corresponding period in 1968. Foreign aid (which has already been discussed) increased sharply after the 1967 reflecting new grants for budgetary support by Arab countries following the
Khartoum Conference. On the expenditure side, whether for military purposes or economic development, there was a sharp increase reflecting the necessity to rebuild the armed forces and invest heavily in the East Bank of Jordan to make up for the loss of economic activities in the West Bank. Military expenditures increased from JD 22.8 million in 1966 to JD 28.6 million in 1967 and to JD 39.4 million in 1968. This rise in military expenditure continued throughout the years after the war and were 27.4 percent higher in 1969 compared to their level in 1968.

In spite of the war and the severance of the West Bank, expenditures on economic development increased sharply to JD 23.5 million in 1967, JD 23.3 million in 1968 and were 22.8 percent higher in 1969 over the 1968 level. This increase shows that the Jordanian government resumed its development projects in the East Bank after the war, at almost twice its pre-war level for the whole kingdom (see Table XV).

In spite of the increasing military and economic development expenditures, net inflow of foreign aid helped the Jordanian budget realize a surplus of JD 2.3 million in 1967. In 1968 there was a deficit of JD 8.6 million. Although the level of foreign aid (grants plus loans) in the first half of 1969 was below that of the corresponding period in 1968, there was a surplus of JD 438,000 during the first half of 1969 as compared with a deficit of JD 1,554,000 during the corresponding period of 1968. This
### TABLE XV

**CENTRAL GOVERNMENT BUDGETS, 1962/63-1969**

(in thousands of dinars)

<table>
<thead>
<tr>
<th></th>
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<td>17,242</td>
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<td>19,379</td>
<td>23,828</td>
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<td>25,497</td>
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<td>Total Revenues (actual)</td>
<td>38,854</td>
<td>36,616</td>
<td>46,211</td>
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<td>70,417</td>
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<td></td>
<td></td>
</tr>
<tr>
<td>Total (projected)</td>
<td>39,241</td>
<td>43,535</td>
<td>47,548</td>
<td>58,522</td>
<td>52,111</td>
<td>69,030</td>
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<tr>
<td>Total (actual)</td>
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<td>39,347</td>
<td>43,623</td>
<td>46,988</td>
<td>38,600</td>
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<td>Recurrent Expenditures (projected)</td>
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<td>Development Expenditures (actual)</td>
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<td>11,178</td>
<td>10,293</td>
<td>23,496</td>
<td>23,334</td>
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<td>5,120</td>
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</table>

reflects the uptrend in activities that Jordan's economy experienced during 1969 (see Table XV). 38

The Civil Disturbances

After the Arab set-back in 1967 an increasing number of Palestinian commandoes began to reside on the East Bank of Jordan. They were there with the purpose of resisting, by force, the occupying forces of the West Bank, and this led to increasing Israeli raids on the East Bank.

By September 1970 the situation had deteriorated to such an extent that the internal security and law enforcement of Jordan became threatened. As a consequence, Jordanian government forces clashed with the Palestinian groups. 39 These clashes resulted in the retreat of economic activities in all sectors for over two months with the following consequences:

1. A large percentage of the GNP was lost.
2. Damages to private and public sectors were estimated at JD 16 million.
3. The suspension of financial assistance by Kuwait and Libya which was pledged by the Arab Summit conference in Khartoum in August, 1967 and amounted to JD 23 million.


4. The East Ghor Canal was damaged by the continuous Israeli raids resulting in a difficult situation for farmers in the Jordan Valley. They started moving out to the highlands, which resulted in a drop in agricultural production. 40

5. In July, 1971 both Syria and Iraq closed their borders with Jordan and denied air-space for Jordanian carriers. This decision halted the exports of Jordanian agricultural products and rock phosphates to Europe. 41 As a result of the closure to the Suez Canal after the June, 1967 war, prior to 1971, all exports destined for Europe reached their markets via the port of Beirut.

6. Industrial activities ceased completely for at least two months.

The occupation of the West Bank of Jordan as a result of the June, 1967 War, and the consequences of the sad events of the September 1970 civil disturbances hampered economic development in Jordan, and placed the Jordanian economy under heavy requirements facing it with new challenges. This situation, coupled with the low level exploitation of natural resources and fluctuation of foreign aid, forced the government to set forth the Three Year Plan for the years

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1973-75. However, the unknown future of the West Bank of Jordan and the no-war, no peace dilemma, obscured economic planning at that time.\textsuperscript{42}

\textsuperscript{42}National Planning Council, pp. 7-10.
CHAPTER V

THEORY IMPLICATIONS AND CONCLUSION

The purpose of this chapter is to identify the economic development process in Jordan during the fifties and sixties, and their alignment with the schools of development thought discussed in Chapter II.

After studying the subject, it appears that Jordan's economic developmental process centered around the classical theory of development thought which is considered to be the origin of liberalism, and regarded the market system as a tool of harmony in the economic world.

However, since no economy lives in isolation, Jordan's economy had different components from the previously discussed schools of thought. For example, in order to deal with market imperfections, Jordan utilized governmental planning which has been advocated by structuralist analysts and deviates from the classical mold who believed in learning the market free from any government intervention. Also, Jordan's economy has essentially been dualistic in nature due to the existence of two distinct sectors, that is, agriculture and industry.

Despite involvement of both structuralistic and dualistic influences in the Jordanian economic developmental process, the economy remained essentially based on the free enterprise system with the government acting as a partner in
enterprise system with the government acting as a partner in the operation of a number of the countries leading industries.

Following the classical model defined in Chapter II, classicists believed that there is a causation cycle in the economic system which leads either to prosperity or stagnation. To get the system going they believed that technological progress leads to an increase in investment leading to a rise in wages and industrial employment. However, to stimulate technological progress an increase in savings is needed to stimulate investment and thus technological progress. Jordan's reliance on foreign aid to stimulate gross domestic investment decreased through the 1959-66 period reflecting a need for greater domestic savings. Gross domestic savings devoted for investment could have been more without the heavy defense burden and the budget deficit. However, the deficit was decreasing during this period, due to lower defense expenditures leaving more savings for investment purposes, in addition to the savings that came about by the refugees.¹

The influx of Palestinian refugees in 1948 constituted an influx of human capital which led later to technological progress because they were more educated for the following reasons:

... a more settled population, the possession of Jerusalem, not only economic but also an intellectual and cultural assets, drawing pilgrims and missionaries to the area, ... and more active and extensive British activity in the area under the mandate.²

Despite the flow of new ideas to the country, there were adverse effects, such as prevailing high unemployment which required a small number of workers to support a large consuming population; and lack of capital. However, in the long-run, the market readjusted to the new situation mainly as a result of a large amount of external resources received by the government in the form of loans and grants.

Since 1949, the Jordanian government borrowed about JD 49 million from the United Kingdom, Kuwait, Saudi Arabia, and West Germany. In September, 1967, the government had repaid nearly half of the value of the loans. As a member of the International Bank for Reconstruction and Development (IBRD - World Bank) and the International Monetary Fund (IMF), Jordan had borrowed from these organizations. Prior to 1958, most aid came from the United Kingdom in the form of grants, and between 1958-1967 most of foreign aid came from the United States also in the form of grants to support the budget.³

The government used part of these funds to stimulate investment which reflect the structuralists theory which allows for government intervention.

After the mid-1950s, the economy of Jordan started to grow significantly. This high growth was attributed to the following reasons: (1) the existence of more developed human resources represented both by the refugees and the indigenous West Bank population who constituted a high portion of Jordan's business, professional, government and intellectual leaders; (2) a high increase in government and private investment; and (3) the use of import-substitution strategy especially in industries such as food processing, building materials, clothing, footwear, and textiles. As a result, GNP at market prices, increased from 1956-1962 at an average annual rate of growth of 11.5 percent and 9.5 percent from 1962-66 which was one of the highest rates in the world during this period.

Due to increase investment, wages increased also, according to the classical model, the above events would lead to a rise in industrial employment which did in fact happen. Industrial investment projects were growing rapidly; for instance the petroleum refining industry which started by the end of 1960 and employed 800 in 1966, the cigarette industry which doubled its production during the period 1959-66, the car batteries industry which was established in 1961, the tourist industry was also expanded gradually during the 1950s, while more attention was given to it during the 1960s through building hotels and other facilities. Also, by having Jerusalem and other religious
sites, Jordan was characterized by a comparative advantage in its tourists attractions, the phosphate industry, was also growing rapidly and employed 1500 persons in 1966.

From the above, we notice that the industrial sector was growing rapidly, opening a large number of employment opportunities. On the other hand, the agricultural sector was lagging behind for the reasons that only about 16 percent of Jordan's total land was suitable for cultivation, and the possibility of expanding the sown area was costly due to factor of erosion and low quality land. Growth in this area was also hampered by lack of storage facilities to carry crops over from one season to another, shortages of water resources except for the Jordan River and its tributaries, periodic droughts, low productivity of labor due to the high cost of technology and the inadequacies in the system of delivering new technology to the farmers such as farm input suppliers and agricultural cooperatives. In addition, the potential for irrigation with water from Jordan River is limited by the cost of pumping since most arable land in Jordan is on hills or plateaus. At this point, we can recognize that two distinct sectors of the economy are emerging which appears to satisfy the main characteristics of a dual economy such as the existence of two sectors, one traditional, and the other modern. The traditional is characterized by small scale economic units primarily in agriculture, low productivity of labor, labor intensive
methods of production and lack of public facilities such as electric power, transportation and communications. The modern sector is usually characterized by using capital intensive policies, relatively high productivity and large scale industries with more public facilities.

At this stage, the classicists assumed that higher employment opportunities would encourage an increase in population. As seen in Chapter III, this was in fact happening, with a high average population growth rate of 3.1 percent per annum during the 1960s. However, at this stage, the 1967 war interrupted the classicists' causation cycle, which assumed that population growth would lead to diminishing return to labor on the land and ultimately to a stagnation state. Even though the economy exhibited a stagnation state in 1967 and early 1968, with GNP not reaching its pre-1967 level until 1975-76 (see Chapter IV), it cannot be attributed to the diminishing return, but the detrimental events of the war, such as: a sudden population infusion, damage the East Ghor Canal and the flight of farmers from Jordan Valley to Central Plateau. The construction of Khalid Ibn El-Walid Dam was also hindered due to the Israeli occupation of Syrian Land to the north of Jordan. The imposition of high Israeli tariffs on West Bank imports from the East Bank in addition to the elimination of barriers to trade in manufacturing between Israel and the West Bank, both diverted West Bank purchases
of manufacturing products toward sources in Israel away from the East Bank. The tourist industry was hit badly because most of the holy sites are located on the part occupied by Israel in 1967.

Post-War Economic Development

As a result of the war, it was necessary to rebuild the Jordanian economy with a different land, resource and population base.

The subsequent Palestinian influx, Israeli occupation of the West Bank, and increased military costs all added to the severity of the problem. However, these market imperfections were rectified in the long-run by cash grants from foreign governments and agencies which provided one of the bases for regrowth of the economy. In addition, Jordan received technical aid through government agreements with other foreign countries such as Denmark and Japan. New technical skills brought into the country by the refugees also added to the recovery.

In terms of economic theory, it could be said that Jordan had regressed backwards in the cycle of classical development to the stage where a new influx of refugees brought to the country new ideas, and technological experience, which was able to be developed once again with the aid of government activities. For example, "the government's industrial policy is based on the principle that industry belongs mainly to the private sector, but
there is recognition that official participation in industrial financing is necessary for industrial development." The government was not trying to engage in complete ownership or nationalization of industries, however it was a majority owner of the Jordan Phosphate Mines Company and the Jordan Cement Factories Ltd. The government was also minority owner of industries such as a chocolate company and a woolen mill, by buying shares in these companies which were financially pressed.

Government philosophy was to encourage a free enterprise industry, by promoting local and foreign private investment. To do that, the government established the Law of Encouragement of Industry in 1967. This law applied to any industrial project which increased Jordan's productive capacity, and also extended to tourism and housing projects. Projects approved under the law were exempt from customs and duties on imported machinery goods and building materials, also profits were fully exempt from taxes for a six-year period. "Other incentives offered industry by the government include protection from local competition by prohibiting the establishment of identical industries, provided the approved industry can fully satisfy the Jordanian market demand, and protection against foreign competition by prohibiting importation of similar manufactured goods."
The Jordanian government also regulated all primary foreign trade functions. The regulations are designed to limit imports and encourage domestic investment. This was done through a system of high custom tariffs and quotas. High import tariffs were used to protect the domestic industries such as food processing, building materials, textiles, household furnishings, clothing and footwear. This is an example of import-substitution industrialization which is a strategy based on planned substitution of domestically produced goods for imported ones through the use of high tariffs or quotas on the competing imported items.

In the economy of Jordan, which is essentially one of the free enterprise, the role of government has been regulation of agricultural activity in the public interest, and efforts were made to promote some major projects such as irrigation. The agricultural products were practically free from taxation. Import-substitution strategy was used here to protect agricultural products such as tobacco. Also, the policy prohibited imports such as barley, lentils, olives, and olive oil in good crop years. However, all of these efforts were not sufficient to promote a big growth rate in the agricultural sector.

6 Ibid., p. 256.

From the above, we see government involvement designed to create an equilibrium necessary for a free market economy which again supports structuralists theory recommending governmental intervention to remedy market imperfections. Moreover, without this intervention, it seems most unlikely that Jordan's economy would have grown rapidly. This could be due mainly to political instability which exists not just in Jordan but the whole of the Middle East. For expansion to occur financial backing is essential and private investment has appeared to lag behind any assistance the government provided, probably to the uncertainty of good return.

To some extent the free market was being circumvented temporarily to work with the restrictions mentioned earlier, that is import substitution and government licensing of new projects to protect existing ones from foreign and domestic competition. This gave some industries monopolistic power such as the phosphate industry, and monopolistic competition in others such as cigarette industry.

The dual economy that existed before the war continued after 1967. Again, the two sectors involved were agriculture and industry. The dry land production growth continued to stagnate mainly due to the lack of new technologies as discussed earlier such as improved seeds, increased water supplies and low human capital such as lack of education of Jordan's dryland farmers. Growth in the
production of the irrigated land was greatly affected by the war mainly due to damage to the East Ghor Canal and the flight of farmers from Jordan to the central plateau. Israeli occupation after the war hindered progression of the Yarmonk irrigation project. For these reasons government support lagged behind that of the industrial sector and private investors were reluctant to invest.

The industrial production continued to rise following a short term recession after the war, for example, the cement industry. However, phosphate production continued to accelerate even during the war period.

Even though the private sector was reluctant to invest mainly due to uncertainties, the government made considerable efforts to stimulate this sector by importing new technologies such as oil refining plant from Japan and expanding the port of Agaba.

Conclusion

There is no doubt that the economy of Jordan showed setbacks following the wars of 1948 and 1967. However, it has appeared to recover creating an economic environment suitable for free enterprise and has been assisted in the long run by the educated Palestinian refugees, who in the short run were seen to have a detrimental effect.

This influx of refugees in 1967 caused a rise in the labor force creating decreased return to labor and a rise in return to land and capital in the short run. A large amount
of capital brought with refugees went for consumption, while the other part was devoted for savings.

The tourist industry which was the best earner of foreign exchange before the war, was the worst hit and greatly affected the balance of payment situation.

Deficits and surpluses in the annual budget reflected fluctuations in revenues and additional government expenditures. A major balancing item in the budget and the balance of payments was sharp increase in the inflow of foreign aid after 1967.

Military costs in 1968 were estimated to be between $150-200 million. The requirements for new purchases of military hardware necessitated additional expenditures on training, and financing a significantly rising defense budget of the armed forces. It was observed that defense expenditures increased from JD 23 million in 1966 to JD 39.4 million in 1968 and kept going up until it reached JD 43.5 million in 1969. If these funds could have been used for economic development we certainly would have seen greater progress, and without the war, Jordan could most likely have sustained its high growth level without having to rely heavily on foreign aid.
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