damit ein Diskurs über das Verhältnis von Nord und Süd sein müssen. Und somit wird er sich vor allem auch mit uns, den Inländern der Industriestaaten, befassen müssen, um produktiv zu werden.

ANMERKUNG

[1] Vor allem in Staaten, die vor dem industriellen take-off keine Verwaltungszentralisierung durchmachten, werden sich nationalistische Ideologien gegen die Verstädterung wenden. Die unterschiedlichen Muster bei der Entstehung von Nationalstaaten können hier nicht behandelt werden, vgl. dazu aber Seton-Watson 1977.

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STRUCTURAL ADJUSTMENT ALTERNATIVES FOR JORDAN, GIVEN THE ROOTS OF THE ECONOMIC RECESSION

Abstract

The boom of the Jordanian economy after 1973 lasted till 1982. Then unemployment increased sharply, while imported labour had replaced Jordanian labour, because Jordanians preferred to work in the Gulf countries. The article analyzes the factors underlying the economic crisis after 1982. The budget deficits, the saving gaps and the balance of payments deficits are analyzed over a period of 25 years to gain insight in the development of the crisis. Subsequently alternative adjustment policies are recommended to avoid unemployment and the well known social costs of structural adjustment.

Introduction

Jordan has a narrow productive base. Its only natural resources are phosphate, potash and limestone. Less than five percent of its agricultural land is arable and water is a scarce resource. The services sector accounts for nearly 60 percent of GDP, while the industrial sector is only contributing 15 percent. The Government has pursued liberal policies in trade, labour migration and foreign exchange transfers and stimulated the private sector. The public sector is still big however and its productivity is low, just like in the services sector in general in Jordan. The current per capita GNP in 1987 was 1560 US dollars.

In a sense Jordan is an oil country without oil being exploited in the country. The Jordanian economy is highly linked to the economy of its oil producing neighbors and fluctuates strongly with fluctuations of the oil price. The relations are of three types, which will be discussed when the short and medium term effects of structural adjustment on employment will be analyzed:

1. The Gulf countries provide many employment opportunities for Jordanians, particularly for skilled labour. Remittances from these foreign workers are very important for the Jordanian economy.
2. The Gulf countries are an important export market for Jordanian industrial enterprises and agricultural producers.
3. Jordan receives a lot of aid from the oil producing Arab countries, particularly as a frontline state with Israel.

Economic recession: increasing unemployment

The economy boomed between 1973 (the first oil crisis) and 1983 (the year after the worst year of a worldwide economic recession). The economy grew over 10 percent per year from 1977 till 1982 and operated at full employment. The increasing importance of foreign workers in this period is remarkable. It increased from 400 non-nationals in 1973 to 118.800 in 1987. This can be explained by the preference of Jordanians for better paid jobs in the Gulf countries. Welltrained Jordanians left the country, while usually unskilled Egyptians came to work in Jordan. Nearly 40 percent of Jordan's labour force is employed abroad.

After 1980 unemployment for Jordanians increased from 3 to 5 (1983) and 9 percent (1987; RSS, 1988). Recent estimates are even higher (14% for 1987; Dep. of Statistics, 1989). Significant changes in the structure of the labour force have taken place during the last decades as well. Whereas in the early 1960s some 40 to 45 percent of the labour force was engaged in agriculture, nowadays the agricultural share of the labour force stands at about 15% (World Bank, 1989). For the domestic Jordanian labour force, the decline of this share has been even more pronounced. Agricultural employment has grown substantially through a concentrated effort to develop the Jordan Valley.

Rising aspirations and higher earning opportunities led many Jordanians to prefer non-manual jobs, in the industrial and service sectors, either domestically or abroad. The vacancies that appeared in the agricultural sector (and all manual work) were filled up by "guest" workers from neighborhood countries, particularly Egypt. Working in Jordan was an attractive option because of the strength of the Jordanian Dinar vis-à-vis the currency in countries like Egypt and Syria. While in 1986 non-Jordanian workers made up nearly 30 percent of the domestic labour force as a whole (World Bank, 1988:48, 87-89), in agriculture alone the employees originating from other countries have become a majority.

Given the continued growth of the labour force, the result was a substantial rise in unemployment, in particular among national laborers. The factors contributing to increasing unemployment have been summarized by Khatib (1989:5-10). With respect to the supply side he mentions:

1. The large increase in population;
2. Coercive immigration waves from Occupied Palestine;
3. The increasing number of migrants from Egypt and Syria, which accept lower wages than Jordanians and accept poorer working conditions. The Jordanian Open Door Policy also enhances migration while the exchange rate makes it interesting for foreign laborers to work in Jordan.

   On the demand side the following factors played a role:

1. The drop in oil prices;
2. Competition from labour from South East Asia in the Gulf countries;
3. The non-payment of promised financial support by some Arab countries;
4. Entrepreneurs hesitate to invest, reflecting uncertainty due to factors like the Iraq-Iran war and the situation in Occupied Palestine;
5. Concentration on capital-intensive projects in the first Five-Year Plan;
6. Limited manpower turnover, which means high wage rates going on, despite a decrease in demand and a continuously increasing supply of labour.

The domestic employment situation is characterized by a serious mismatch between supply and demand. The supply of certain categories of professional and

technical manpower, such as doctors and engineers, is far in excess of what can be absorbed by the domestic economy and the supply of agricultural workers was much less than the demand for it (Fariz, 1988:11). In the past the excess supply of highly educated manpower could easily be absorbed in the labour markets of the oil-rich Gulf states, but this became more and more difficult. The economic recession resulted in a decline of the gross national product in 1988 by 4 percent (IMF Survey, July 1989).

The Structural Adjustment program and Standby arrangement

In this situation Jordan had not much choice but to call on the International Monetary Fund (IMF). March 1989 the Jordanian government agreed on a rescheduling of its debts and reached an agreement on a five year readjustment program with the IMF. In July 1989 the IMF announced a standby arrangement with Jordan and support from the Compensatory and Contingency Financing Facility (CCFF). A total of SDR 76.66 million can be used by the Jordanian government. SDR 16.66 million is available immediately under the compensatory element of the CCFF and SDR 60.0 million is available over the next 18 months under the Stand-by arrangement.

The medium-term objectives of the authorities' adjustment program, which the stand-by arrangement supports include (IMF Survey, July 1989): "The restoration and steady recovery of economic growth to about 4 percent by 1991, a lowering of the inflation rate to less than 7 percent by 1993 (from 14% in 1989); and the elimination of the external current account deficit by 1993".

Table 1: Summary Jordan's Structural Adjustment Program

Medium term objectives SAP	Announced structural reforms
1. Restoration and steady recovery of economic growth to about 4 percent by 1991	1. A reorientation of investment incentives
2. A lowering of the inflation rate to less than 7 percent by 1993	2. Trade liberalization and tariff reforms
3. Tight demand-management policies involving expenditure restraints and revenue mobilization	3. The elimination of the current account deficit by 1993
4. A reduction of the government budget deficit from 20% of GDP in 1989 to 4.5% in 1994	4. Budgetary reforms
	5. An active use of interest rate and exchange rate policy
	6. Deregulation of interest rates

Source: IMF Survey, July 1989.

The IMF notes that the achievement of these objectives requires a strong domestic adjustment effort encompassing structural reforms such as a reorientation of investment incentives, trade liberalization, tariff reforms and tight demand-management policies. The latter involves expenditure restraint of 3 percent combined with a 3 percent increase in revenue mobilization, but also budgetary reforms and an active use of interest rate and exchange policies. The government has cut its capital expenditure, reformed its tax system and reduced the number of income taxdeductible items.

The Jordanian Minister of Finance announced in October 1989 that the country had secured concessionary long-term foreign loans from the World Bank and the Japanese and West German governments, totalling US $ 317 million to improve the balance of payments (Jordan Times, 15-10-1989). The availability of external financing is essential for the achievement of the objectives of the structural adjustment program.

According to the minister, the government had made progress in curbing overall expenditure; however, people with low incomes will still benefit from a number of measures proposed in the 1990 fiscal budget, such as a reformed income tax structure which will still increase government revenue, while benefitting the poor. A substantial allocation for basic food subsidies (possibly JD 60 million) was also announced and the Minister mentioned a consumer tax at production and customs points, because a value added tax was considered not feasible in Jordan. Finally a lift of the ban on imports of luxury goods was announced, simultaneously with higher customs tariffs.

What the impact of these and other, less social, measures will be remains however to be seen. At any rate, more efforts aimed at employment-generating growth will be required and it would be desirable to have an analytical framework to assess the impact of these policies and possible alternatives.

The proposed program is a typical IMF structural adjustment program:

1. It stresses the importance of eliminating the current account deficit, or to restore the external equilibrium;
2. It tries to lower inflation by tight demand-management policies.
3. It pays no attention to the negative short term employment effects, hoping that in the medium term investment incentives will result in sufficient new employment.
4. It does not pay attention to the effects of the program on the income distribution.

The Financial Times (6 April 1990) announced that Jordan wins IMF approval of reform. The approval for Jordan's progress on the year-old economic reform plan clears the way for payment of the next tranche of a 77 million US dollar standby credit. This will lead to a disbursement of 44 million US dollars, but more importantly make it easier to obtain and draw down loans worth 325 million US dollar from the World Bank, Japan's Overseas Economic Co-operation Fund and West Germany.

This money would help Jordan reschedule about 640 million US dollar in payments due on loans from government creditors in 1991 and to reschedule as much as possible of roughly 450 million US dollars in interest due on other foreign loans (Financial Times, op.cit.). Jordan has a 8 billion US dollars foreign debt. The country agreed with the IMF on monetary and economic policies for 1990. These included a

target for real growth of 2.5 percent, limits on the budget deficit, maintaining a stable exchange rate for the dinar and restricting money supply growth to bring inflation down to a maximum of 10 per cent.

These elements of the IMF program will be discussed in the following sections, where after an analysis of the roots of the crisis, we will also provide some elements of an alternative approach.

A gap analysis to assess the causes of the economic recession

The chances of success of a structural adjustment program are higher if the program addresses the causes of the crisis that led to the present recession in Jordan. A three gap analysis may add to our insight (cf. Taylor,1989). In the sixties two-gap models became popular, based on the work of Chenery. Taylor has suggested to add to the saving and foreign exchange constraints the investment demand (with the possibility of analyzing crowding-in of private by public capital formation) and to analyze inflation. Dornbusch and Helmers(1988) provide the mathematics by deriving what they call the basic balance of payments equation, and which they consider a good starting point to analyze adjustment in a given country:

(1) aggregate demand and supply:
$Z = C+I+X-M$ (Z= gross domestic product)
(2) the expenditure decision:
$Y = C+S$ (Y= gross national income)
(3) balance of payments equation:
$Y=Z-NF+NT$ (NF=net factor payments; NT=net unrequited transfers)
(4) the two gaps are obtained by substitution:
$S-I = X-M + (NT-NF)$ (savings - investments=exports-imports)
In practice X-M includes NT and -NF
(5) the domestic accumulation balance:
$T-G-Ig + Sp-Ip = X-M$ (T=gov.rev.;G=gov.exp. and Ig=gov.invest)

It reads: the budget deficit plus the private savings gap equals the balance of payments gap. By definition these three accounts must reach ex post balance. Taylor (1989) mentions four ways in which the aggregate saving supply is brought into equality with the value of investment demand:

1. Variation in the level of output
2. Forced savings caused by changes in prices relative to a nominally fixed magnitude such as the wage or exchange rate
3. Variation in the value of sales or purchases of a commodity
4. Determination of the level of investment by available saving.

A gap analysis in the case of Jordan[1]

Figures one to three show the fiscal gap, the trade gap and the saving gap, based on figures published by the Central Bank. World Bank and IMF figures were also used, as for example in table 2. The table gives the Central government deficit as a percentage of gross domestic product and the inflation for the period 1978 to 1989.

*Table 2: Jordan's Central government deficit as percentage of GDP at consumer prices**

1978	25.4	77	1984	9.3	126
1979	9.9	91	1985	9.5	130
1980	11.2	100	1986	7.9	130
1981	10.0	112	1987	14.7	129.6
1982	9.7	118	1988	14.5	*133.7
1983	7.6	124	1989	..	..

*Source: IMF Survey April 2, 1990. * World Bank 1990.*

The deficit as a percentage of GDP was very high in 1978 and in 1987 and 1988, the two years preceding the negotiations with the IMF. Inflation was quite stable in 1985, 1986 and 1987, but increased recently. As will be explained below, the decline in foreign aid after 1982 put a severe strain on the government's budget in the following years. The World Bank (1990) mentions that Jordan's fiscal performance has also deteriorated since 1983, after steadily improving during the previous 5 years: "the overall budget deficit (including grants) was brought down from over 17 percent of GDP in 1978 to under 5 percent of GDP in 1983". Table 2 shows it has increased since then and stood at 14.5 percent in 1988.

The current account balance as a percentage of GDP turns out to be very sensitive for the amount of remittances and grants transferred. If all transfers are included there was a surplus in 1980, a deficit of -6.9 and -6.2 in 1984 and 1985 and of -7.0 and -4.7 in 1987 and 1989 (World Bank, 1990). After 1982 a stagnation of remittances was the result of a slowdown in out-migration. Between 1982 and 1989 there was also a 30 percent reduction in grant aid, which traditionally financed about 30 percent of Jordan's imports and amounted to about 80 percent of government revenue. External and internal demand for Jordanian goods fell and a slowdown in growth took place. Unemployment was the result of this recession. Finally the savings gap fluctuates strongly, but is basically negative since 1980.

The roots of the economic crisis

The economic recession was triggered off by the low oil prices in 1982 which affected the regional economy strongly. Labour exports to the Gulf countries had been an important outlet and a source of foreign exchange. Employment opportunities abroad decreased drastically after 1983, while competition from labour from South Asia, willing to work for lower wages increased. Besides a drop in remittances, Jordan also suffered from a reduction of the aid flows from Gulf countries and from decreasing export opportunities to these countries. Imports of cars and luxury goods which had soared in the 1980s could not be afforded any more.

The prolonged recession in the region has not only slackened economic activity in Jordan, but it also brought to the surface the underlying weaknesses in government finances and the balance of payments, which both used to rely heavily on external resources. The deficits after 1983 were financed with foreign loans, which increased the external debt and the debt service ratio substantially (IMF Survey, July 1989).

The main underlying weaknesses of the Jordanian economy are very high population growth (3.8 percent per year) and an educational system that produces too many graduates for which there is no demand, while the industrial sector contributes only 15 percent to the gross national product (GNP). Jordan also suffers from limited natural resources, a relatively narrow productive base (the small industrial and agricultural sectors) and a heavy economic dependence on neighboring oil-rich countries.

The Government pursued outwardlooking and liberal policies as far as labour migration, trade and foreign exchange were concerned. The development of the private sector was promoted. This sector remains small, however, and is difficult to stimulate to explore other export markets than the Gulf countries for example. At the same time the international demand for Jordanian phosphate and potash weakened and their prices went down, which contributed to the balance of payments difficulties and the budget deficits.

Adverse developments in the regional economy, an exceptionally high labour force growth rate, inappropriate past development policies, as well as inadequate responses to changed circumstances have resulted in an employment problem of enormous dimension. Given the acute employment situation in Jordan, a comprehensive employment-generating growth strategy is required, which gives due attention to social considerations.

To conclude, the roots of the crisis in Jordan are partially external (particularly the consequences of a lower oil price in the eighties) and partially internal shocks. The latter refer to the decline of exports due to an overvalued Dinar and a concentration of exports to the Middle East markets.

An alternative analysis based on Taylor

Taylor (1988:11) stresses that the IMF approach is often based on the assumption that inflation is caused by money creation. Other possible causes of inflation are a certain income distribution (reflecting conflicting distributional claims) and "a set of rules for price formation that expands the conflict into a cascade of price increases throughout the system". Examples of the second type of causes of inflation in the Jordan situation are:

a. Restricted agricultural supply as a cause of inflation, while imported agricultural products increased strongly in price because of the devaluation.
b. Restricted supply by small and medium industrial enterprises, while the prices of their goods increased strongly because of the high import content. It is difficult however, to find local raw materials, spare parts or equipment.
c. In the case of Jordan import strangulation, which has contributed to a deceleration of economic growth and employment generation (ILO, 1987c:30). Awareness of

this problem is particularly relevant in the case of Jordan, because due to the limited availability of natural resources most raw materials have to be imported. When no foreign exchange is available for these imports the effects are twofold. One, enterprises are forced to produce below capacity, which increases their cost; secondly the entrepreneurs can ask higher prices since their goods have become scarce. Through these two mechanisms inflation is enhanced.

Alternative adjustment policies

Apart from its inefficiency to achieve the domestic resource reallocation necessary to reduce the external disequilibrium, the conventional adjustment program also tends to lead to high social costs. The main burden of adjustment falls in general on the poorer segments of the population (ILO, 1985:35-36).

The goals of achieving greater efficiency and of stimulating tight demand management are two important elements in the IMF's structural adjustment programs. The latter require cuts in public expenditure to reduce the fiscal deficit. Regarding the first element, it has to be noted that, efficiency is measured on the basis of a given method of production, and thus (indirectly) on a given distribution of incomes. Because attempts to raise efficiency will also affect income distribution, the latter ought to be part of the required strategy. Another reason for this lies in the fact that cuts in public expenditure on health, nutrition, housing and education, are not merely unjust from a social point of view, but are also detrimental to the productive capacity of the poor and hence capacity for growth of a country at large. This is where the ILO's strategy comes in.

Structural adjustment with equitable growth: the ILO alternative

The strategy of the ILO comprises both elements of the conventional adjustment program and measures to promote employment and to improve welfare conditions of poorer groups in society. It forms a more appropriate point of departure for tackling the problems which Jordan faces than the IMF model. Employment promotion and income generation for vulnerable groups are key issues in the ILO's approach.

It is increasingly recognized that there is a need for greater attention to reducing the social cost of structural adjustment. The latter can be brought about most effectively by adopting measures aimed at resumption of equitable growth, instead of those which lead to stagnation, or have contractionary effects. This implies the need for a comprehensive strategy, encompassing both macro-economic adjustments and micro-economic interventions, in which investments directed to improve the productivity and income generating capacity of the poor are given priority (see ILO, 1989:31-33).

The framework of structural adjustment outlined by the ILO can be summarized as follows (ILO,1989:36-60):

Macro-economic policies

A1. Reducing money supply;
A2. Reducing fiscal deficits;
B1. Exchange rate adjustment;
B2. Trade liberalization;
B3. Changing the role of government;
C. Resource mobilization and investment;

These macroeconomic policies are not very different from what the IMF would usually like to see in a country demanding its assistance.

Micro-economic policies

D. Micro-interventions, as means to improve the functioning of markets;
E1. Improving the performance of economic units by encouraging and facilitating reforms at the firm level;
E2. Improving efficiency in the public sector;
E3. Improvements in investment planning and project implementation procedures;
E4. Policies dealing with education and training;

Here the ILO goes beyond the IMF macro approach, by suggesting microeconomic policies, particularly those concerning firms of different sizes and policies concerning education and training.

Labour market policies

F1. Labour legislation and regulation to guarantee a minimum level of protection for workers, to guarantee that they will share in the fruits of development, and to enhance the participation of workers in steering the course of development;
F2. Reforms to improve the operation of labour markets, subject to the fundamental considerations of basic human rights and the protection of minimum labour standards.

These are typical ILO policies and one can only note that labour market policies risk to introduce rigidities in the functioning of these markets. On the other hand certain minimum provisions are necessary and not necessarily harmful as can be concluded from the socio-democratic experiences in a number of West-European countries. It will still be necessary to elaborate the ILO framework for specific countries.

Alternative adjustment policies based on Taylor

Without denying the need for structural adjustment in Jordan, serious doubts arise regarding the appropriateness of the IMF's approach to the problems which the country faces. Adjustment as the IMF envisages it is primarily focused on restoration of external equilibrium, i.e., reducing the current account deficit to a manageable level, given the country in question's access to external finance, with domestic price stabilization being considered as an aim of secondary importance (ILO, 1985:35-36).

Actually, the measures aimed at achieving greater external equilibrium may be inflationary. This should be recognized, because if at the same time unrealistically low targets for internal inflation are set, a far more deflationary policy will have to be adopted than is required to attain external balance (ILO, 1987b:58).

We will suggest an alternative program, based on the criticism of Taylor and the ILO and stressing the importance of providing employment in the short and the medium term.

The short term effects: a Social Development Fund

At present the need for greater concern for the social consequences of structural adjustment is more widely acknowledged than a few years ago. Illustrative for that fact is that also the World Bank's policy underwent gradual changes towards supporting greater social orientation of governments' expenditure.

The World Bank has suggested for example to create a Social Development Fund as part of the structural adjustment program. It will finance particularly activities undertaken by non-governmental organizations (NGOs). The idea is to stimulate them to go into, or to step up development activities. The Social Development Fund would finance projects creating employment, particularly in the rural areas and small towns. The idea of the Bank is that NGOs could reach people suffering most from the short-term negative consequences of structural adjustment. They may not benefit from normal social programs and from increased economic activities, concentrated usually in the urban areas.

In Jordan a number of NGOs are active. They are often religious inspired organizations. Most of them are at present not involved in productive, but mainly in social, religious and educational activities. Since NGOs in Jordan have no coordinating structure at the moment they have been invited to setup such an organization. The umbrella organization should function as an intermediary between the NGOs and the Bank and it would discuss the proposed projects with the Ministry of Planning.

A few complications can be expected in the case of Jordan. In the first place the NGOs seem to be reluctant to collaborate via an Apex organization with the Ministry of Planning. They fear this ministry will limit their freedom of action. Secondly, most NGOs are not involved in productive activities and it may be difficult to start such activities. Finally some of the bigger NGOs are financing organizations themselves and the question is whether they are able to step up their activities and to get involved in different type of activities to appraise, finance and monitor. The organizational structure is not yet clear and the question is whether a formula that worked in the case of Bolivia will also work in Jordan (Van Dijk, 1990).

Structural adjustment and mediumterm employment effects

Given the magnitude of the employment problem in Jordan, two sets of policies regarding employment promotion will have to be incorporated in the government's development strategy. The first set centers around the need for employment promotion in the domestic economy. The second concerns specific measures to create employment for target groups, including policies to promote the external demand for Jordanian labour. No full justice can be done to the above-mentioned ILO framework for structural adjustment. We will discuss only a limited number of measures. This discussion incorporates some of the recommendations concerning unemployment recently made by an interministerial committee (summarized in Van Dijk, 1990a).

The major contribution to a sustained growth of productive and adequately income generating opportunities for Jordanian workers lies in development of the domestic economy. An overall increase of gross domestic product is a necessary, but by no means sufficient condition to absorb both new entrants on the labour market and the current backlog of unemployed. Such growth will also have to be more labour-intensive, at least during the first years to come. This implies adoption of more labour-intensive techniques of production and diversifying the productive base, by putting greater emphasis on production of more labour-intensive goods and services. Closely linked to this, are questions regarding the sectoral composition of output and employment, which have to be considered against the background of the likely changes in the structure of the labour force in the direction of a younger and more educated labour force.

A number of macro and micro-economic measures are required for bringing about such a change in the structure of production. Conventionally investments in the private sector are thought to be stimulated by retrenchment in the public sector. The argument is based on the hypothesis of 'crowding out' of private investments. Simply put, the corollary is that the smaller the role of the State the better. In many cases, instead of 'crowding out', one could more aptly speak of 'pulling up'; in many situations public investments are complementary to those in the private sector. Investments in infrastructure and human resources for example are often a pre-condition for private sector investments.

It is difficult to assess at forehand the impact of adjustment policies on employment in various sectors. But it is beyond doubt that employment in the public sector will not increase at the same pace as in the past. This is illustrated by the fact that the Public Service Commission will only accept 3500 new employees in 1989, less than half the number of the previous year. On top of that actual vacancies due to migration to the Gulf countries are usually not filled.

The employment effects of structural adjustment in agriculture will be positive because Jordanian products have become more competitive after the devaluation in 1989. It is more difficult to predict the effects in the services sector. Much will depend on the capacity of this sector to internationalize its activities and to serve neighboring countries as well.

Finally in the industrial sector a distinction needs to be made between the employment effects of structural adjustment for small and micro enterprises and the effects for large industries. The latter will try to increase their production and exports, but the employment effect may be disappointing, in spite of the substantial investments that are required, funds which do not seem to be available at the moment. In the short run, at least a positive effect can be expected from a more positive approach to small and micro enterprises, which require only limited funds, which could be generated mainly in the private sector. In the medium term their share in the sectoral distribution of employment will have to increase substantially, given the employment potential of the other sectors of the economy.

Conclusions and recommendations

Jordan's economy is, among other things, characterized by a too low demand for domestically produced goods, reflected by the relatively small size of the industrial sector. Promotion of the latter is necessary to diminish the structural disequilibria in the Jordanian economy. Simultaneously, out-migration of a part of the labour force remains a necessity, to prevent the rate of unemployment from rising dramatically. The best strategy for the future should therefore combine a more balanced domestic policy with the promotion of Jordanian labour abroad.

Jordan has a relatively narrow productive base. Services constitute by far the largest sector, while agriculture and manufacturing are much smaller sectors. Because of the current relatively narrow productive base, it is advisable to keep the growth of the services sector in check, and to encourage expansion of activities in the agricultural and manufacturing sectors which are promising in terms of generation of productive employment opportunities. Emphasis needs to be put on the production of more labourintensive goods. Light industries such as engineering, for example, are considered to have ample scope for development, while generally requiring large numbers of skilled laborers. The choice of techniques is linked up with the question of scale of production, where smaller units tend to be more labour-intensive.

Most productive employment will have to be generated in the agriculture and manufacturing. In the latter sector the greater part consists of large scale labourextensive investments with limited prospects to step up their activities. Consequently it is necessary to put more emphasis on goods which are characterized by more labourintensive production processes. Light industries such as engineering have ample scope for development, requiring also skilled laborers (World Bank, 1986:38).

One should be aware of a dogmatic view in favour of the public sector. It is not the size that is crucial, but what the government does (ILO, 1989:40-42). In the case of Jordan there will be little doubt about the need of reducing the fiscal deficit. This does not necessarily imply that the government cannot play an active role in bringing about technological change and in stimulating entrepreneurs to enter new areas of production. It can do so by giving priority to stimulating activities which are promising in terms of employment generation. This is what is meant by changing the role of government in the ILO framework for structural adjustment.

Field (1990) reviews Arab economic restructuring in the 1980s. He concludes that there was "no talk in the region of deregulation and liberalizations, greater reliance on market forces, privatization or any other formulae being adopted by successful economies elsewhere". Instead the poorer Arab states "picked up the bad habits of the rich". In the meanwhile they have built up foreign debts, which, for example in the case of Jordan, are larger than the total gross national product (110% in 1988). Hence most Arab countries face the need to reschedule their debt and to restructure their economies.

The Financial Times notes that austerity measures and the emphasis on the role of private business are leading governments to liberalise politically. This has happened in Jordan: "they give their people some choice in how they should suffer" (Field, 1990). But the newspaper is optimistic about Jordan, noting that little more than a year after the Government was forced to introduce a reform package, improvements are already visible, pointing at the improved balance of trade during the first six months of 1989. Exports increased partly due to the upturn being enjoyed by the big phosphate and potash fertilizer operations.

It is important for the future that small businessmen and commercial farmers feel sufficiently confident to restart their activities and explore export markets, preferably not only in the Gulf countries. The devaluation and decreasing real wages have made them more competitive. The Financial Times notes that the strength of the new Government is that it has a popular mandate which makes it easier to continue painful economic policies.

A full discussion of an alternative adjustment strategy requires in-depth research on a number of issues. For example research on the impact of various elements of a structural adjustment program on sectoral employment and the income distribution, and particularly on some target groups. A macroeconomic model using a social accounting framework may be useful for this purpose (Cohen and Van Dijk, 1990).

Currently over half (around 52 percent) of the population belongs to the below-15 years age group, leads to the conclusion that apart from an adequate structural adjustment program focusing mainly on the short and medium term, measures especially relevant for the longer term are important. Jordan should prevent the prospect of future growth of production that cannot keep pace with population growth.

NOTE

1N. de Jong collected and analyzed the data.

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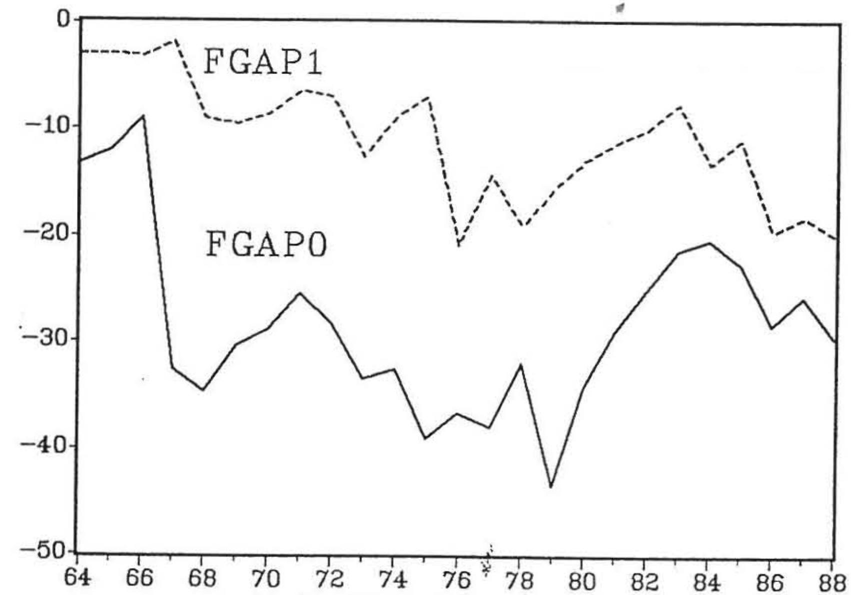
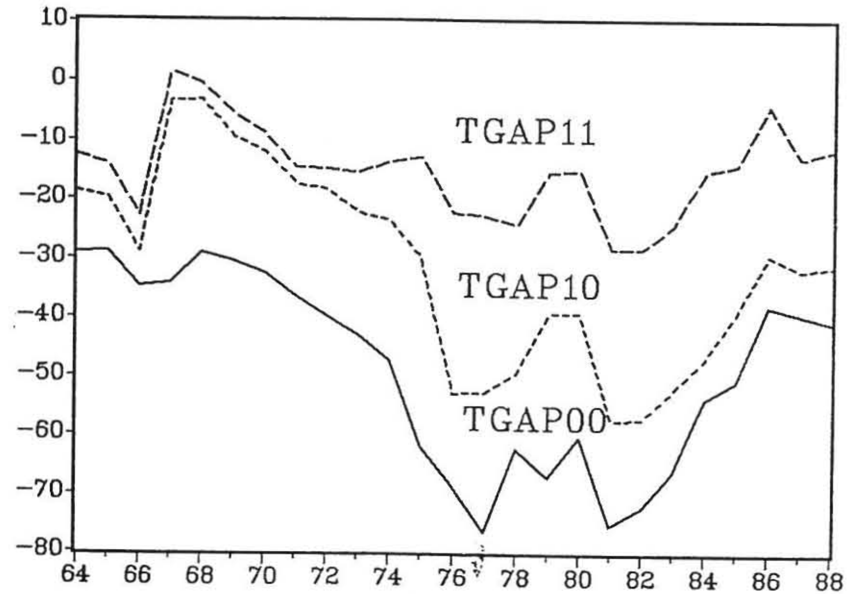
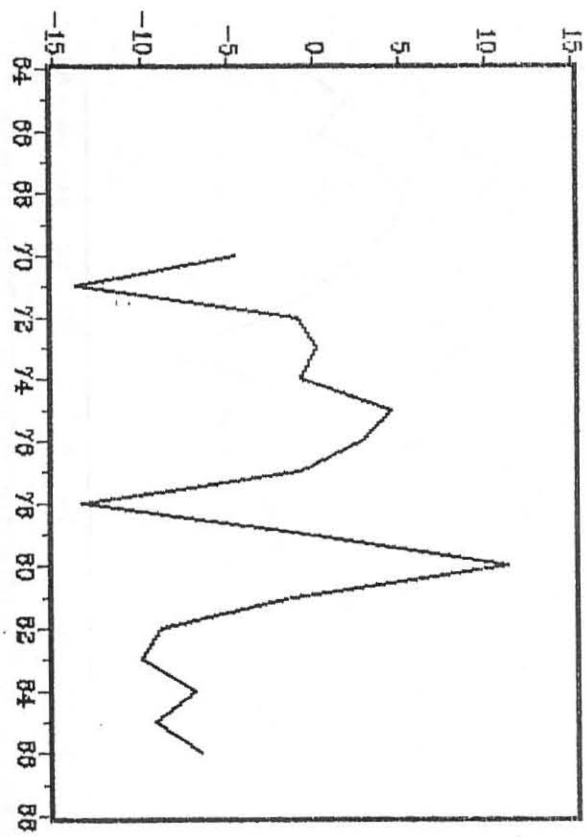
The fiscal gap, excluding and including grants (FGAP0 and FGAP1)



The trade gap, excl. grants and remittances (TGAP00) incl. grants (TGAP10) and incl. both (TGAP11)



The savings gap



obs	FGAP0	FGAP1	TGAP00	TGAP10	TGAP11	SGAP	P86=100	R	M1	M2	GDPMP
1964	-13.29	-2.95	-29.08	-18.74	-12.50	NA	NA	NA	39757.00	53566.00	149.00
1965	-12.09	-2.97	-28.82	-19.71	-14.28	NA	NA	NA	47118.00	64105.00	167.60
1966	-8.97	-3.17	-34.87	-29.07	-22.86	NA	NA	5.50	56033.00	75818.00	170.50
1967	-32.68	-1.88	-34.35	-3.55	1.44	NA	23.60	5.25	75237.00	94073.00	131.20
1968	-34.75	-9.00	-29.03	-3.28	-0.65	NA	23.60	5.25	87977.00	08814.00	156.10
1969	-30.47	-9.54	-30.44	-9.52	-5.75	NA	25.20	5.25	96221.00	18837.00	183.40
1970	-28.93	-8.61	-32.43	-12.12	-8.94	-4.59	26.90	5.25	05462.00	29129.00	174.40
1971	-25.45	-6.45	-36.42	-17.41	-14.74	-13.75	28.20	5.25	07997.00	35111.00	186.20
1972	-28.42	-6.97	-39.92	-18.46	-14.88	-0.87	29.80	5.00	15024.00	46474.00	207.20
1973	-33.59	-12.70	-43.15	-22.25	-15.52	0.14	33.20	5.00	39248.00	76062.00	218.30
1974	-32.70	-8.92	-47.34	-23.55	-13.73	-0.77	39.60	5.00	71964.00	19795.00	247.30
1975	-39.17	-6.93	-62.14	-29.90	-12.84	4.58	44.40	5.00	24604.00	88351.00	312.10
1976	-36.74	-21.03	-68.78	-53.07	-22.33	2.82	49.50	5.50	76869.00	78312.00	421.60
1977	-38.04	-14.27	-76.66	-52.89	-22.80	-0.84	56.70	5.50	30987.00	67643.00	514.20
1978	-32.11	-19.19	-62.43	-49.51	-24.30	-13.48	60.70	5.50	75370.00	06692.00	632.20
1979	-43.53	-15.60	-67.33	-39.40	-15.44	-0.45	69.20	6.00	72652.00	73100.00	753.00
1980	-34.24	-12.97	-60.54	-39.27	-15.23	11.23	76.90	6.00	94771.00	84767.00	984.30
1981	-29.02	-11.30	-75.46	-57.74	-28.46	-1.32	82.80	6.50	01656.00	79880.00	1164.20
1982	-25.08	-9.97	-72.43	-57.32	-28.42	-8.95	89.00	6.50	87503.00	03347.00	1321.20
1983	-21.42	-7.57	-66.30	-52.45	-24.13	-9.94	93.50	6.25	69417.00	15157.00	1422.70
1984	-20.41	-13.33	-54.08	-47.00	-15.29	-6.95	97.10	6.25	78391.00	57662.00	1498.40
1985	-22.72	-11.02	-51.01	-39.31	-14.22	-9.16	100.00	6.25	48222.00	74843.00	1605.90
1986	-28.47	-19.71	-38.09	-29.32	-4.05	-6.62	100.00	6.25	97097.00	72423.00	1639.90
1987	-25.75	-18.19	-39.54	-31.98	-13.13	NA	99.80	6.25	79803.00	72156.00	1686.30
1988	-29.63	-20.00	-40.98	-31.35	-11.63	NA	106.40	NA	66758.00	26443.00	1702.60

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Jean-Pierre Gern

HOW FAR CAN INTERNATIONAL TRADE CONTRIBUTE TO GROWTH IN NON-INDUSTRIALISED COUNTRIES? RECONSIDERING THE FOUNDATIONS

Abstract

To the question: "Can non-industrialised countries find a path to growth in the opening to the world economy, through the abolition of all kind of restrictions to external economic flows?" we had to give a very qualified answer:

- *The liberalization of external relations in a world where factors of production are partly mobile and technological levels unequal induces not an optimal allocation of all resources, but a partial migration (capital, qualified, labour etc.) from the poorer countries to industrial ones and consequently the under-utilization of the other local resources.*
- *Market forces induce the use of comparative advantages in the sense of the best use of existing production structures (Ricardo) but not of the achievement of structural changes needed for the optimal uses of the factors of production (Heckscher-Ohlin), whether it be technical innovation, creation of externalities, better sectorial and regional integration. their effect is consequently limited to a better distribution of resources among sectors (Ricardo) and does not secure a growth process.*
- *Does the general equilibrium model determine proper terms of trade and can the rate of exchange be fixed accordingly? — We discovered, that on different grounds the models of both Ricardo and J.-S. Mill show, that terms of trade tend to be unfavourable to non-industrialised countries in absolute terms.*
- *According to the theory of comparative advantages (natural and acquired) a country trading with the world market tends to concentrate its exports on a limited number of products. This number may be relatively large for a complex industrial economy, which has built up all kinds of advantages, but is dangerously small in non-industrialised countries relying mainly on natural advantages. It means, that for them, market forces act against the development (by diversification) of their exports.*
- *Even after Marshall-Lerner, Ricardo's approach to the equilibrium of the balance of trade is still predominant, despite the interference of other transactions, and despite Ricardo's disregard for the loss of purchasing power of exports, when a devaluation occurs. Taking it into account results in the fact that there may be more than one, or no rate of exchange, which brings the balance of trade into equilibrium.*
- *Due to the structure of their economy and of their exports and imports, non-industrialised countries have a lesser chance than others to bring their balance of trade into equilibrium by a devaluation.*
- *Ricardo disregarded a fact, which was considered as important by his predecessors: that trade is also a sector of activity, entering in competition with the others.*