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CENTRE FOR MIDDLE EASTERN
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Trade and Finance in Jordan

by

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and
Rodney Wilson

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CONTENTS

LIST OF TABLES

LIST OF CHARTS

INTRODUCTION

Jordan has been the focus of much political attention in recent years because of its key position in any Middle Eastern peace process. The government's policy is not only crucial with respect to Israel and the occupied territories, but Jordan has also played an important role in the Gulf War as Iraq's major supply route.

Political options, even in the foreign policy field, are usually influenced by domestic economic considerations. Yet much less has been written about Jordan's economy, and most outsiders have only a vague knowledge of the kingdom's trade patterns or financial structure.

Jordan has few resources apart from its two and a half million people, and in many respects its economic problems are typical of those of small Third World states. These include difficulties with budgetary finance, a chronic balance of trade deficit, and unemployment and underemployment. Yet the government has been remarkably successful in the past with its free market policies in promoting economic development, and growth rates exceeded 10 per cent during much of the 1970s. Living standards are high in relation to most non-oil Arab and Middle Eastern countries, with per capita GNP in excess of $2000.

The economic challenge for Jordan today is to maintain living standards, and to provide employment for its rapidly increasing population, with population growth around 2.5 per cent per annum. This task is complicated by the vulnerable position in which the kingdom finds itself amongst actual or potentially hostile neighbours. The internal stability of the kingdom itself augurs well for future development despite the continuing difficult circumstances.

Coverage

This monograph contains three papers which have been produced as a result of fieldwork in Jordan carried out over the 1985-86 period by the two authors. The topics covered have not been dealt with elsewhere. In no sense is the treatment of Jordanian Trade and Finance exhaustive. Rather selective aspects have been chosen, which complement other published work. Both authors contributed to the book on The Economic Development of Jordan edited by Adnan Bardan and Bichara Khader which was published by Croom Helm in 1987. Rodney Wilson wrote a chapter for this book on "The Role of Commercial Banking in the Jordanian Economy". Ian Seccombe's contribution was on "Labour Emigration Policies and Economic Development in Jordan".

The first chapter of this monograph on "Jordan's Trade: Past Performance and Future Prospects" has been written by Rodney Wilson. Ian Seccombe was the author of the second chapter on "Jordanian Migrant Workers' Remittances". The third chapter on "Islamic Banking - The Jordanian Experience" was also written by Rodney Wilson. The authors believe that the chapters taken together provide a number of pertinent and complementary comments. These should be of interest to all those concerned with Jordan's economy. In a wider context this may include those interested in the politics and international relations of the Middle East.

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February 1987

JORDAN'S TRADE: PAST PERFORMANCE AND FUTURE PROSPECTS *

Jordan's trade balance has been the subject of increasing attention from the kingdom's planners in recent years. Since the creation of the state, imports have been well in excess of exports, which is hardly surprising in a small, largely arid country, with few natural resources.[1] Nevertheless tackling the young state's enormous external payments deficit was not seen as a crucial economic policy objective, as Jordan, because of its strategic location, could rely on aid inflows to ease the situation. Import intensive capital spending programmes were pushed ahead in order to help development, which was given top priority. In so far as expenditure was limited, this was in order to control domestic inflation which resulted from labour shortages and other supply constraints. Domestic policy considerations were always given priority over the external payments issue.

The Deteriorating External Environment

Unfortunately for Jordan, external circumstances have changed considerably in recent years, and the substantial trade imbalance can no longer be ignored. Foreign aid to the kingdom halved in value in money terms over the 1980-85 period, and in real terms the decrease was even greater. Aid from the United States, which was the largest single donor apart from Saudi Arabia in the mid 1970s, fell sharply after 1980. There has been only modest United States assistance to Jordan since the Reagan administration came to power, despite the key role which Jordan was assigned in the Reagan plan for an Arab-Israeli settlement. United States aid has a political price in any case, a fact of which Jordan is well aware.

In the case of the major Arab donors, the level of aid seems to be related very closely to their own economic fortunes. In 1978 aid from Arab countries to Jordan halved reflecting the oil recession. In 1979 with further oil price increases, the value of Arab aid more than quadrupled in value. Since 1981 with depressed oil production levels, and then disastrous price falls, Arab aid has decreased dramatically. In 1985 Kuwait's level of disbursements fell to a quarter of the level of the previous year, which represented an already depressed level. In the case of Saudi Arabia the trend was similar, though less marked. From the point of view of the Arabian Peninsula states, aid to Iraq has to be given priority over aid to Jordan with what funds there are available given the former's difficult situation because of the Gulf war.

Jordan has a large external debt burden amounting to over JD 725 million (almost $2 billion), although fortunately most of it was contracted at concessional rates of interest.[2] Interest charges, however, amounted to almost 50 million dinars in 1985, and repayments of principal around 75 million. If aid disbursements continue to decrease at current rates, inflows may barely cover these payments. Although borrowing from foreign commercial banks only represents 37 per cent of the Jordanian government's external debt, and it would be misleading to speak of a debt crisis, recent trends are clearly worrying for the authorities. There is the realisation that Jordan will in the future have to rely more on its own resources, especially its human resources, which are the country's main asset.

Remittances remain an important source of foreign exchange earnings despite the recession in the Gulf.[3] The whole question of remittances is dealt with in detail in chapter two. In the long run it must be questionable if remittances can be a substitute for export earnings. Yet it is not easy to identify what Jordan should be exporting. Where is the comparative advantage of such a small, land locked, resource poor state? In terms of comparative cost Jordan is a relatively high cost environment by Third World standards. It cannot easily compete in labour intensive industries such as textiles or clothing. Agricultural production potential is constrained by the availability of water and often poor soil conditions.[d] Raw materials such as phosphates are already exploited, but many of Jordan's Third World buyers prefer to process the crude phosphates themselves, rather than purchase fertilizers. Jordan has considerable tourist potential, and an established tourist industry, but there are many competing countries, and arrivals can be seriously affected by political developments in the Middle East, despite the stability in the kingdom itself.

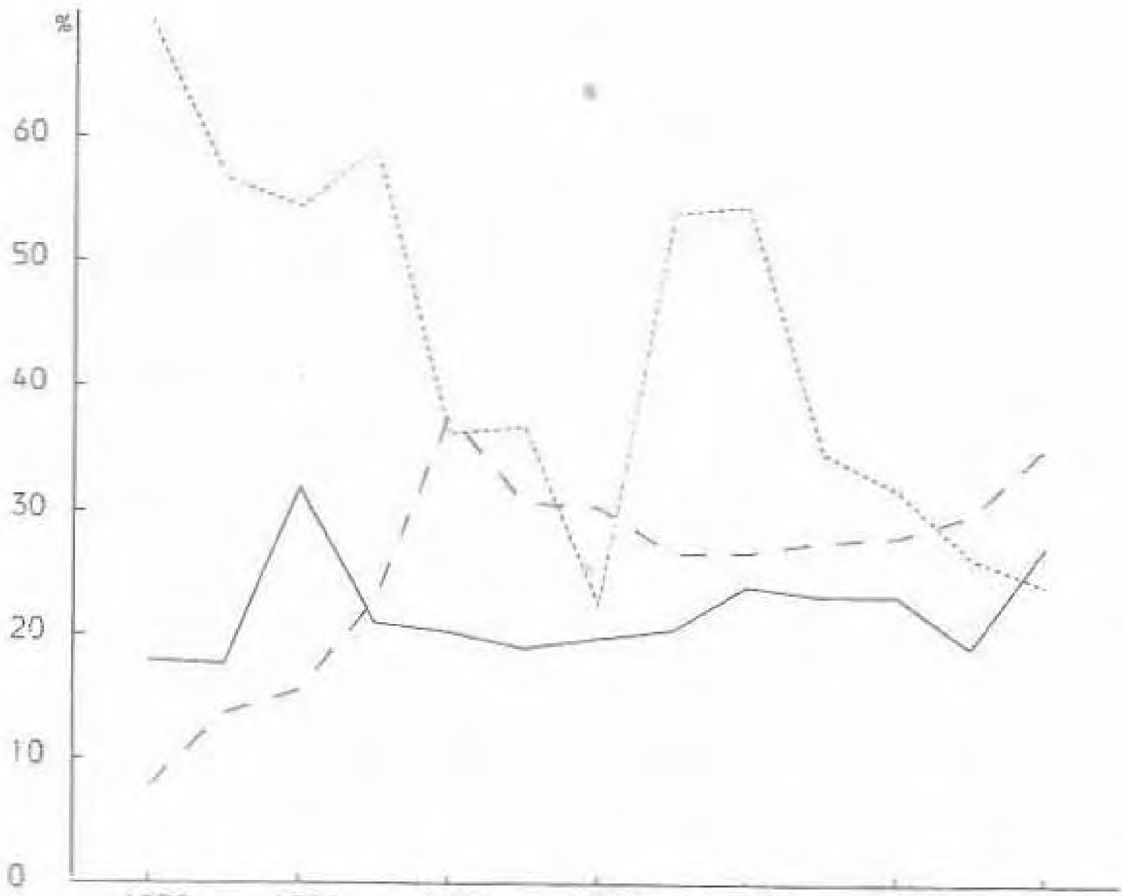
Critical Trend Indicators

Chart 1 shows three key dependency indicators for the Jordanian balance of payments, aid, remittances and exports as a percentage of import spending. The dramatic decline in aid is evident, especially since 1981, and there is no likelihood of the situation being reversed as it was after the 1978 recession in the Arabian Peninsula. Remittances in relation to imports peaked as early as 1976. The modest rise in the remittances ratio merely reflects the fall in Jordan's level of imports since 1982, rather than the position with respect to remittances, which as already indicated, has been deteriorating.

Spending on imports was cut by 140 million dinars between 1982 and 1983, partly by applying quotas more rigorously, but mainly by the government cutting its own capital expenditure programme by almost JD 100 million. This spending is particularly import intensive, as Jordan has no capital goods industry.

Exports rose in value in relation to imports in 1984 as Chart 1 shows, and in money terms the rise was impressive amounting to over 100 million dinar, a 63 per cent increase over the previous year. This increase in 1985 seems likely to be more modest in value terms, probably amounting to under 20 million dinar, but the continuing upward trend is encouraging, especially given the difficult conditions prevailing in many of Jordan's major export markets. Nevertheless, export receipts still only cover around one quarter of import payments, which indicates the magnitude of the task facing Jordan in closing its balance of trade deficit.

Chart 1: Key Dependency Indicators



Key: Foreign aid inflows as a percentage of import spending ....
Remittances as a percentage of import spending - - - - - - - - -
Exports as a percentage of import spending ————————

Sources: Central Bank of Jordan Monthly Bulletins of Statistics Vol.12, No.12, Dec. 76, Table 23, Vol.17, No.12, Dec. 81, Table 24, Vol.21, No.12, Dec. 1985, Table 25.

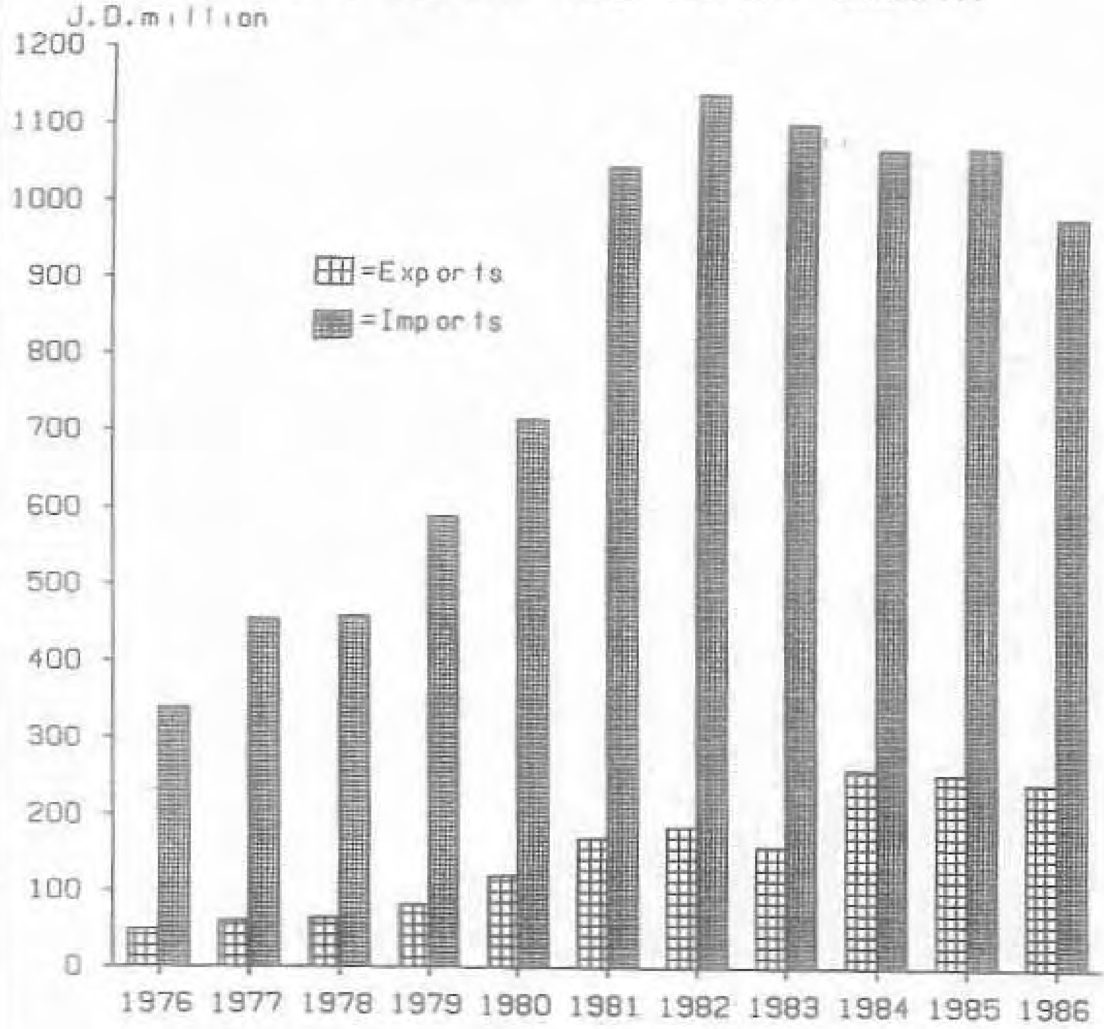
The Trade Deficit and the Demand for Imports

Chart 2 shows the growth of exports and imports in value terms over the 1975-86 period. The encouraging rise in the value of exports in 1984 was largely reflected in volume terms, with some levelling off in 1985-86. The trade deficit remains enormous, however, and it is clearly a long term task to narrow it, rather than an objective which can be achieved in the short run. The figures in the chart are in terms of current prices, but inflation has been modest in recent years, although price increases may have caused some distortions in the late 1970s.

Although the value and the volume of imports increased rapidly over the 1979-81 period, the value of imports has fallen from its 1982 peak. This trend is encouraging for the balance of trade, although with the decline in capital goods imports reflecting the cuts in government investment spending, Jordan's economic growth will inevitably suffer in the longer run. The challenge for Jordan's planners in the current climate is to identify areas where there is good growth potential with low import intensive capital investment. It seems likely that such areas will be found in the services field, especially those attractive to local highly educated labour, rather than in manufacturing industry.[5]

Encouragingly, imports appear to be much less responsive to private investment expenditure than to government spending as a whole. Table 1 shows the elasticities of demand for imports with respect to the three major macro expenditure categories over the period since 1967, when the West Bank was occupied by Israel. The level of government expenditure is confirmed as a major determinant of imports, but the overall income elasticity of demand for imports is not high for a country of Jordan's size or level of development. If economic growth can be encouraged by private sector initiatives,

Chart 2 : EXPORT AND IMPORT GROWTH



SOURCE: CENTRAL BANK OF JORDAN MONTHLY BULLETIN OF STATISTICS NO.9 1986

Table 1: Elasticity of Demand for Imports (1967-84)

	Intercept	Elasticity	R^2	DW
Consumption expenditure	-0.81 (-3.50)	1.56 (8.35)	0.81	0.36
Government spending	0.71 (12.86)	2.80 (12.56)	0.91	1.32
Investment expenditure	1.04 (49.23)	0.93 (30.24)	0.98	1.32
Total spending	1.62 (-7.46)	1.56 (12.57)	0.91	0.34

Note: Figures in parentheses are students t values. Regression estimated of form $M = aE^b$ where M is import value, E is spending variable, b is elasticity coefficient and a is intercept value in logarithmic transformation. As total spending is equivalent to total income, 1.56 can be interpreted as the income elasticity of demand for imports for Joran.

Data sources: Central Bank of Jordan Monthly Statistical Bulletins Vol.8, No.3, March 72, Table 32. Vol.12, No.12, Dec 76 Table 41. Vol.17, No.12, Dec 81, Table 42. Vol.21, No.12, Dec 85 Table 43.

import demand can be held in check. This may be partly because private investment, with its relatively greater wage bill, involves fewer direct foreign exchange costs. It may also reflect the fact that small scale private investments involve domestic construction companies, using locally available building materials rather than imported, high value plant and equipment.

Export Pricing Problems

Jordan like many other developing countries which export primary commodities faces export pricing problems. Export prices have tended to decline in the long run vis a vis the prices of imported goods, and they have also tended to fluctuate considerably from year to year. Historically this has reflected Jordan's dependence on commodities such as phosphates, the price of which has been notoriously unstable in international markets. Phosphate rock, usually exported in crude ground form, is Jordan's major export. It accounted for around one third of total export proceeds in the early 1980s. Since then the establishment of the kingdom's own fertilizer industry has resulted in the share of crude phosphates falling to just over a quarter, while fertilizer manufactured from phosphate accounts for one sixth.

Unfortunately Jordan is not a large enough producer of phosphates to have an impact on world market prices. There is a market sharing agreement with Morocco, the other major Arab exporter of phosphates, but this has little impact.[6] Morocco has not adhered to the agreement in any case, as it has sold phosphates in some of Jordan's traditional South East Asian markets, undercutting Jordanian prices.
Jordan has therefore sought to establish its own fertiliser exports, not only to secure greater domestic value added, but also because fertilizer prices are more stable in international markets than those for crude phosphates. Table 2 shows the price elasticities of supply for Jordan's exports by major category, as well as price deviations from a long run linear trend. A low price elasticity value indicates that supply is relatively unresponsive to changes in price, as with phosphates. Exports cannot be easily curtailed when prices are low, or expanded when prices are high, as production decisions are made well in advance. With exports of manufactured goods, and even foodstuffs, much greater supply flexibility is evident, with higher elasticity values. The chemical goods category include fertilizers, which have a much higher price elasticity than crude phosphates.

Not only have price trends been more encouraging for fertilizers, manufactured goods, and even foodstuffs than they are for raw materials, but price fluctuation seems to be smaller. Only in the case of the small miscellaneous manufactured goods category are price fluctuations greater than for raw materials, as the last column of table 2 indicates. Prices of foodstuffs and manufactured goods classified by material are relatively stable, although of course overall export prices are the most stable, as some fluctuations tend to cancel others out.

Table 2: Export Price Elasticities (1975-84)

	Price elasticity	t value	Goodness of fit	Durbin Watson Statistic	Deviations from trend
Overall	0.34	4.27	0.70	0.80	0.72
Food	0.59	4.27	0.69	1.23	2.21
Raw Materials	0.16	0.97	0.10	0.72	4.36
Chemicals	0.34	4.07	0.67	1.85	3.60
Manufactured goods (1)	0.41	0.41	0.21	1.40	2.66
Manufactured goods (2)	0.77	3.51	0.61	2.01	5.87

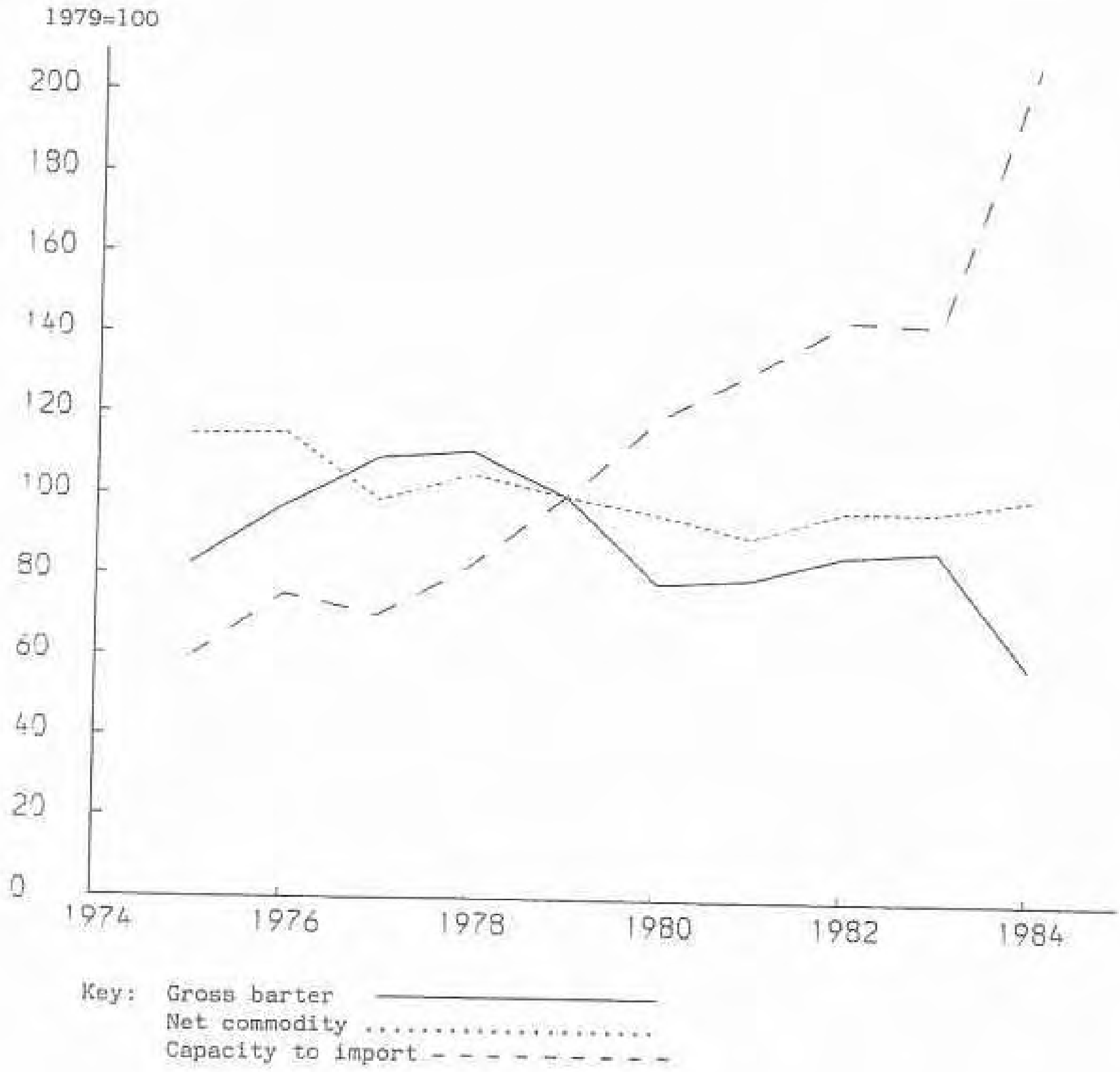
Note: Regression estimated of form $X = P^b$, which was transformed logarithmically into $\log X = a + b \log P$. X is export volume, P is the export price, a is the intercept parameter in logarithmic form form and b is the slope parameter (price elasticity). Manufactured goods by material is category (1) and miscellaneous manufactured goods is category (2). The deviation from the trend is the average deviation of the actual observation from the value estimated from a linear trend. It is expressed in percentage form.

Date source: Central Bank of Jordan Monthly Statistical Bulletins Vol.17, No.12, Dec. 81, Table 32 and Vol.21, No.12, Dec. 85, Table 34.

The Terms of Trade

Of even greater interest than export prices alone, is the overall performance of the terms of trade, as this indicates the country's capacity to import. Three standard terms of trade measures are used for Jordan, and these are illustrated in Chart 3. The gross barter terms of trade simply refer to the price of exports, including re-exports divided by the price of imports. In other words if import prices are rising faster, the schedule will fall, which indicates a deteriorating terms of trade. The net commodity terms of trade refers to exports, excluding re-exports. This is probably a preferable measure, as it allows for the real net costs and benefits to Jordan. The capacity to import measure takes account of the volume as well as the price of exports, dividing the multiple of the two by price of imports.[7] As export volume has expanded strongly over

Chart 3: Terms of Trade Indices



Sources: Central Bank of Jordan Monthly Bulletins of Statistics Vol.17, No.12, Dec. 1981, Table 34, Vol.21, No.12, Dec. 1985, Table 35.

the 1975-84 period, it was more strongly positive than the other terms of trade measures. The volume increases would, of course, have been much more favourable, had export prices been more buoyant, and import price inflation less marked.

Import prices can rise rapidly if currencies depreciate. In the case of the Jordanian dinar however, this has not been the case, as the currency is pegged to the Special Drawing Right, the International Monetary Fund's global unit of account, and there have been no currency adjustments in recent years. The authorities have monitored external payments closely through the foreign exchange licencing system. Maintaining confidence in the dinar has been a key policy objective not least because of the need to attract remittances into dinars. The rises in import prices therefore have largely reflected domestic inflation in the import supplying countries, over which Jordan can have no control. As the Amman authorities could have little effect on either import or most export prices, the terms of trade have largely had to be accepted as a policy constraint, rather than a factor which could be influenced by policy decisions.

Future prospects for import prices are reasonably encouraging, as inflation has fallen to its lowest rates since the 1960s in the major countries which supply Jordan with capital and consumer goods. In addition the fall in oil prices benefits Jordan as an oil importer. Although initially after the 1974 oil price rises, Jordan was supplied with some oil at concessionary prices well below those charged to western customers, this concession was withdrawn due to the difficulty in preventing re-exports. For over a decade Jordan has been paying the full market price, so the price falls are at least compensating the kingdom for some of the loss of financial aid from oil exporting countries of the Arabian Peninsula.

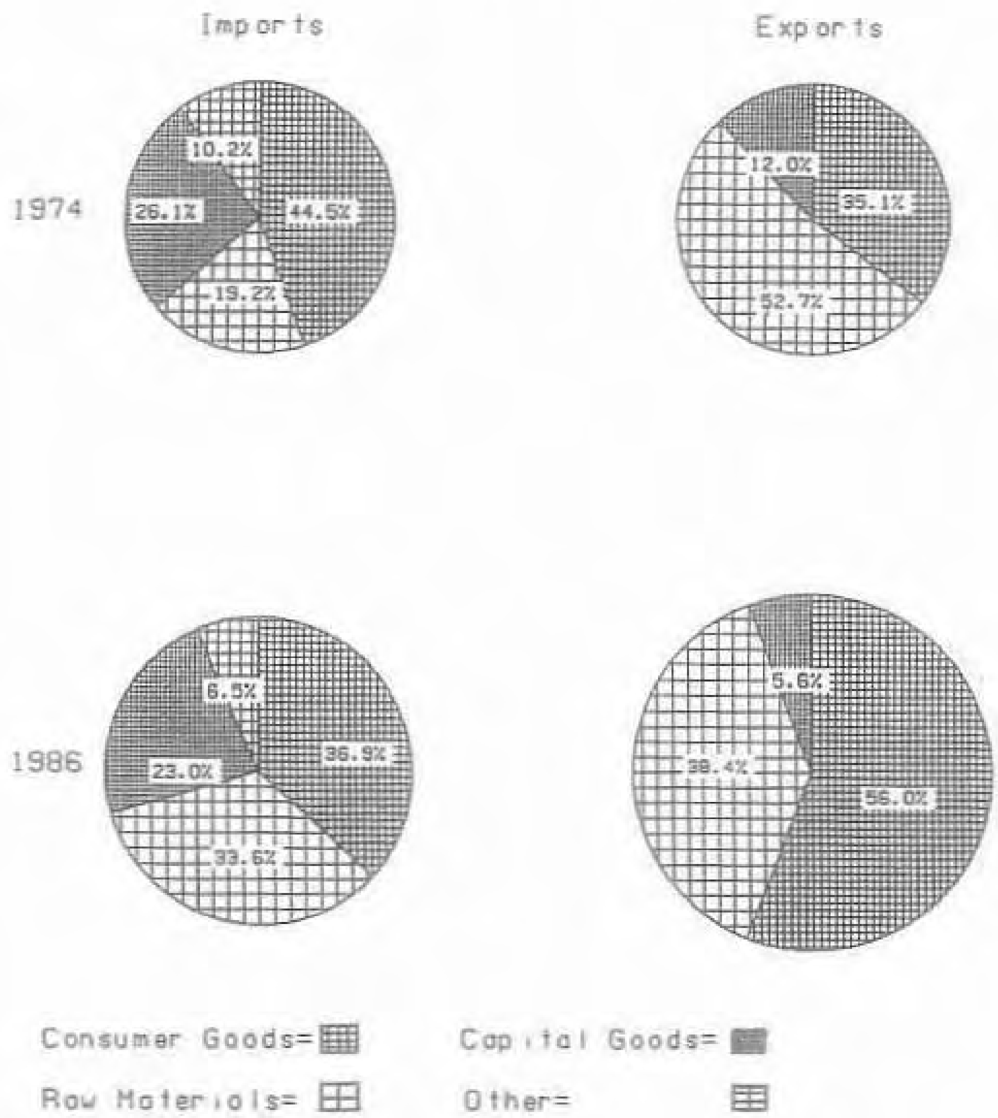
Trade Composition

Predicting future terms of trade movements depends, of course, on export price developments as well as import prices. It is the former which are especially difficult to assess in Jordan's case. Nevertheless crucial determining factors are the types of goods being exported and the markets in which they are sold. The question of trade composition and the direction of trade are therefore worth examining in some detail.

Chart 4 shows how Jordan's composition of both exports and imports has changed over the 1974-86 period. Classification, of course, raises many problems, especially deciding what constitute consumer and capital goods. A private car imported into Jordan is regarded as a consumer good, but a taxi is classified as a capital good, even though the taxi driver may use the vehicle for his family's private use for part of the time. Phosphates exports are, of course, classified as raw materials, but phosphate fertilizers which are domestically manufactured are regarded as consumer goods. This may be misleading, as farmers may regard their fertilizer purchases as a capital investment, a productive input rather than a final output.

The change in import composition is fairly unremarkable, as the rise in the share of raw materials largely reflects the increased payments for petroleum, which Jordan was able to obtain at concessionary prices in 1974 as already indicated. The other goods category fell simply because the customs became more practised at classifying goods. Of greater interest is the change in export composition, especially the decline in the share of raw materials, and the substantial increase in the share of consumer goods to almost two thirds of the total. Apart from fertilizers, which as already indicated may be regarded as misclassified, Jordan has been successful in establishing a range of

Chart 4 : TRADE COMPOSITION



SOURCE:CENTRAL BANK OF JORDAN MONTHLY BULLETIN OF STATISTICS NO.9 1986 chemical and light consumer goods industries,mainly providing supplies for the construction industry or domestic households. Chamical exports include paints, pharmaceutical products, detergents and soap. A significant furniture manufacturing industry has been established, largely using imported wood, and household furniture as well as joinery supplies are exported despite the lack of domestic timber. Food processing is becoming more important, and Jordan exports a large number of cigarettes to the Arabian Peninsula states.

These trends are encouraging, as the prices of consumer goods exports tend to be more stable than those of primary products, and the increasingly diversified nature of Jordan's exports further reduces vulnerability. These exports make good use of Jordan's skilled labour, such as joiners and carpenters. Amman has become a kind of workshop for the Arab Middle East that would not have been considered feasible two or even three decades ago. Most of the exports of manufactured goods have been the result of private initiatives, and they demonstrate how Jordan is one centre where entrepreneurship is flourishing in the otherwise often inhibited environment of the Arab Middle East. All too often elsewhere in the region state policies impede rather than encourage enterprise.

Direction of Trade

Not surprisingly most of Jordan's imports originate in the developed countries comprising the Organisation of Economic Co-operation and Development (OECD). There has been some substitution of supplier, with major European Community exporters such as the United Kingdom, West Germany and Italy getting displaced by Japan, which has become the largest single source of Jordan's imports. The overall share of the OECD countries as import suppliers increased over the 1974-86 period, to some extent at the expense of the socialist states of

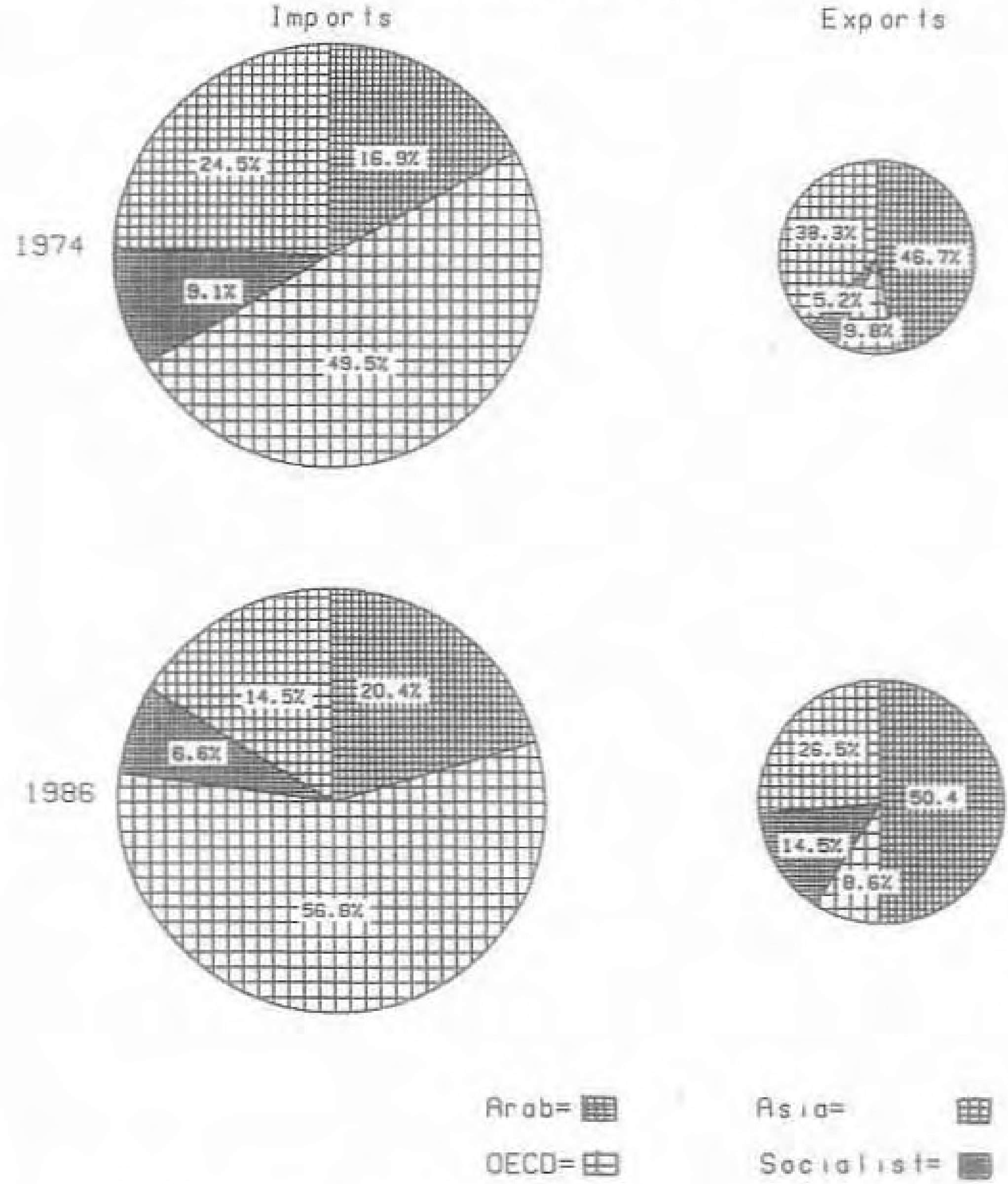
Eastern Europe as Chart 5 shows. The share of Asian suppliers fell, this category excluding Japan and the Arab states which are classified seperately. As imports from South East Asia increased rapidly, the fall in the share of Asia mainly affected imports from India, Pakistan and Iran. The increase in Arab imports largely reflects the rising value of petroleum purchases, and this may revert to 1974 proportions as a result of the recent oil price falls.

Although most Jordanian imports originate in the developed countries, the third world represents the kingdom's main export market. The Arab countries of the Arabian Peninsula and Iraq account for almost half of Jordanian exports, excluding re-exports through the port of Aqaba. The fruit and vegetables grown in the Jordan Valley under irrigation are largely marketed in the Gulf, and earn useful foreign exchange for Jordan.[8] Even though market conditions in the Gulf states are currently depressed, this is unlikely to have much impact on the demand for foodstuffs, and hence Jordanian sales of fruit and vegetables are unlikely to suffer from the depression.

Some crude phosphate and fertilizers are sold in the Gulf, but Jordan's major market is South Asia, where, because of large agricultural sectors, the markets for phosphate and fertilizers are much greater. Sales of crude phosphates present few problems, apart from the question of pricing, but marketing fertilizers is a greater challenge, as India and Pakistan have established fertilizer industries themselves. There is also some competition from the Gulf fertilizer industry, especially the Saudi plant at Jubail, which ironically uses Jordanian phosphate rock. Jordan has the advantage of an indigenous raw material source, but the Gulf states have lower cost energy feedstocks.

Jordan is a member of the Arab Common Market, which was originally established in 1964. Other members included Syria, Egypt and Iraq.

Chart 5 : DIRECTION OF TRADE



SOURCE : CENTRAL BANK OF JORDAN MONTHLY BULLETIN OF STATISTICS NO.9 1986

Note: Size of pie diagrams scaled to show the value of exports in relation to the value of imports.

Kuwait agreed to join, but its parliament refused to ratify the treaty, as it was feared that Kuwait might be forced to buy second rate consumer goods from Egypt rather than high quality Far Eastern supplies. The fact that the Arabian Peninsula states excluded themselves from the Arab Common Market was unfortunate for Jordan given its export orientation, although in practice no tariffs are applied to agricultural produce from the Jordan Valley. Nevertheless, now that the Gulf states have their own economic forum, the Gulf Co-operation Council, from which Jordan is, because of its location, excluded, there is some worry that the kingdom will be at a disadvantage. The main gains from the elimination of tariffs within the Arab Common Market has been in Jordan's trade with Iraq, but the latter is a less important market than the Arabian Peninsula states at present.

Trade With Iraq

Arguably, because of its population size and economic potential, Iraq should constitute Jordan's major natural trading partner. In fact prior to the Gulf War, trade with Iraq was growing substantially, with Iraq supplying oil, while Jordan sold a range of private sector light manufactured goods which Iraq's state run industries did not provide. These included pharmaceutical goods, detergents and soap, as well as some household durables. Although the Gulf war did not initially effect Jordan's export sales to Iraq, the level has been erratic since, especially in 1983, when severe foreign exchange shortages curtailed Iraqi purchases. Although there is free trade between Jordan and Iraq, payments restrictions remain, as neither currency is convertible. This constitutes a major impediment to trade, but it seems unlikely that either country will relax its foreign exchange restrictions even if conditions improve.

The Gulf war has resulted in Iraq having to divert some of its trade away from Basra, relying instead on Aqaba as a major transhipment port for imports. Chart 6 indicates the extent of the transit trade for containers. Jordan has benefited significantly from this transit trade, although trucks using the route from Aqaba to the Iraqi frontier have taken a heavy toll on the kingdom's roads. Nevertheless the handling fees, and employment generated in the port of Aqaba have been useful, and Jordanian transportation companies have gained profitable business.

Transit trade is nevertheless a poor substitute for domestic exports. The value of Jordan's exports to Iraq was almost 68 million dinars in 1984, a figure which seems likely to be sustained in 1985. This was a large improvement over the JD 26 million level of 1983. However an export target of JD 100 million for trade with Iraq appears both feasible and realistic.

Jordan has to run a substantial trade surplus with neighbouring states such as Iraq if it is to pay for its imports from the OECD states. Whether such surpluses will be economically and politically acceptable to Jordan's neighbours is of course a debatable point. Nevertheless such trade imbalances are merely to offset the loss of aid and remittances. It is this point which Jordan's planners will need to emphasise in Arab and other forums, otherwise any strategy of increasing self reliance in trade will simply not be feasible.

Countertrading Practice

The Jordanian government would like to diversify the composition of the kingdom's exports, and increase the number of export markets. Hard currency is needed to finance the country's imports from the European Community, but this cannot easily be obtained merely by trading with Arab and other Third World states. Much of Jordan's export trade is conducted on a countertrading basis, through various

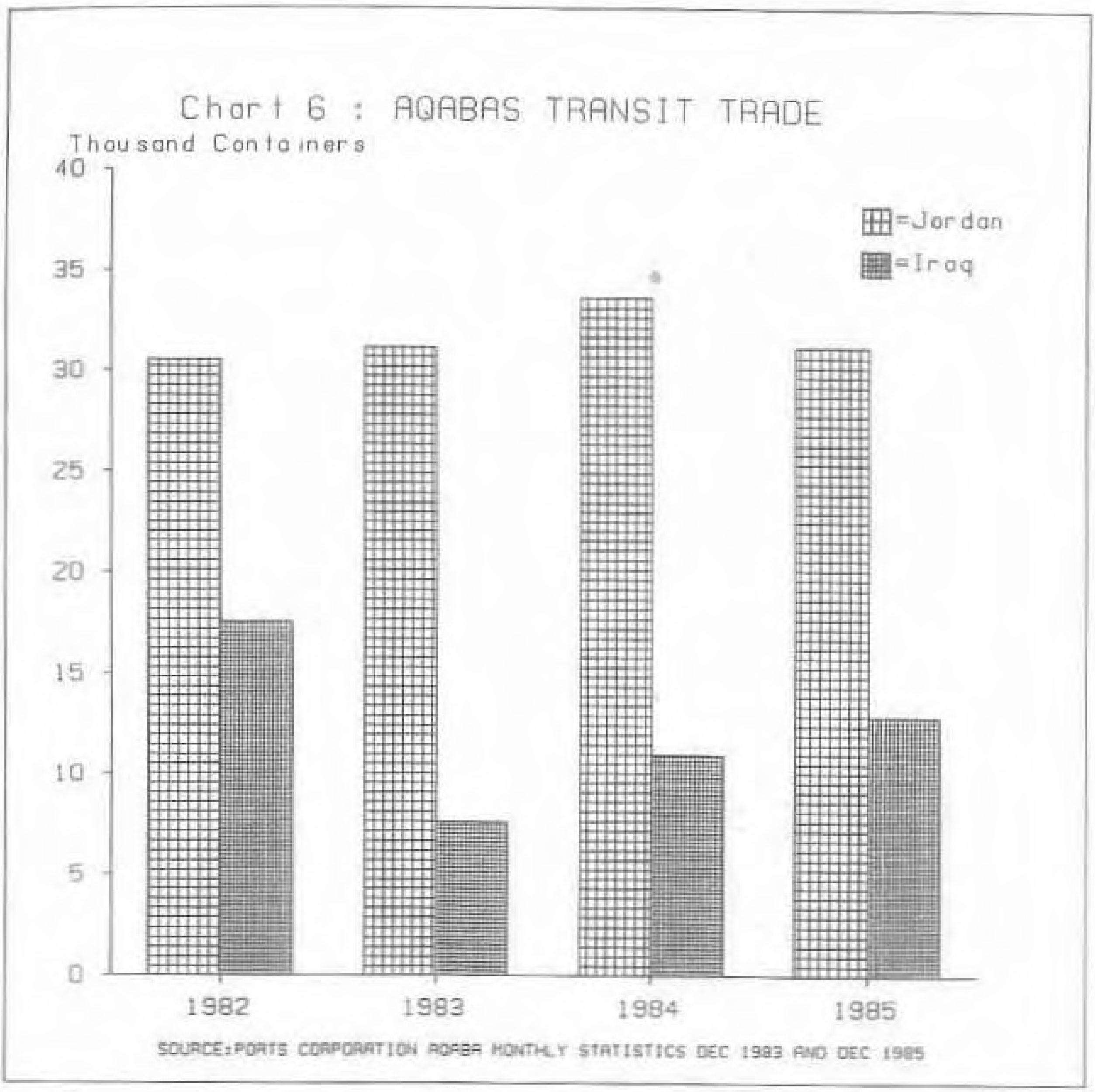


Chart 6 : AQABAS TRANSIT TRADE
Thousand Containers
40
35
30
25
20
15
10
5
0
=Jordan
=Iraq
1982
1983
1984
1985
SOURCE:PORTS CORPORATION AQABA MONTHLY STATISTICS DEC 1983 AND DEC 1985

bilateral deals with major regional and less developed trading partners.[9] Jordan's exports of plastic products to Iraq, for example, are exchanged for oil, as the Baghdad authorities lack foreign exchange to pay for their imports.

Jordan already has an agreement with Saudi Arabia to take oil from the Tapline, which cannot be conveyed to the Lebanese coast, so it does not particularly need the Iraqi oil. To refuse to participate in such barter, however, would only result in the virtual cessation of trade with Iraq, with adverse consequences for Jordan's export businesses and domestic employment. The oil price falls have complicated the position further, as Jordan should be entitled to more oil from Iraq for its exports. Nevertheless Jordan does not want additional oil, as it cannot re-export these supplies easily, given its geographical position, and the logistical problems in shipping the oil from Aqaba or sending it through Syria.

Of course the oil price reductions have brought benefits to Jordan as an oil importing nation. The oil import bill declined by JD 12 million in 1985 compared to 1984, a saving of 6 per cent, and in 1986 a 30 per cent reduction is expected, a saving of almost JD 40 million. In the context of barter trade these figures don't however mean much. Jordan's exports to Iraq may decline by a similar amount, resulting in minimal balance of payments gains. The cheaper oil prices will of course lower inflation, and make industries such as plastics more competitive, but this will not aid exports, which are rather price insensitive as already observed. In addition the oil price reductions reduce the incentive to develop Jordan's own oil shale deposits, although these are of doubtful viability in any case. The solar energy programme is also threatened, but 90,000 units to provide domestic hot water are already in place.

Phosphate and fertilizer sales are also often conducted on a barter basis. India provides textiles, or capital items such as industrial equipment in exchange for these supplies. Some of this trade is useful, with India, for example, providing equipment for the Aqaba railway, and even an engine repair workship. However many of the bartered goods are not needed. Jordanian middlemen have frequently to arrange re-export of those bartered goods which are surplus to Jordanian requirements, often at considerable discounts compared to the prices which the Indians consider the goods are worth. The Indians are therefore pressed to supply more, but this often merely adds to the Jordanian middlemen's marketing problems. Clearly trade on a cash basis is preferable to these arrangements, but countries in this position may often not purchase Jordanian goods as a first choice.

Trade Orientation and Comparative Costs

Jordan has a co-operation agreement with the European Community, which will be renegotiated in 1987 as part of the talks instigated by Claude Chesson as a result of the accession of Spain and Portugal to the Community. Jordan has yet to formulate its negotiating position for these talks, and specify the range of products on which concessions will be sought from the European Community. Crown Prince Hassan talks of harnessing Jordan's undoubtedly well educated middle class citizens to produce high technology goods for export, but the potential for Jordan to compete in the European Community market for computer software and other high technology products seems limited.

Jordan can certainly serve the regional Arab market, and it may have a comparative advantage in this context. At present, however, most Jordanian manufactured exports are basic low technology goods, such as plastic products, tried and tested medicines, household furniture and a range of other basic consumer items from soap to glassware. Jordan's problem is that Saudi Arabia is developing a similar range of industries on a highly subsidised basis through cheap credit, which Jordan cannot afford. Saudi Arabia seems destined to become the main manufacturing base for the GCC states, a process which the Jordanian government can only observe from the sidelines.

Yet Jordan is a high cost country by Third World standards, and the government is reluctant to try to gain short term competitive advantage through devaluation or depreciation of the dinar. This would only raise the cost of imports, fuel inflation, and result in a loss of confidence in Amman as a financial and service centre. Remittances might fall even faster, as those workers remaining in Saudi Arabia and the Gulf delayed conversion of funds in anticipation of further devaluations. This has been the Egyptian and Turkish experience. It is even doubtful if devaluation would stimulate exports. The low elasticity values shown in table 2 indicate that the demand for Jordan's exports may be unresponsive to any reductions in price.

It is only in a few cases that pricing factors may be significant. With potash from the Dead Sea, Jordan's second major mineral export, pricing is a problem. Israel has cut its price to $40 a ton, and gained most of the market. Jordan needs a price of $65 a ton to make its production viable given domestic cost structures. Obviously costs could be reduced in foreign currency terms by devaluation. Whether such an exchange rate realignment would be justified in view of the adverse consequences on most other counts must, however, be debatable.

Import Policy

The kingdom lacks a trade strategy, and therefore any means of cutting the trade gap. Imports can, and already have been cut, but this only harms long term development as far as capital goods are concerned. The authorities are in any case unwilling to discriminate in favour of capital goods, and curtail consumer goods. Such austerity measures would be domestically unpopular, and create distortions which the free market minded government is reluctant to contemplate. Foreign exchange is still fairly freely available for imports, and the central bank takes a relaxed attitude, despite Jordan's falling level of reserves.

Some domestic manufacturers feel that that the Jordanian government does not provide sufficient protection for local industry. Furniture producers, for example, have been adversely affected by a large increase in imports from Italy, which have driven some out of business, and caused others to cut down on production, with adverse consequences for employment in this labour intensive industry. The Italian furniture is usually more expensive than competing Jordanian products, and often made from inferior materials, with veneers widely used rather than solid timbers. Jordanian purchasers often prefer to purchase imports however, simply because it is fashionable to do so, or because foreign goods are perceived as more modern. It is difficult for local manufacturers to counter such public attitudes, but many feel it is up to government to take a lead. The importation of Italian stone for building luxury homes in Amman seems particularly wasteful in terms of foreign exchange given the abundant local availability of good quality stone materials. Yet nothing has been done to halt such imports.

Import policy has often been concerned with peripheral issues, which have limited development impact. The creation of the free zones at Aqaba and Zarqa for example received much attention, with raw materials allowed in duty free as long as they were used for export goods. No export industries have been established in the zones however, with the Aqaba zone providing duty free facilities for transit trade only, and Zarqa similar facilities for long distance truck drivers en route to Syria and Iraq. In practice unofficial duty free zones are more significant. Large quantities of consumer electrical goods are smuggled into the town of Muwaqqar for example from Saudi Arabia, and resold illegally to Jordanian purchasers who seek to avoid paying import duties. This trade is said to be the chief source of income for the inhabitants of Muwaqqar.

The major motive for import duties in Jordan is to raise tax revenue. This is a more important objective than foreign exchange saving or infant industry protection. Import duties account for almost 50 per cent of indirect taxes, and one third of total tax revenue. Where exemptions are permitted, this is usually because of fashion, rather than to help domestic industry. Computers and other items of office equipment can be imported tax free, as it is thought this will help make Jordan a high technology society. Yet the financial services sector, the main user of such goods, is arguably over-developed for Jordan's needs. Meanwhile imports of heavy goods vehicles are subject to high taxes. As a consequence some Jordanian hauliers register their vehicles in Saudi Arabia or the Gulf states, but in practice these vehicles are used on Jordan's roads, for domestic as well as transit trade.

Export Promotion Measures

If the government is reluctant to act on imports, it is argued they should at least create an institutional framework to aid exports. Over a third of bank credit goes directly and indirectly into financing imports, yet the proportion used to finance exports is negligible. The creation of an export bank is one possibility, although the government is reluctant to see a proliferation of state controlled financial institutions, and lacks funds to start such a bank in any case.[10] An export promotion organisation has also been suggested, which could identify market opportunities, and advise Jordanian companies how to take advantage of them. Once again there is a suspicion that such an organisation might be unwelcome to the business community, as a type of unwanted state interference. There is the belief that businessmen know best what opportunities exist, although it can be argued that most Jordanian companies are too small to take export initiatives.

Another idea is to establish an Export Credit Guarantees Department to protect Jordan's exporters from the risk of payments default. It is argued that banks are reluctant to finance exports because of the uncertainty involved, but if an insurance scheme was introduced to compensate exporters in the event of payments default, the banks would be more willing creditors. Clearly political risk has to be separated from commercial risk. Both concern exporters, but they cannot do much about the former. In Jordan's case, with most exports going to countries with a long record of defaults, it is argued that insurance would be too costly to provide. Clearly there are no easy options, and even the creation of an appropriate institutional framework to encourage exports may be far from easy.

References

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1. For background information on Jordan's economy see Michael P. Mazur Economic Growth and Development in Jordan Croom Helm, London, 1979. For a brief account see Rodney Wilson The Economies of the Middle East Macmillan, London, 1979, Chapter 10.

2. Central Bank of Jordan Monthly Statistical Bulletin Vol.21, No.12, Dec. 85, Table 41.

3. Ibid. Table 25. Official remittance figures exclude foreign currency brought back into Jordan and converted into dinars through money changers. It also excludes remittances in kind, as Jordanian expatriates often bring home as personal imports items such as cars, and are free to re-sell them. These items may add an estimated 60 per cent to the value of remittances to the Jordanian economy, but these unofficial remittances have also slumped.

4. The large agricultural development schemes in the Jordan Valley were financed through aid. Though technically successful, the output is costly, and cannot be profitably marketed at world prices.

5. Such activities include banking and financial services.

6. These problems are discussed in a monograph the author has prepared on Euro-Arab Trade, Economist Publications, London, (forthcoming 1987).

7. This is sometimes referred to as the income terms of trade.

8. The development of agricultural exports into a significant source of foreign exchange earnings has been a remarkable achievement. For details see Rami G. Khouri The Jordan Valley, Longmans, London 1981. Another useful book on Jordan's agriculture is A.B. Zahlan (ed) Agricultural Sector of Jordan: Policy Systems Studies, Ithaca Press, London 1985.

9. An excellent guide to countertrade techniques is Steven M. Rubin The Business Manager's Guide to Barter, Offset and Countertrade Economist Intelligence Unit Special Report No. 243, 1986.

10. Egypt has such an institution. See Rodney Wilson "Egypt's Exports: Supply Constraints and Marketing Problems" British Society for Middle Eastern Studies Vol.12, No.2, 1985, pp.135-156.

JORDANIAN MIGRANT WORKERS' REMITTANCES

Remittances, the share of earnings which a migrant worker sends home, have assumed a central role in the economies of the labour-sending countries of the Arab world since the surge in emigration for employment in the mid-1970s. This is particularly true in the case of Jordan. In 1980 Jordan had almost 40 per cent of its economically active population working abroad and earned 20 per cent of its GNP from migrant workers' remittances.

This chapter is divided into two parts. First we examine trends in the volume of international migrant workers' remittances and review some of the aggregate measures of remittances, their significance and role in Jordan's economic performance. The second part of the chapter presents some of the results of a survey into the remittance behaviour of migrant households in northern Jordan.

1. Remittances, Migration and the Jordanian Economy

Jordan was well placed to meet the growing regional demand for manpower which followed the 1973-74 oil price increases. It had a long tradition of emigration for employment, a relatively skilled labour force and high levels of unemployment. By 1975 an estimated 139,000 migrants from the East Bank were employed abroad in other Arab countries. Although there is considerable debate over the number of migrants working abroad, it is apparent that the rate of emigration for employment accelerated during the mid and late 1970s.[1] The Ministry of Labour in Amman estimate that by 1983 the number of Jordanians working abroad in other Arab states had risen to 271,500, of whom 59 per cent were in Saudi Arabia and 29 per cent in Kuwait. This enormous growth in emigration was mirrored by a mushrooming in the value of migrant workers' remittances which rose from JD 7.4 million in 1972 to JD 475 million in 1984 (table 1). The remittance values

Table 1: Migrant Workers Remittances and Major Economic Indicators (JD million)

Year	Remittances Credit	Remittances Debit	Exports	Imports	Trade Deficit	GNP	Money supply M2	Non-residents bank deposits
1967	6.55		9.98	55.05	-45.06	136.10	94.1	2.13
1968	4.10		12.17	57.49	-45.32	158.80	108.8	1.85
1969	6.992		11.92	67.75	-55.84	189.80	118.8	2.54
1970	5.54		9.32	65.88	-56.56	222.50	129.1	2.53
1971	4.97		8.82	76.63	-67.81	236.59	135.1	2.08
1972	7.41		12.61	94.31	-82.70	263.03	146.5	2.04
1973	14.71		14.01	108.20	-94.19	291.34	176.1	2.14
1974	24.13		39.44	156.51	-117.07	373.95	216.7	3.63
1975	53.25		40.08	234.01	-193.94	376.00	277.7	8.63
1976	129.61	4.80	49.55	339.54	-289.99	562.40	378.3	20.37
1977	154.75	15.00	60.25	454.42	-394.16	660.10	467.6	18.95
1978	159.38	20.00	64.13	458.83	-394.70	781.00	606.7	47.48
1979	180.42	24.00	82.56	589.32	-506.77	921.30	773.1	67.09
1980	236.68	46.00	120.31	715.98	-595.67	1185.30	984.8	133.25
1981	340.89	52.00	169.03	1047.50	-878.48	1484.20	1179.9	143.56
1982	381.87	62.40	185.58	1142.49	-956.91	1675.40	1403.3	171.58
1983	402.90	72.80	160.09	1103.31	-943.22	1780.20	1615.2	216.69
1984	475.00	97.50	261.06	1071.34	-810.29	1875.30	1757.7	276.87
1985	403.50	93.60	255.35	1074.45	-819.10		1874.8	294.27
1986*	440.00		107.00	394.00	-287.00		1926.3	294.27

* Estimated.

Source: Central Bank of Jordan, Monthly Statistical Bulletin, (vol.22, no.9, Sept. 1986); and Yearly Statistical Series (1964-1983).

quoted here are those published in the official statistical bulletin of the Central Bank of Jordan (CBJ). These are based on the declarations of licensed money changers and clearances through the banking system. The total amount of remittances is almost certainly higher than the published figures.

Trends in the value of migrant workers' remittances are portrayed in figure 1a and 1b. In the 1960s and early 1970s, the value of remittances was relatively low, ranging from JD 4.1 million (1968) to JD 7.4 million (1972), and fluctuated with changing political conditions in Jordan. The volume of remittances took off after 1973, growing by 121 per cent in 1975 and 143 per cent in 1976, to reach a level of JD 129.6 million. The rate of growth in remittances slowed in the late 1970s but leapt forward again in 1980 and 1981 following the second surge in oil prices. By 1982 annual remittances totalled over JD 380 million and were to peak at JD 475 million in 1984.

Not all of these remittance receipts remain on the East Bank. The pattern of remittances flow is complicated since an unknown proportion of remittances passing through the Jordanian banking and exchange system are destined for the Israeli-occupied West Bank where the Jordanian dinar remains legal tender. It should also be noted that net remittance receipts are lowered by the transfer of earnings out of Jordan by foreigners working as 'replacement' labour. The volume of transfer payments out of Jordan by immigrant workers has grown substantially, rising from less than JD 5 million in 1976 to JD 98 million in 1984 (table 1).

The growth in recorded remittance receipts during the 1970s and early 1980s reflects a number of factors:

1. the increasing number of Jordanians working abroad;
2. the growth in real wages in the oil-exporting countries;

FIG. 1a MIGRANT WORKERS' REMITTANCES

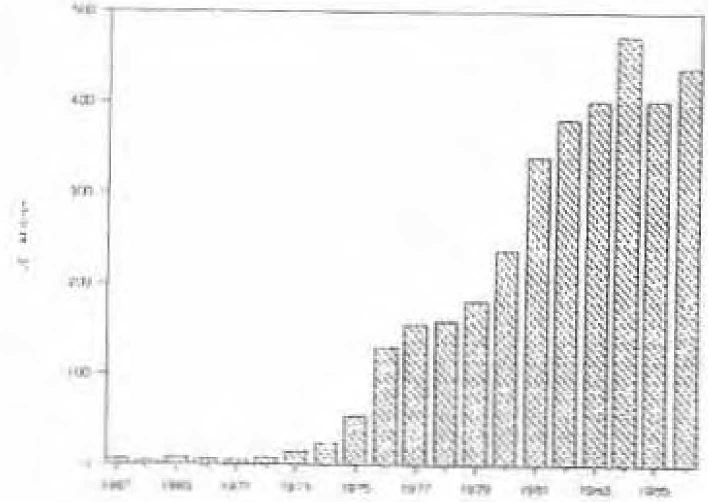
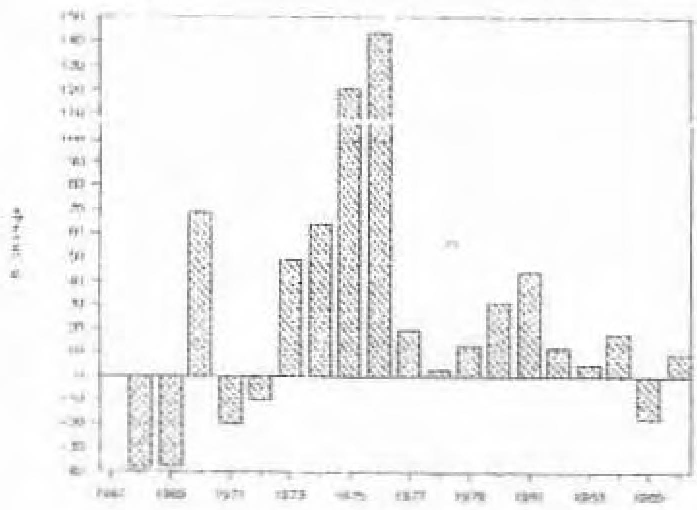


FIG. 1b Percent change in remittances



3. a change in the propensity of migrant workers to remit earnings (reflecting an increase in the share of short-stay, lower skilled and unaccompanied migrants);
4. political and economic stability in Jordan;
5. efforts by the CBJ and by the commercial banks to capture a greater proportion of total remittances.

Expanding on the latter point, the limit on foreign currency holdings was doubled in 1979 to JD 10,000. At the same time Jordanians living abroad were given the option of depositing foreign currency in local banks for up to five years, enabling them to earn higher rates of interest. Incentives for Jordanians working abroad to invest in commercial banks have been increased by the growth in interest rates for time-deposit accounts. This has stimulated an increase in the number of deposit accounts held by non-residents (table 1). These have grown in value from JD 8.6 million in 1975 (5.7 per cent of total private sector deposit accounts) to JD 294 million in 1985 (18.8 per cent). A large proportion of these deposits are held in higher earning fixed time deposits.

The significance of migrant workers' remittances to the Jordanian economy is well illustrated by the fact that during the period 1976-80 recorded remittances were actually greater than total expenditure on the five year development plan. From less than 10 per cent of GNP prior to 1975, remittances rose to over 20 per cent in the late 1970s and early 1980s (figure 2).

The availability of both external budget support, which has been rapidly monetized by the government, together with the apparently high propensity to expend remittances on consumer goods, have been major factors in the rapid increase of money supply (M2). The latter is stimulated by the growing credit demands from merchants to finance the demand for imports, and by the conversion of foreign currencies (remittances) into Jordanian dinars. Remittances have equalled between

FIG. 2 Remittances as a % of GNP

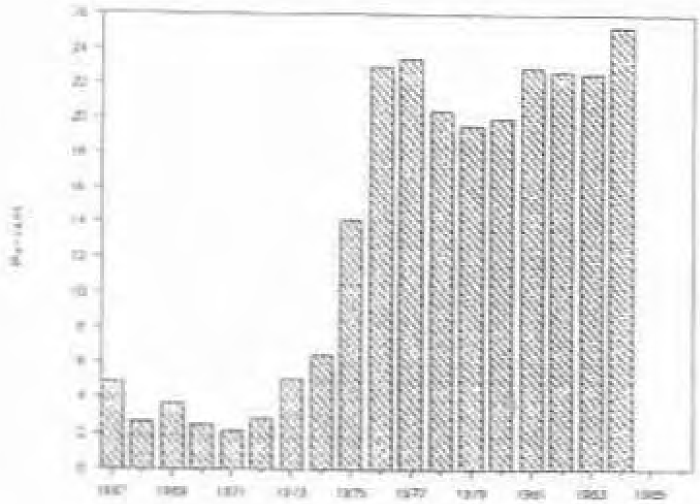
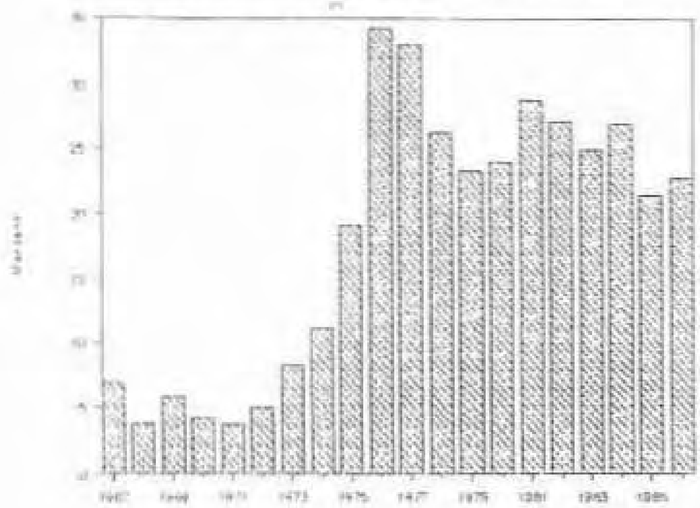


FIG. 3 Remittances as a % of M2



one quarter and one third of the money supply since the mid-1970s (figure 3). The rapid increase in money supply has been a significant factor in the stimulation of high rates of inflation throughout the mid and late 1970s.

Since 1976 remittances have ranged from 30 to 40 per cent of imports by value (figure 4). Although the value of imports rose faster than remittances in the late 1970s, causing the ratio of remittances to imports to decline, this trend was reversed in the mid-1980s. In every year since 1975 remittances have also exceeded merchandise export earnings. The ratio of remittances to exports peaked in 1976 when remittances equalled 262 per cent of export earnings (figure 5). Between 1977 and 1980 export growth surpassed that of remittances. This trend was reversed in the early 1980s, but has reasserted itself in 1985.

Overall, the existence of this large positive balance in invisible earnings has transformed the balance of trade deficit into a balance of payments surplus. Figure 6 shows how remittances have offset between 20 and 58 per cent of the trade deficit over the period 1974-85, despite the growth in that deficit from JD 117 million to JD 819 million. Nevertheless, it is apparent that a change in the numbers working abroad, or their propensity to remit, would rapidly lead to a balance of payments crisis.

In 1985 remittance income to Jordan fell, by 15.2 per cent, for the first time since 1970-71. Provisional estimates for 1986 indicate a modest rise from the 1985 value (to JD 440 million), though still significantly down on their 1984 peak. The future level of remittance income depends on a number of factors including: the number of Jordanians working abroad; their occupational composition and related marginal propensity to remit; real wage trends in the

FIG. 4 Remittances as a % of imports

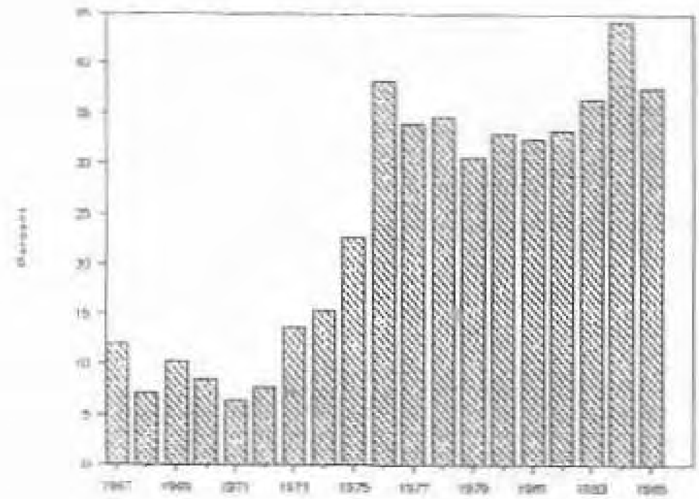


FIG. 5 Remittances as a % of exports

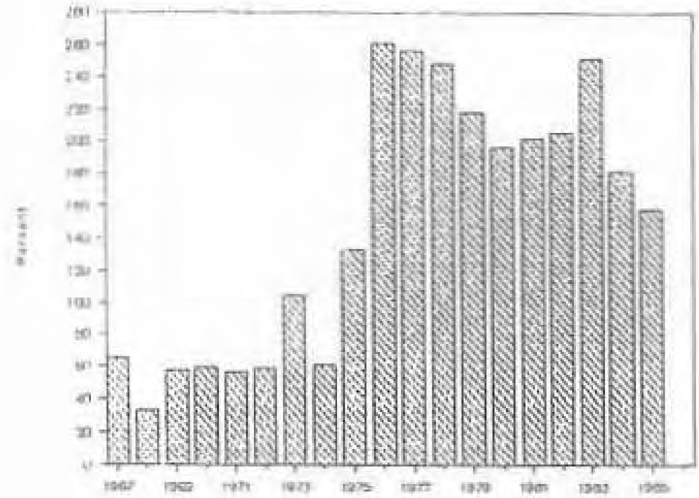
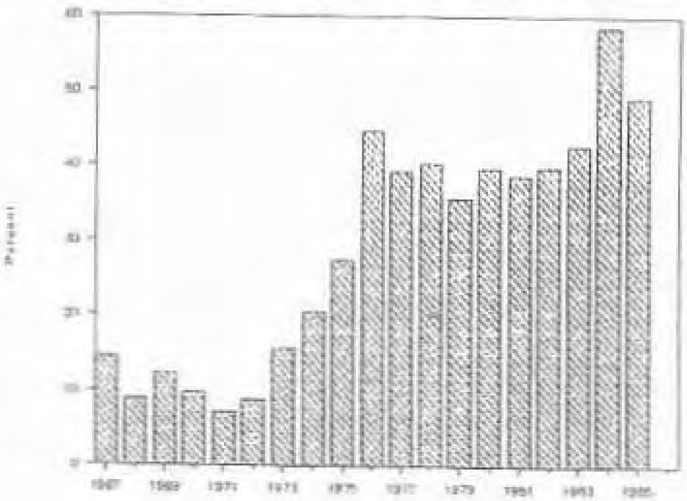


FIG 6 Remittances as a % of trade deficit



countries of employment. A review of these factors points to a continuing decline in workers' remittances.

An important effect of the economic slowdown in the Arab Gulf states since 1982 has been a weakening in the demand for new Jordanian and other Arab expatriate labour.[4] In 1983, for example, only 3,700 Jordanians received new work permits for Saudi Arabia, compared to 7,300 in 1979. Similarly the number of Jordanians receiving new work permits in Kuwait has fallen from a rate of over 2,000 a year in the late 1970s and in 1980, to only 221 in 1984 and 213 in 1985.

The decline in levels of outmigration has been most prominent among the unskilled and semi-skilled workers who are affected most by the reduction in construction sector activity. For example, the share of professional, technical and skilled workers among Jordanians placed in Saudi Arabia has increased from 15 per cent in 1978 to 34 per cent in 1983. There is strong evidence to show that the marginal propensity to remit is inversely related to occupational level.[5] Lower skilled workers tend to remit a significantly higher share of their earnings for family support since they are unable, or unwilling to take their dependants abroad with them. In contrast migrants in professional and technical occupations have a higher dependency ratio since their contracts often include subsidised housing and schooling.

Thus, in addition to a decline in remittance levels as a result of falling real wages in the countries of employment, remittances are likely to fall as a result of the smaller number of emigrants and their concentration at higher occupational levels. Moreover, other countries of employment may join Libya and Iraq in imposing restrictions on the volume of remittance transfers. It is against this background that we now turn to the micro-level data from the migrant survey to examine household behaviour regarding the use of remittances from abroad.

2. Migration and Remittances in Rural Irbid

The second part of this chapter presents the results of a survey into the remittance behaviour of households in seven villages in the highland areas of Irbid governorate. The survey collected data from 216 households who, at the time of the survey (autumn 1985), received income from one or more members of their household who were working abroad.[6]

2.1 Characteristics of the Sample

Most villages in this part of northern Jordan have a long history of emigration for employment, having supplied labour to Palestine in the 1930s and 1940s, and to Beirut in the 1950s and 1960s. The most recent phase of labour emigration dates from the early 1970s. Over 90 per cent of those currently abroad have left the area since 1974, and almost half have been abroad for less than five years (figure 7). Each village has its own particular temporal and spatial pattern of migration (tables 2 and 3). For example, over 60 per cent of emigrants from Taibeh left prior to 1980, and the majority went to the United

FIG. 7 MIGRANTS BY YEAR OF DEPARTURE

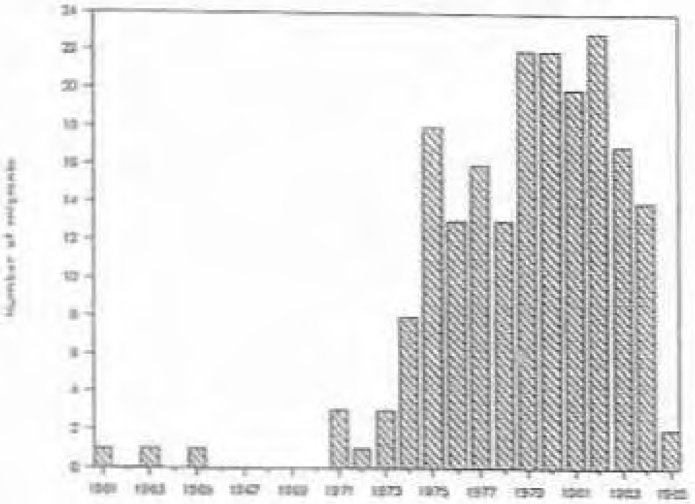


FIG. 8 DISTRIBUTION OF MIGRANTS BY AGE

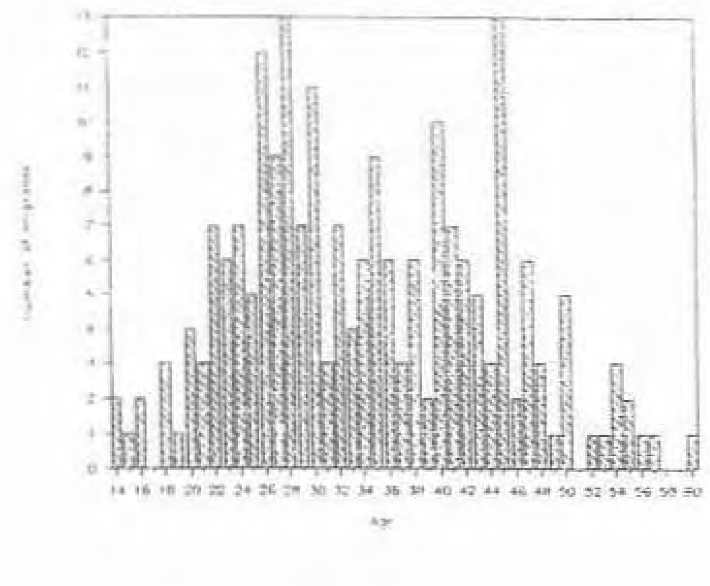


Table 2: Number of Migrants by Village of Origin and Year of Departure

	Pre 1967	1968-73	1974-79	1980-85	Not known	TOTAL
Taibeh	1	4	31	21	7	64
Qum	6	1	19	19	2	47
Kufrinjia	-	-	9	22	2	33
Kharja	-	-	7	5	-	12
Hartha	-	1	8	19	2	30
Rafid	-	-	10	7	-	17
Nuaima	-	-	3	3	-	6
Not stated	1	1	3	2	-	7
TOTAL	8	7	90	98	13	216
% Total	3.7	3.2	41.7	45.4	6.0	100.0

Table 3: Number of Migrants by Village of Origin and Destination

	UAE	Qatar	Saudi Arabia	Kuwait	Other Arab	Other	Not known	TOTAL
Taibeh	47	-	9	-	1	7	-	64
Qum	13	10	15	1	4	3	1	47
Kufrinjia	2	20	6	-	2	3	-	33
Kharja	3	4	1	-	-	4	-	12
Hartha	2	5	8	1	3	11	-	30
Rafid	8	2	3	3	1	-	-	17
Nuaima	5	-	1	-	-	-	-	6
Not known	-	5	-	2	-	-	-	7
TOTAL	80	46	43	7	11	28	1	216
% Total	37.0	21.3	19.9	3.2	5.1	13.0	0.5	100.0

Arab Emirates (UAE). In contrast over 70 per cent of emigrants from Kufrinjia have left since 1980 and are concentrated in Qatar. Overall, the largest number of migrants from the area are working in the UAE (37 per cent). The two other major destinations are Qatar (21 per cent) and Saudi Arabia (19 per cent). Kuwait, at one time a major destination for Jordanian migrant workers, is now relatively insignificant as a destination for migrants from this area.

The close association of migrant origins and destinations is reflected in the fact that over two-thirds of the emigrants reported that they had a contact (either a village friend, neighbour or relative) in the place of emigration. Moreover, in many cases contacts already abroad played an essential role in arranging employment, residence permits or accommodation for new emigrants from their village.

A very high proportion of village emigrants are employed in the public sector abroad, particularly in the military, civil defence forces, public administration and teaching. Some 46 per cent of the sample emigrants were employed in the military or civil defence (particularly those in Qatar and the UAE), and a further 27 per cent in the civil service. The high degree of public sector employment abroad is reflected in the fact that more than 20 per cent of emigrants were abroad on a government secondment.

One effect of the high proportion of migrants from the military and public administration is to raise the mean age of migrants. Although the model age category of current migrants in the survey is 25-29 years, a third of migrants are aged 40 or more (figure 8). Saket's 1980 survey of migrant households in Amman had the same model age, but found that 80 per cent of current migrants were aged under 40 (Saket et al, 1983). This older age distribution also accounts for the low proportion of never married migrants (less than 3 per cent) in the sample. Both age and marital status are likely to be important determinants of remittance usage.

Remittance usage may also be affected by migrants' education level. Table 4 shows the distribution of current migrants by their highest grade of education attendance. The table indicates quite clearly the high level of educational attainment of the current migrants. Over 60 per cent of those responding had some secondary or higher education attendance, while only 14 per cent have primary education or less.

Despite their absence for an average of six or more years, emigrants retain strong links with their village or origin. This is illustrated by the frequency of home visits (table 5). Most migrants visit their home village at least once a year, for an average of four weeks, and more than a third visit at least twice a year. The strong links between emigrants and their village of origin is emphasized by the characteristics of remittance flows and the pattern of remittance usage which is considered in the following section.

2.2 Remittance Behaviour and Usage

The significance of migrant workers' remittances to the Jordanian economy was discussed earlier. At the village level the dependence on remittances is raised even higher. In addition to the current migrant households, many non-migrant households also receive some financial support from non-household kin working abroad. Among current migrant households income from abroad is usually the major, and in many (54 per cent) cases the only source of household income. Reported annual remittance levels range considerably, from less than JD 600 to JD 8,400. The majority of households received between JD 1,500 and JD 4,500 per annum.

Remittance income varies with migrants' education and destination. For example, 32 per cent of migrants with higher education

Table 4: Village Migrants by Highest Educational Attainment

	Number	Per cent
None	16	7.4
Primary	14	6.5
Preparatory	50	23.1
Secondary	88	40.8
Higher	42	19.4
Non known	6	2.8
Total	216	100.0

Table 5: Frequency of Home Visits by Year of Departure

Year of departure	Has not visited yet	Once per annum	Twice per annum	3-5 times per annum	Other	Not known	Total
1980-85	18	49	20	5	6	-	98
1974-79	-	37	31	6	11	5	90
1968-73	-	1	3	-	3	-	7
Pre-1967	-	3	2	1	1	1	8
Not known	-	7	2	2	2	-	13
Total	18	97	58	14	23	6	216

recorded annual remittance levels of over JD 4,500 compared to 14 per cent of those with secondary education and 10 per cent of those with primary education or less. Moreover, the average remittance level was JD 1,200 at all education levels except higher education, where the average value was JD 4,800. In addition, mean remittance income is significantly higher, for all education levels, for those households with a migrant in the UAE than elsewhere. The value of remittances shows no significant variation with migrants' age or duration of residence abroad.

Some 87 per cent of households reported receiving remittances on a regular basis. Table 6 shows the frequency of remittance receipts. Over half the sample received remittances on a monthly basis and a further 19 per cent on a quarterly basis. Moreover, the majority of village migrants reported using formal channels for the transfer of their remittance earnings. The survey showed that 32 per cent of migrants had remittances paid directly into a bank account in Jordan. A further 37 per cent made their transfers by cheque or money order. As expected, the proportion of migrants using formal banking channels for remittance payments rises with the educational level of the migrant. Of migrants with higher education, 82 per cent used formal banking means, compared to 70 per cent of those with primary education or less. Relatively few migrants (15 per cent) made remittance transfers via visiting relatives, friends or neighbours. The proportion of village migrants using formal transfer mechanisms is much higher than reported by Saket in the 1980 Amman survey (46 per cent). This difference may reflect the later date of the village survey, and the higher proportion of migrants abroad on secondment or working in the public sector.

The majority of households (68 per cent) reported that the major use of remittances was for daily expenditure. Major reported uses of remittance income in addition to daily expenditure are shown on table 7.

Table 6: Frequency of Remittance Transfers

	Number	Per cent
Monthly	117	54.0
Quarterly	41	19.1
Semi-annual	12	5.6
Annual	6	2.8
Other	12	5.6
Not known	28	13.0
TOTAL	216	100.0

Table 7: Percentage Distribution of Households Reporting Major Remittance Uses by Migrant's Education Level

Remittance use	Primary or less	Preparatory	Secondary	Higher	Total
Buying land for building	20.0	12.0	6.8	23.8	13.0
Buying land for agriculture	6.7	4.0	-	14.3	4.6
Building a new house	36.7	46.0	48.4	85.7	45.3
Adding rooms to house	6.7	10.0	5.7	11.9	8.3
Business investment	6.7	2.0	2.3	9.5	4.2
Children's education	53.3	24.0	17.1	42.9	30.1
Marriage payments	10.0	6.0	2.2	11.9	6.5
Debt payments	40.0	32.0	34.8	50.0	29.2
Consumer durables	33.3	40.0	24.5	52.3	30.5
Savings	23.0	22.0	5.7	28.6	16.2
Gold	13.3	12.0	2.3	4.8	6.5
Charity	6.6	8.0	2.3	7.1	5.6

The major uses of remittances which emerge from this table are: residential construction (45.3 per cent of households); purchases of consumer durables (30.5 per cent); education (30.1 per cent); debt payments (29.2 per cent). There is surprisingly little variation in the pattern of remittance expenditure by age, occupation, income level or education.

Most significant, in terms of total outlay and the large number of migrants involved, is the use of emigrant remittances in a variety of housing projects. In addition to the 45 per cent of households involved in building a new house, a further 13 per cent were using remittances to purchase land for building and 8.3 per cent were using remittances to add additional rooms or facilities to existing property. Overall, almost two-thirds of migrants were involved in investment in improved housing.

Data for the village strata of the Amman survey shows a similar preference to investment in housing. Some 42 per cent of village respondents were using remittances for residential building or the purchase of non-agricultural land. This contrasts with the 18 per cent in 'below high income' urban areas and 20 per cent in the 'high income' urban areas. A major factor contributing to this rural-urban differential in the propensity to invest remittance income in housing is the extent of home ownership in rural areas. Over 93 per cent of households in the village survey live in owned accommodation. This compares with rates of less than 50 per cent in Amman. In the villages home ownership is seen as an important form of security and is given a high priority amongst newly married couples. In addition the costs involved in building new housing in rural areas (which averaged JD 8 - 10,000 in the survey) are substantially lower than in the Amman urban region. In Amman the construction of new housing is usually preceded by land purchase, thus increasing costs and adding further to the time lag between emigration and investment in housing. In contrast most of those building new houses in the villages do so on land already owned by the family. The use of family land holdings in this way has enabled emigrants to begin work on housing projects within the first three to four years of their initial departure.

Despite differences in detail, the remittance usage pattern in rural areas is remarkably similar to that reported for Amman. The strong bias towards investment in housing, which is consistent across all education and occupational groups, may reflect a lack of alternatives: a point of view supported by the lack of variation in remittance expenditure patterns by migrants with different socio-economic and demographic characteristics. Opportunities for the investment of remittance income in agriculture are limited given the fragmentation and small size of land holdings, together with the reluctance of villagers to sell inherited family lands and the low returns from dryland agriculture. The survey of remittance usage confirms the view that the main impact of emigration is largely confined to improving the living standards, through consumer spending and new housing, of emigrant households, rather than leading to any re-structuring of production potential. The experience of the villages appears to mirror that of the economy as a whole.

Notes and References

1. I.J. Seccombe (1984) International labour migration and skill scarcity in Jordan. Geneva: ILO, IMEP working paper 14.

2. A.S. Mansour (1982) "Monetary dualism on the West Bank", Journal of Palestine Studies, vol.11, no.3, 103-16.

3. See I.J. Seccombe (1986) "Immigrant workers in an emigrant economy. An examination of replacement migration in the Middle", International Migration, vol.24, no.2, 377-96, and M.A. Smadi et al (1986) The socio-economic impact of guest workers in Jordan. Amman: Royal Scientific Society.

4. I.J. Seccombe (1986) "Economic recession and international labour migration in the Arab Gulf", Arab Gulf Journal, vol.6, no.1, 43-52.

5. B.K. Saket et al (1983) Workers' migration abroad: socio-economic implications for households in Jordan. Amman: Royal Scientific Society.

6. In each participating village efforts were made to enumerate all 'emigrant' households identified by the local municipal authorities. Comparative data was also collected on households in which a migrant worker had recently returned to Jordan and on a control group of non-migrant households. In order to reduce respondant variability the survey instrument was designed for administration to the migrant's wife. In cases where the migrant was unmarried the respondent was the migrant's mother. Data was not collected on households where the migrant was accompanied abroad by his wife. All interviews were conducted by women students from Yarmouk University under the supervision of Dr. Ali Zaghoul. The survey instrument was pre-tested in February 1985 in the village of Sammu.

7. B.K. Saket et al (1983) Workers' migration abroad: socio-economic implications for households in Jordan. Amman: Royal Scientific Society.

ISLAMIC BANKING - THE JORDANIAN EXPERIENCE

The subject of Islamic finance has received increasing attention in recent years, both from Moslem scholars and from those in the West with an interest in Islamic affairs. Much of the writing is of a theoretical nature however, and it is only recently that the results of empirical investigations have started to appear. This paper is intended as a modest contribution to this empirical literature.

There are several reasons why the Jordanian experience is of special interest, and why it is worth examining in some detail.

1. Jordan, despite its small size, is one of the most developed Islamic countries, where the majority of the population use banks. The kingdom's gross national product per capita of $2000 understates its level of development, as Jordan has perhaps the best educated and qualified population in the entire Islamic world.

2. The economy is very open, with international transactions of considerable importance, reflecting Jordan's geographical position, market size, and economic structure. Much banking business therefore involves trade finance, and the handling of remittances, which are still of considerable importance for the Jordanian economy, despite the oil recession in the Gulf.

3. The banking laws are liberal, with the major banks being privately owned. Foreign banks are permitted to operate, although most business is handled by domestically owned banks. There is much competition in the financial sector, involving both the banks themselves, and money changers who handle a large portion of remittance transactions, and business involving the West Bank where Jordanian banks no longer operate.[1]

4. Islamic banking is well established in Jordan, with the Jordan Islamic Bank for Finance and Investment founded in 1978, and operating

since September 1979. It has a more extensive branch network than any other national Islamic bank. There is also an Islamic Investment House in Amman, which has built up a significant investment portfolio while working in accordance with the Sharia's financial principles.

5. There has been little written about Islamic banking in Jordan, despite the seven years of experience with modern Islamic finance. Ahmed El Ashker has written extensively on the Egyptian experience of Islamic banking, and a shortened version of his thesis will be published in 1987 by Croom Helm of England. Mohammed Bashir has written on the Sudanese experience, and an article summarising the main findings of his thesis appeared in the Journal of Research in Islamic Economics (Vol.1, No.2, 1984). I have written myself on Jordanian banking, but not hitherto on Islamic banking in the kingdom. (For a description and analysis of banking trends in Jordan see Rodney Wilson "The Role of Commercial Banking in the Jordanian Economy" in Adnan Bardan and Bichara Khader The Economic Development of Jordan, Croom Helm, Beckenham, Kent, England, 1986)

Jordan's Current Financial Position

The Jordanian economy has been remarkably resilient for over three decades, despite the traumatic experiences of the Israeli occupation of the West Bank in 1967, the civil war in 1970, the difficult relations with Syria, and the spillover effects from the Gulf War involving Iraq, Jordan's major trading partner. Growth rates have been high, often averaging over 10 per cent per annum, well above those of neighbouring states such as Syria and Iraq. The government's policy of encouraging private initiative and enterprise seems to have paid off, with a flourishing small business sector, and a diversified range of light consumer orientated industries which serve both Jordan and Iraq.

The economy's main weakness has always been the trade imbalance however, with export receipts covering only 20 to 30 per cent of import payments. Until recently this was not a problem as the foreign exchange gap was covered by remittances and aid inflows from abroad, initially from Britain and the United States, but in recent years mainly from Saudi Arabia and the Gulf. With the oil recession in the Gulf, aid inflows have fallen sharply. Those from Kuwait in 1985 fell to a quarter of the previous year's level, and in the case of Saudi Arabia, the major donor, the decline exceeded fifty per cent. Early indications suggested aid disbursements will be even lower in 1986, as aid to Iraq is being given priority over assistance to Jordan, given the former's critical situation because of the Gulf war.

At the same time remittances are falling sharply, the value declining by over one quarter in 1985. Although remittances in 1986 were better than expected, prospects are poor. The demand for foreign labour has declined sharply in the Gulf, partly reflecting the completion of labour intensive infrastructural projects, but also as a result of the fall in investment caused by the fall in oil revenues. Even if the oil situation improves, it seems unlikely that there will be any substantial recruitment of new workers from Jordan, as the pressures are now great to indigenise employment in the Gulf, especially as some of the states now face a problem of youth unemployment. Even those Jordanian passport holders working in administration and teaching are finding their services are no longer required when contracts come up for renewal.

The Jordanian Banking Scene

It is important to be aware of these disturbing economic trends when assessing the prospects for banking in Jordan, including those for the Islamic banks. The future growth of the economy and banking business will inevitably be affected by developments in the international oil market, even though Jordan itself is not an exporter of oil. Much will also depend on the outcome of the Gulf War, given Iraq's significance as a market for Jordan. In view of Jordan's ability to overcome the gravest of crises in the past however, it would be unwise to take too gloomy a view of the future.

Jordan's educated citizens have a remarkable aptitude to seize whatever opportunities arise, and to ensure that profitable business results. The demise of Beirut as a banking centre for example helped Amman, as a number of international banks made the Jordanian capital their centre for Middle Eastern and Arab operations, given the stable political environment, and the liberal economic climate. Similarly the state control of virtually all economic activity in Syria and Iraq, including the nationalised banking sector, has helped Jordan attract capital and enterprise from these states which could not flourish under tightly regulated conditions.

Jordan is the home of one major international bank, the Arab Bank, and eight primarily local banks which serve the domestic market. Although in terms of paid up capital the Arab Bank is four times larger than any other Jordanian bank, this merely reflects the size of the international operations of this essentially Palestinian institution. Domestically the Jordan National Bank is more significant in terms of deposits and lending, and other institutions such as the Cairo Amman Bank, the Jordan Kuwait Bank and the Petra Bank do almost as much business.[2]

Riba Transactions in Jordan[3]

In the mid 1970s almost half the bank deposits with the commercial banks were in demand or current accounts on which zero or minimal interest was paid. By 1985, however this proportion has fallen to below one quarter, reflecting the increased competition in the banking sector for deposits. Most deposits are now in the form of term deposits for a fixed period or savings deposits which also earn interest. Non residents, mainly Jordanian expatriates working in the Gulf, seem particularly keen to maintain interest earning deposits, as only 15 per cent held demand deposits in 1985. This may reflect their lesser need for transactions balances, as they return to Jordan relatively infrequently.[4]

As far as asset deployment is concerned, the commercial banks advance almost half their funds in the form of loans on which interest is payable, some through overdraft facilities, but an increasing amount through structured term lending. Around ten per cent of bank assets are held in interest earning government bills and bonds, and around 15 per cent are held in foreign assets, again mainly interest yielding securities. Less than 2 per cent of all commercial bank advances are in the form of direct investment.

Around one quarter of commercial bank advances are in the form of trade finance, mostly credits to cover imports, although some are for purely domestic commerce. A similar proportion of commercial bank advances are for construction finance, although this proportion has been falling, reflecting the recession in the construction industry, which has affected even domestic house building and home extensions. Personal lending has increased in significance however, and now accounts for over one tenth of all commercial bank credit.

Although interest transactions are the prevalent form of bank business in Jordan, rates remain relatively low, reflecting the kingdom's modest rate of inflation, and the stability of the Jordanian dinar. Interest rates on savings and time deposits are in the 4-8.5 per cent range, depending on the deposit terms, and borrowers are seldom charged more than 10 per cent. The authorities have been concerned to keep interest rates down in order to curtail business overheads, although this has been largely through exhortations rather than by direct regulation via monetary policy.[5] Nevertheless this policy seems to have worked, and relations between the commercial banks and the central bank are close, the latter being able to exercise effective control, while at the same time ensuring that sound banking standards are adhered to.

Origins of Islamic Banking in Jordan

The Central Bank acted in an accommodating way to the introduction of Islamic banking into the kingdom, and responded positively to the initial suggestions which were made concerning this type of banking. While not wishing to see the banking system Islamised, the authorities were sensitive to the wishes of those who wanted Islamic financial services, and it was recognised that many believers were unhappy with the kind of banking facilities offered by the riba commercial banks. It was therefore thought that provision should be made for a plural system, which would accommodate both riba and halal financial transactions, the latter being the only type permissible under the Sharia religious law. Accordingly, law number 13 of 1978 was drafted, published in the official gazette no. 2733 of April 1st. It was this law that provided for the establishment of the Jordan Islamic Bank for Finance and Investment.

In framing this legislation the Finance Ministry sought the advice of Sharia legal experts, as well as the Central Bank staff concerned with bank regulation. The initiative for the law, however, came as a result of an approach made to the Jordanian authorities by Sheikh Saleh Kamel of the Al Baraka Group, with backing from within Saudi Arabia. The law defines the type of deposits which the bank can receive, and the forms of advances which it is permitted to make under the Sharia law. The functions, objectives, management structures and capital provisions are all set out under the establishment law.

Several types of deposit are permitted. Trust deposits are like current account deposits which earn no return, but which are repayable in full by the bank on demand. Joint investment accounts can be opened by individuals or businesses who wish to share in the bank's profits (or losses). The return on these deposits is not guaranteed, as such a guarantee would contravene Islamic law.[6] Indeed there may be a zero return, as section 22(a) of the establishment law indicates, but in practice this has never happened. There are three kinds of joint investment accounts: savings account, notice accounts and fixed accounts. Money can be withdrawn from savings accounts subject to 10 days advance notice. The depositor gets a 50 per cent profit share however on his or her balance. Notice accounts, as their name implies, are subject to a longer minimum notice of withdrawal, 3 months, but depositors get a 70 per cent profit share on their balances. With fixed accounts depositors get a 90 per cent profit share, but funds are illiquid in the short term, the minimum deposit period being a year.

The Jordan Islamic Bank also provides specific investment accounts for clients seeking to invest in particular projects, with the bank acting as the client's agent or investment manager. The bank shares in any profits from the investment, but is not liable to participate in any losses. This type of service provides a model for Islamic fund management, and represents a successful innovation in the Islamic financial field by the Jordanian bank. The bank may also provide muqaradah bonds,[7] which maintain their face value, but entitle the holder to a share of the profits on the funds in which the money raised through the bond issues have been utilised. Such bonds have not yet been issued, but the provision of such a facility under the establishment law gives the bank increased flexibility.

The law provides for advances to be made by the bank on the mudarabah[8] profit sharing principle, as well as through decreasing participation. The bank is also entitled to a profit share under the latter scheme, but the bank's share of the project gradually diminishes over time. Short term finance for trade purposes can be advanced through re-purchasing schemes, as is the case with other Islamic banks.

Capital Structure of the Jordan Islamic Bank

The authorised share capital of the Jordan Islamic Bank was JD 4 million,[9] with shareholdings restricted to a maximum of 5 per cent of the total capital under law number 13 of 1978. The initial paid up capital was JD 1 million, most of which was raised by public subscription apart from the funds invested by the founder owners. Each year until 1983 a further JD 1 million was paid up until the whole authorised capital was subscribed. The founder subscribers were entitled to increase their participation in line with their initial subscriptions each year until 1983, but not all did so. By December 1980 only JD 273 was unsettled, but by 1981 this had risen to JD 168,492, representing almost 17 per cent of that year's settlements. The position improved the following year however, as only JD 56,983 was left unsubscribed out of the fourth capital issue. All of these shares were readily taken up by new purchasers who were keen to become owner participants in the bank because of its increasingly favourable reputation.

In 1985 some amendments to the bank's establishment law were made when the bank's permanent law No. 62 was passed. The major change provided for an increase in the bank's authorised capital to JD 6 million, a decision which was ratified by the General Assembly of the Bank at a meeting on 21st December 1985. All the bank's shareholders are entitled to attend the General Assembly. This decision was taken partly as a result of the development of the bank's business, and the need to have an adequate capital base. In addition, however, the Central Bank of Jordan issued new regulations requiring the minimum capital of all Jordanian Banks to be JD 5 million. During the first half of 1986 the new authorised capital was duly paid up, most being subscribed by the existing shareholders. Under Jordanian law existing shareholders are given the first option of purchase when the company's capital is increased, and they have 15 days to exercise their right. Most chose to do so, as the bank's shares had steadily increased in value, and proved a sound investment. The shareholders were confident in the management, and there was a ready market for existing shares. The number of shareholders of course varies, but the majority are private rather than institutional investors. The management estimated that there were over 5000 shareholders in 1986, with the average nominal holding therefore being JD 1200, although the shares themselves were worth twice this amount.

Sheikh Saleh Kamel of Saudi Arabia is Chairman of the Board of Directors, but his holding in the Bank is below JD 250,000. The Al-Baraka Investment and Development Company has a similar shareholding, it being a Jordanian company which is wholly owned by the Al-Baraka international group. Over 95 per cent of the capital is Jordanian owned. The bank is not a member of the International Association of Islamic Banks, which tends to be dominated by Prince Mohammed bin Faisal's Islamic banks. Like other Al Baraka associates, the bank prefers to remain independent of this grouping, although in its overseas business it will deal with other Islamic Banks, including the Faisal Islamic Banks, in preference to secular commercial banks. All the banks operations are fully in accordance with the Sharia law, and Sheikh Abdul Hamid Essayeh, a respected Jordanian religious authority, acts as the Shariat consultant.

Share Values

Shares in the Jordan Islamic Bank have been actively traded since the creation of the company in 1979. Dealings in bank shares account for around 70 per cent of transactions in the Amman Financial

Market, an exchange which has become the second most important in the Arab Middle East after Cairo in terms of the value of transactions. Kuwait used to be the leading market in the region, but dealings remain depressed following the Souk Al-Manakh debacle in 1982. The volume of dealings in shares in the Jordan Islamic Bank peaked in 1980 and 1981 as table 1 shows, but since then the amount of trading has fallen. In 1980 it was second most traded company on the Amman Financial Market after the Jordan and Gulf Bank, but more recently dealings have declined. The initial high volume of transactions partly reflected the enormous amount of interest in this new type of financial institution by market participants. Shareholders today tend to regard their holdings as long term, however, rather than tradable instruments which can be sold to realise capital gains.

Table 1: Equity Position of the Jordan Islamic Bank

	Value of shares traded (JD '000)	Number of shares traded (000)	Average share price[2] (JD)	Yield[3] (%)
1979	542	503	1.078	0
1980	4059	2757	1.472	0
1981	3886	2732	1.423	3.51
1982	6402	2517	2.544	3.14
1983	7261	2310	3.143	2.54
1984	6693	2015	3.322	2.71
1985	826	308	2.678	3.36
1986[1]	186	82	2.268	ND[4]

Note: 1. January to June.

2. Nominal value is JD 1.000.

3. Calculated on the basis of shareholders dividend in relation to the actual average share price.

4. ND - not declared.

Source: Jordan Islamic Bank Annual Reports 1979-85 and Central Bank of Jordan Monthly Statistical Bulletin June 1986.

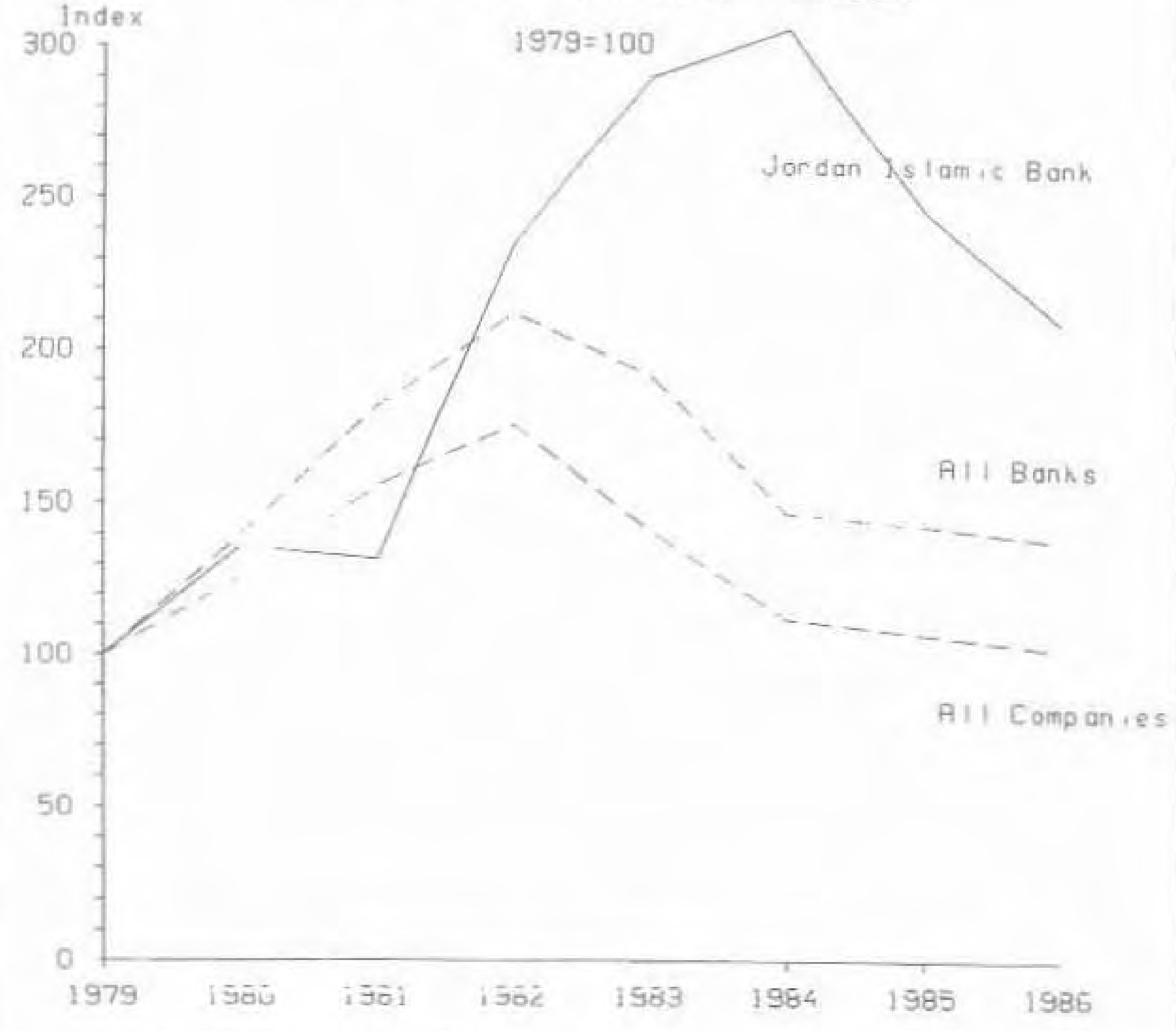
There is a willingness to hold on to the shares even when their value declines as shareholders feel themselves committed to the bank. As a capital asset the shares have done relatively well in any case. As chart 1 shows, share prices in the Jordan Islamic Bank have consistently outperformed the index for all banks, as well as the Amman financial market index for all shares. Prices rose more than twice the general share index over the 1979-86 period, and although bank shares did better than those for manufacturing and distributive trades, the value of shares in the Jordan Islamic Bank increased by almost 50 per cent more than banks on average. It was only during the 1980-81 period that the shares in the Jordan Islamic Bank performed less adequately, but this reflected the uncertainties of the early settling down period. Nevertheless during this period the overwhelming majority of founder shareholders willingly subscribed to the increases in paid up capital as already indicated.

Deposit Growth

The Jordan Islamic Bank started from a modest deposit base as might be expected for a new, and novel kind of financial institution. Jordanians tend to be conservative, especially in financial matters, and preferred to adopt a "wait and see" approach before depositing their own funds. The initial publicity that surrounded the opening of the new bank brought only a limited public response, and most of the initial depositors were the bank's own investors. The management were content to have a slow build up of business initially, as it would not have been easy to profitably employ a sudden surge in deposits in any case. Advertising was rejected as a means of attracting clients, instead the management's policy was that the bank's reputation could best be spread by word of mouth from existing satisfied customers to their relatives and friends.

It would of course, have been easy to expand deposits rapidly by

Chart 1 : J.I.B.SHARE PRICES



SOURCE:CENTRAL BANK OF JORDAN Monthly Statistical Bulletin and Amman Financial Market targeting a few affluent customers and larger businesses which could have deposited substantial sums. In Jordan there are several thousand such people, some of whom are extremely devout in their religious observance. Management's aim, however, was to establish a wide deposit base by attracting as many customers of modest means as possible. This inevitably meant more administrative effort, and raised bank overheads. The advantage of such a policy was that the deposit base would be more stable than if some affluent customer decided to withdraw all his funds at once. One year after opening by the end of 1980 there were around 5,000 depositors, and by 1986 the number has grown to 65,000.[10] The average size of deposit is under JD 2,000, and some clients have deposits of JD 200 or less. The size of deposits has tended to fall over the time depsite the aggregate growth, a trend which the management is pleased to see. The aim is to make the institution a people's bank for the community of believers.[11]

The major means of expanding the deposit base was by establishing a branch network throughout Jordan. There are now thirteen branches of the bank, from Irbid in the north to Aqaba in the south. Five of the branches are in Amman, where over one third of Jordan's population is concentrated, including most of its more affluent citizens. The spread of branches in the region may have contributed to the decline in the average value of deposits, but it means the bank is regarded as a truly national institution. Further branches are planned including Mafraq in the north, Salt, high above the Jordan Valley, and possibly Azraq in the east. Jordan is of course a limited market, and the geographical possibilities are soon exhausted, but the management plan is to open a new branch each year, at least for the next five years. The bank has no ambitions outside Jordan, being an essentially national institution.[12]

Types of Deposit

Chart 2 illustrates the growth of deposits since the Jordan Islamic Bank's inception. Initially trust accounts were the most popular, these being current accounts on which cheques can be drawn as already indicated. The management was keen to encourage such transactions accounts at the start which earned no return, until the bank could build up an investment portfolio. Since 1980 however, joint investment accounts have become more significant, and it is this type of account which has come to dominate in terms of deposits. The percentage of total deposits accounted for by joint investment accounts rose from 54 per cent in 1980 to almost 62 per cent in 1983, and over 70 per cent by 1986. Of the various types of joint investment account offered, the fixed term account has proved the most popular, as it earns the highest return, 90 per cent of the declared profit proportion. Over 90 per cent of the joint investment deposits are of this type.

From the bank's point of view this dominance of fixed term accounts means a secure deposit base. At least a year's notice must be given for funds to be withdrawn, and in practice the amount under notice is extremely low. The bank can therefore back projects on a long term basis, secure in the knowledge that most of its funding is also long term. There is little need to worry about unanticipated calls for funds, as in the case of riba commercial banks. Depositors know, however, that if an unexpected need arises, and there are unforeseen expenses such as hospital bills to be paid, then the bank will provide help. The bank maintains a Qird Hasan,[13] or social purpose fund to help the needy. A total of 595 loans were granted from this fund on an interest free basis in 1985, these being worth JD 238,321. The bank has started to accept Qird Hasan deposits which must be specifically used to alleviate social hardship. In 1985 a total of

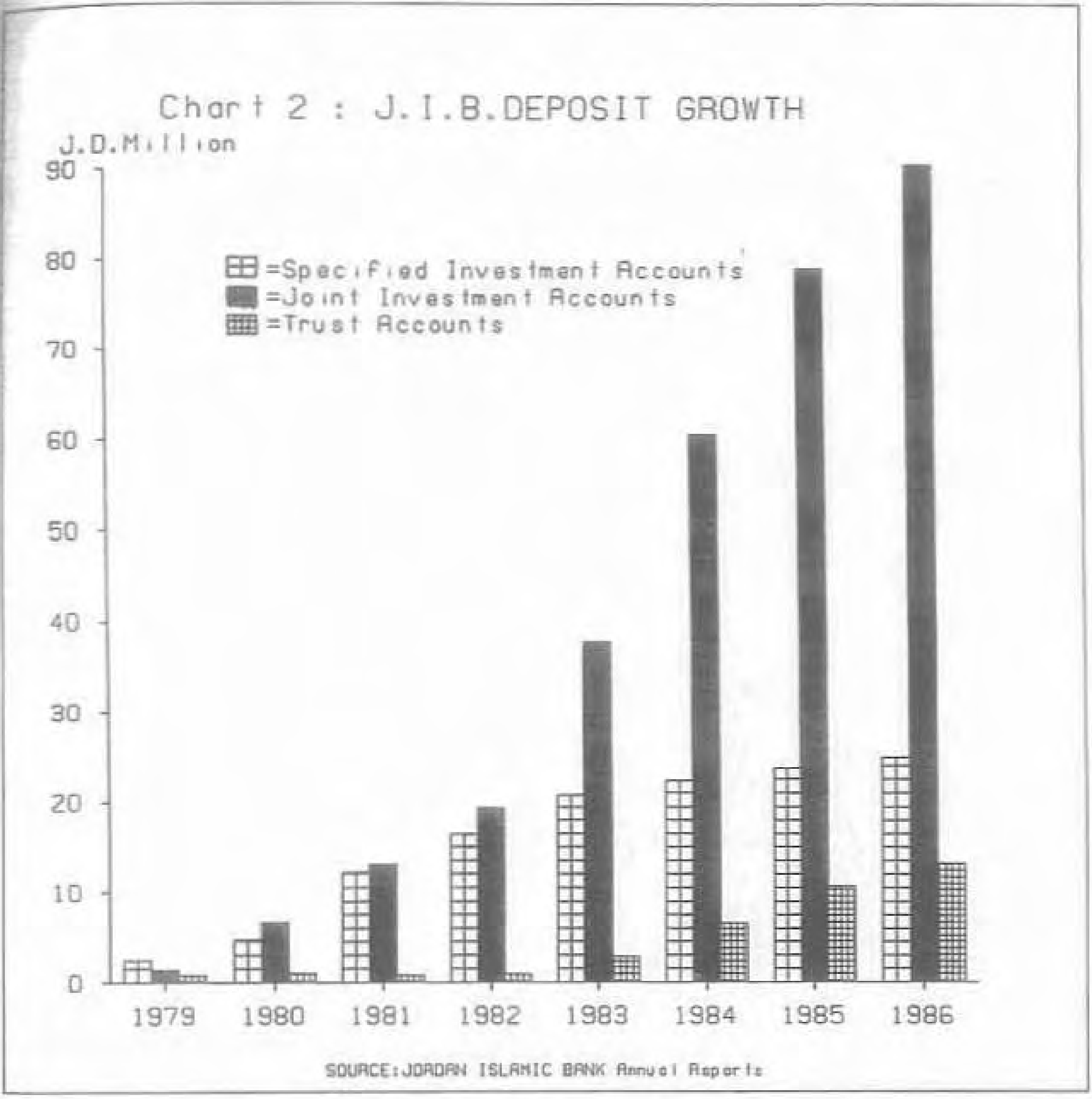


Chart 2 : J.I.B.DEPOSIT GROWTH
J.D.Million
90
80
70
60
50
40
30
20
10
0
=Specified Investment Accounts
=Joint Investment Accounts
=Trust Accounts
1979
1980
1981
1982
1983
1984
1985
1986
SOURCE:JORDAN ISLAMIC BANK Annual Reports

JD 14,628 was deposited by 68 customers on this charitable basis.

The management are keen to attract specified investment accounts, which as chart 2 shows have grown steadily since 1983. By 1986 these accounted for over 10 per cent of deposits, and the management's objective is to increase these accounts to over one fifth of deposits by 1990. With this type of deposit funds are invested in specified investment projects which the depositor requests, and the rate of return directly depends on the particular project being funded, rather than the bank's overall profit. The depositor has therefore a greater degree of choice, but he bears the risk, and makes the gain (or loss).[14] The bank's role is to provide financial management for the project. It ensures that the funds are properly used, and that the interests of the investor are protected. The bank is therefore an investment services manager, bringing the parties in need of funds in touch with those with surplus funds.

Many customers maintain more than one type of deposit, running a trust account for their transactions' needs, while at the same time placing longer term funds in joint or specified investment accounts. Some of these long term accounts are precautionary balances, to cover items such as medical expenses, although in Jordan, given the emphasis on education, many of the balances are to cover future school and university fees. This is a major expenditure item for most middle class households, but through savings, the cost can be met over a longer period of time. Needs can be reasonably well anticipated in advance with educational fees, and for this purpose a joint investment account with a fixed one year notice provides the ideal investment vehicle.

Role of Jordan Islamic Bank Compared to Other Banks

The extent to which Islamic banks contribute to the institutionalisation of savings, has long been debated. It is through this process that a positive contribution to development can be made by matching savings with investment needs. Funds are employed in a systematic fashion using some form of rate of return criterion, thereby ensuring a more optimal use of resources. A major contribution to this process is made if Islamic banks encourage those who were not previously in the banking habit to use their services. Many Moslems were hesitant to use riba based financial institutions, but Islamic banks provide them with a halal[15] system of finance, to which there is no religious objection. Indeed, for believers, dealing with such institutions is preferable to personal hoarding, which like riba transactions, is condemned in the Koran.

The Jordan Islamic Bank seems to have attracted several thousand customers who were not previously in the banking habit, although the exact number cannot be assessed precisely, as clients are not asked such questions when they open accounts. It seems likely that many trust (current) account holders are in this position, a quarter of the total. Some may have used riba banks in the past, and then closed their accounts when the Jordan Islamic Bank opened, but this probably only applies in a small minority of cases. Bank customer loyalty is as significant in Jordan as elsewhere. Few with trust accounts with the Jordan Islamic Bank maintain current accounts with other banks however, as the holding of multiple accounts which earn no return is extremely wasteful.

Many clients of the Jordan Islamic Bank who maintain only joint investment accounts also have current accounts with other banks. This applies especially in the case of business customers. The accounts with the Jordan Islamic Bank are viewed as long term investments, whereas the other accounts are transactions balances. For individuals this is less likely to be the case, and they may not need current accounts. Jordan remains, like other Arab countries, an essentially cash based society as far as personal transactions are concerned, with cheques and credit cards[16] used much less than in the West. In these circumstances banks are regarded as primarily savings institutions. Even foreign exchange transactions apart from those for large amounts, or letters of credit seldom go through the banking system. Moneychangers handle most foreign exchange deals, including remittances, which were very important, and continue to have some significance for the Jordanian economy.

The Jordan Islamic Bank has probably not contributed as much to the spread of banking as some of the Islamic banks in the Gulf, simply because most Jordanians with significant means already banked prior to its establishment. The bank has made a more significant contribution to the spread of banking in the provincial centres where it established branches, rather than in Amman, which was financially more sophisticated. Overall it would seem most appropriate to suggest that the Jordan Islamic Bank has tended to complement the activities of the riba banks rather than being a substitute for them, but this reflects the Jordanian financial environment, rather than any shortcomings in the bank itself.

The Jordan Islamic Bank is continuing to expand its deposits rapidly however, in spite of the recession which Jordan is experiencing. Table 2 shows recent deposit growth, which has been extremely rapid, especially for joint investment accounts. These are growing much more rapidly than trust accounts, perhaps reflecting the fact that the new customers being attracted are lower income earners who do not require chequing and other similar facilities. The bank seems to be doing better than riba based banks in terms of deposit growth, particularly with regard to time deposits. No comparison was possible for specified investment accounts, as other Jordanian banks do not offer such deposit facilities.

Table 2: Recent Trends in Deposit Growth in the Jordan Islamic Bank for Finance and Investment

	Trust Accounts	Joint Investment Accounts	Specified Investment Accounts
Deposit value (JD)			
Dec. 1984	22,297,948	60,570,798	6,610,760
June 1985	24,696,330	68,977,848	9,895,949
Dec. 1985	23,745,917	79,118,479	10,703,701
June 1986	24,876,300	90,400,921	13,228,938
Deposit growth (%)			
Dec. 84 - Dec. 85	6.5(-10.2)[1]	30.6(15.0)[2]	61.9
June 85 - June 86	0.7 (0.5)[1]	31.0(9.8)[2]	33.7
Deposit shares (%)			
Dec. 1984	24.9	67.7	7.4
June 1986	19.4	70.3	10.3

Notes: 1. Refers to demand deposits in all commercial banks.
2. Refers to time deposits in all commercial banks.

Source: Jordan Islamic Bank for Finance and Investment, Seventh Annual Report, 1985, and Balance Sheet, June 1986. Central Bank of Jordan Monthly Statistical Bulletin, June 1986.

Asset Deployment

Most of the Jordan Islamic Bank's funds are placed in Islamic investments on a profit sharing basis. Chart 3 shows the growth of the bank's assets, with almost JD 80 million invested on an Islamic basis by 1986, and over JD 45 million in cash holdings. Initially cash holdings predominated, as Islamic investments take time to arrange, but by 1980 Islamic investments were already more significant. The

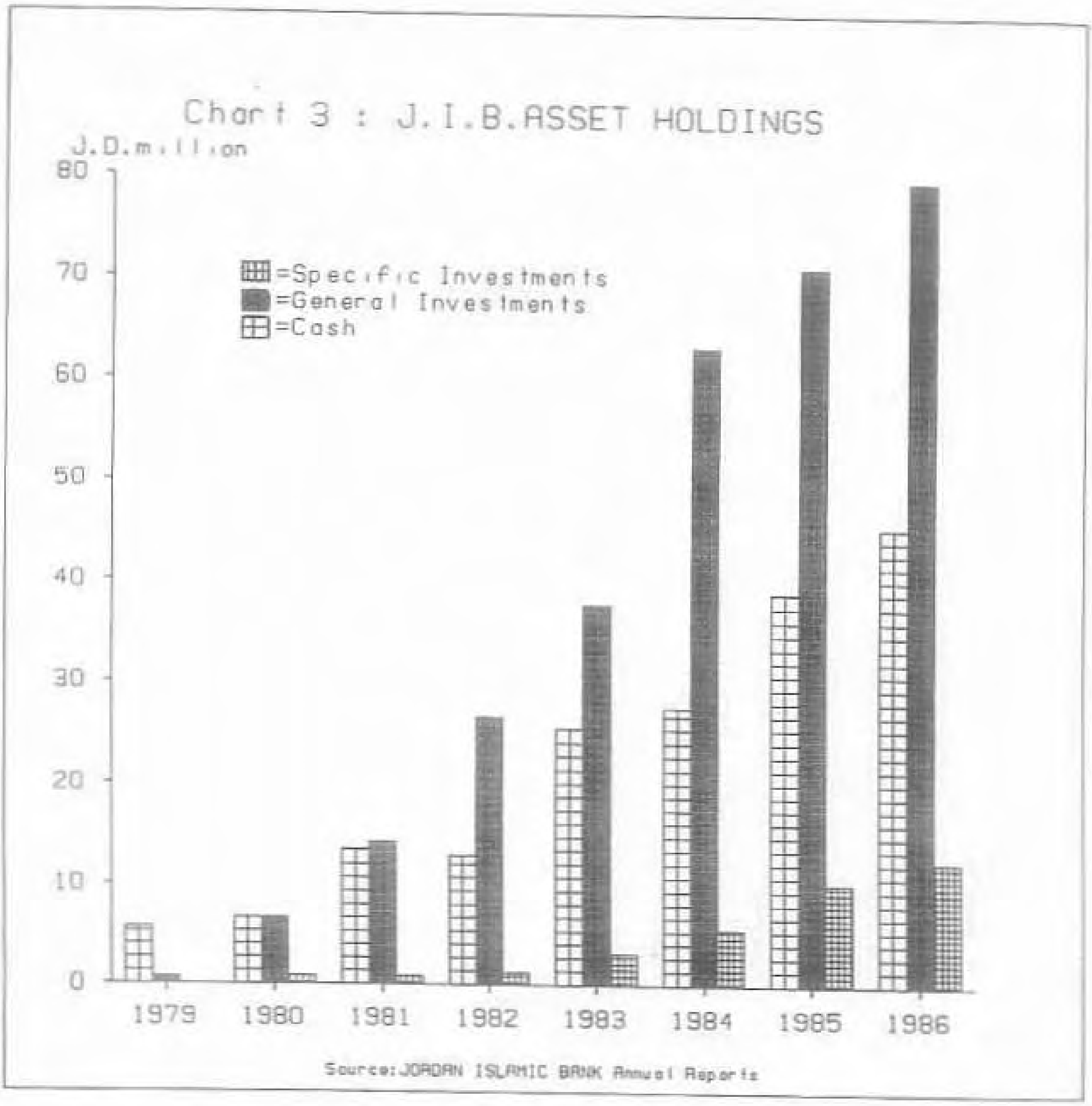


Chart 3 : J.I.B.ASSET HOLDINGS
J.D.million
80
70
60
50
40
30
20
10
0
=Specific Investments
=General Investments
=Cash
1979
1980
1981
1982
1983
1984
1985
1986
Source:JORDAN ISLAMIC BANK Annual Reports

proportion of bank assets accounted for by Islamic investments amounted to over 54 per cent by 1983, and by 1986 this figure had risen to almost 56 per cent out of a total asset portfolio exceeding JD 142 million. These Islamic investments mostly consist of mudarabah advances to business clients on the profit sharing principle. About 20 per cent are trade credits provided through the purchase of goods on behalf of clients, who repurchase the goods when they in turn have arranged sales. This figure also includes leasing arrangements on the ijara[17] Islamic principle. The leasing is for a specified period, at the end of which the client will make a final payment and take over the ownership of the goods in question.

The relatively high holdings of cash by the bank should be noted. In 1983 this proportion was 26 per cent, and in 1986 the figure had risen to almost 32 per cent. This refers partly to cash in hand, but it also includes deposits with other commercial banks and the Central Bank of Jordan. These inter bank deposits are placed on a non interest earning basis. The high level of cash reserves partly reflects the conservative policy of the bank's management, and the desire to maintain adequate liquidity. Cash holdings are higher than the management would like, however, partly reflecting the recession in the Jordanian economy, and the lack of investment opportunities in the present climate. A proportion of around one quarter is considered optimum, but the management does not wish to make high risk advances, and views the additional cash as a welcome hedge during this period of business uncertainty.

Islamic Community Finance

The specified investments identified separately in chart 3 are also, of course, undertaken on an Islamic basis, and the essential principle involved is mudarabah or profit sharing. These investments, nevertheless, have to be distinguished from the more general type of

Islamic investments already discussed, which take the form of portfolio investment in the sense that the Jordan Islamic Bank has only a minority stake in the enterprises it is supporting. With specified investments the bank itself is the instigator of the investment, and wholly owns and controls the projects involved. This can therefore be regarded as direct investment. The major instance of this type of investment is the Al-Rawdah housing project in north Amman. The bank acquired a plot of 40 donnoms[18] opposite to the Al Rai daily newspaper offices in the north of Amman for housing development for middle income citizens in 1981, and a larger plot the same year in the south of the capital near Jabal Al-Hashimi. This was for a comprehensive housing scheme for low income citizens.

Work was started on the smaller plot in north Amman first, with the preliminary study completed within a few months of the plot being acquired. Construction started in October 1983. A commercial centre containing a supermarket and other shops is being built together with 30 villas and 7 residential buildings containing 213 apartments. A mosque, community hall, and school are being constructed. Work is almost complete, and the first occupants should start to move in during 1987. Disbursements have accounted for almost 87.4 per cent of the funds invested in the specified investment accounts by 1986, the remaining sum being accounted for by the land purchase at Jabal Al-Hashimi for the low income housing scheme. Some of the investors are hoping to live in this new Islamic community themselves, which will be a very attractive residential suburb of Amman. This ambitious project has taken up much of the bank's efforts in the last few years, but once the villas and apartments are occupied, returns will start to come in, and the bank plans to go ahead with the development of the Jabal Al-Hashimi site as well as other specific projects.

As table 3 shows, the assets accounted for by specific investments

Table 3: Assets of the Jordan Islamic Bank for Finance and Investment

	Cash	General Investments	Specific Investments	Fixed Assets
Asset value (JD)				
Dec. 1984	27,555,017	63,013,403	5,636,284	3,842,930
June 1985	33,442,402	66,404,051	4,111,218	4,472,492
Dec. 1985	38,855,419	71,013,906	10,107,048	4,865,563
June 1986	45,362,485	79,650,758	12,279,117	4,969,438
Asset growth (%)				
Dec.84 - Dec.85	41.0	12.7	79.3	26.6
June 85 - June 86	35.6	19.9	34.8	11.1
Asset shares (%)*				
Dec. 1984	27.0	61.7	5.5	3.8
June 1986	31.2	54.8	8.5	34.

Note: * Does not add to 100% as other assets such as securities, non-interest yielding bills etc. excluded.

Source: As table 1.

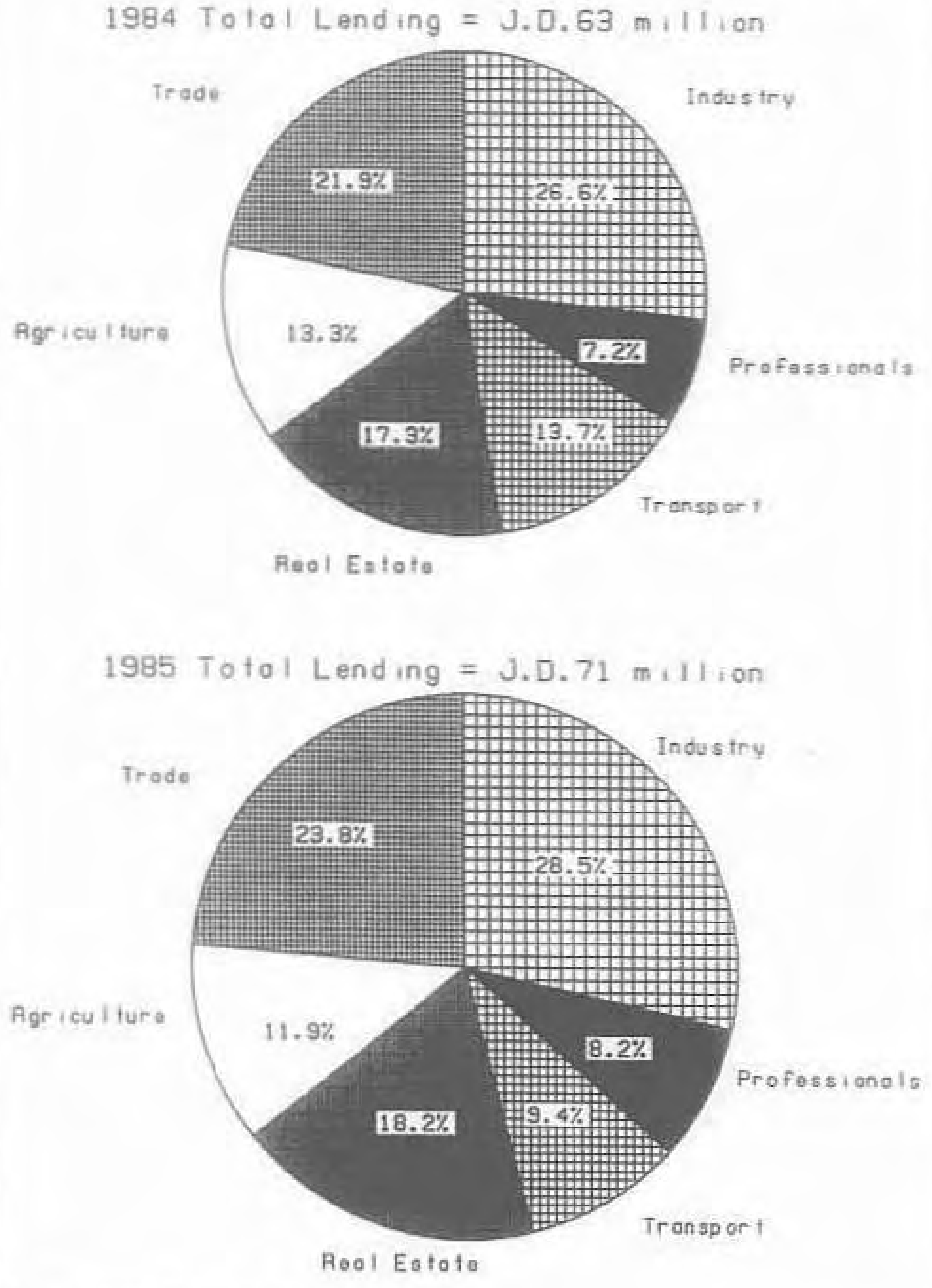
continue to grow rapidly, reflecting these housing developments. If specific investment funds from depositors continue to grow as rapidly as recently then a corresponding build up of the bank's specific investmnent will occur. The Jordan Islamic Bank will be well placed to undertake further large direct investments in housing and other fields, and the experience learnt from the Al-Rawdah scheme should be invaluable.

General Investment Policy

Chart 4 shows the distribution of funds by the Jordan Islamic Bank. This refers to the allocation of the Islamic investment funds already discussed, rather than the specified investments which have been in housing to date as indicated in the previous section. Most of the bank's lending has been to industry, mainly small manufacturing establishments producing plastics, soaps, medicines and other products which are sold mostly in the local market and in neighbouring Arab countries such as Iraq. The bank has been much more involved in industrial lending than other Jordanian banks, as many of its depositors are those involved in manufacturing. It is hoped to increase investment exposure in manufacturing, as this sector has been more buoyant than most, despite the recession, and payments difficulties with Iraq.

Advances for trade are second in importance as chart 4 shows, much of this being on a resale basis as already discussed. This type of advance is more liquid than industrial investments which tend to be long term, the period for trade advances typically being one year or less, and often as short as three months. Jordan's imports are being curtailed because of balance of payments difficulties, and the bank's management expect that trade finance, which usually covers imports, will at best maintain its share in the years ahead. Lending for real estate acquisition has continued to increase. With real estate values depressed, the bank's view is that this is a good time to invest, as

Chart 4 : DISTRIBUTION OF FUNDS BY J.I.B.



Source : JORDAN ISLAMIC BANK Data Base

property will appreciate once the economy moves out of recession. This seems a reasonable judgement, as prices are no longer falling, and the expectation is for a market improvement. It was only financial institutions which invested in real estate speculation at the height of the boom in the 1970s that got into difficulties over asset valuations when the boom ended. The Jordan Islamic Bank avoids speculative investments however, as this would be against the institution's principles. Rather the emphasis is on aiding believers to acquire property at reasonable prices for their own long term use, and that of other believers.

Investment in transport undertakings declined over the 1984-85 period in relative terms as chart 4 shows, largely reflecting the difficulties in Iraq's trade which most of the transportation companies are involved in. The future demand for this type of advance is difficult to predict, as much depends on Iraq's position in the Gulf War. The bank would like to invest more in agricultural projects, but the kingdom's agriculture is experiencing marketing difficulties after the rapid expansion of production in the Jordan Valley in the 1970s. Saudi Arabia has a surplus of its own heavily subsidised wheat production, and some of the other Gulf states are producing tomatoes and other produce at great expense in greenhouse units. The advances to individuals are mainly to professionals such as doctors and dentists, for the purchase of equipment. The bank hopes to advance more to this type of client, as they are extremely reliable, and know exactly how to use their advances usefully.

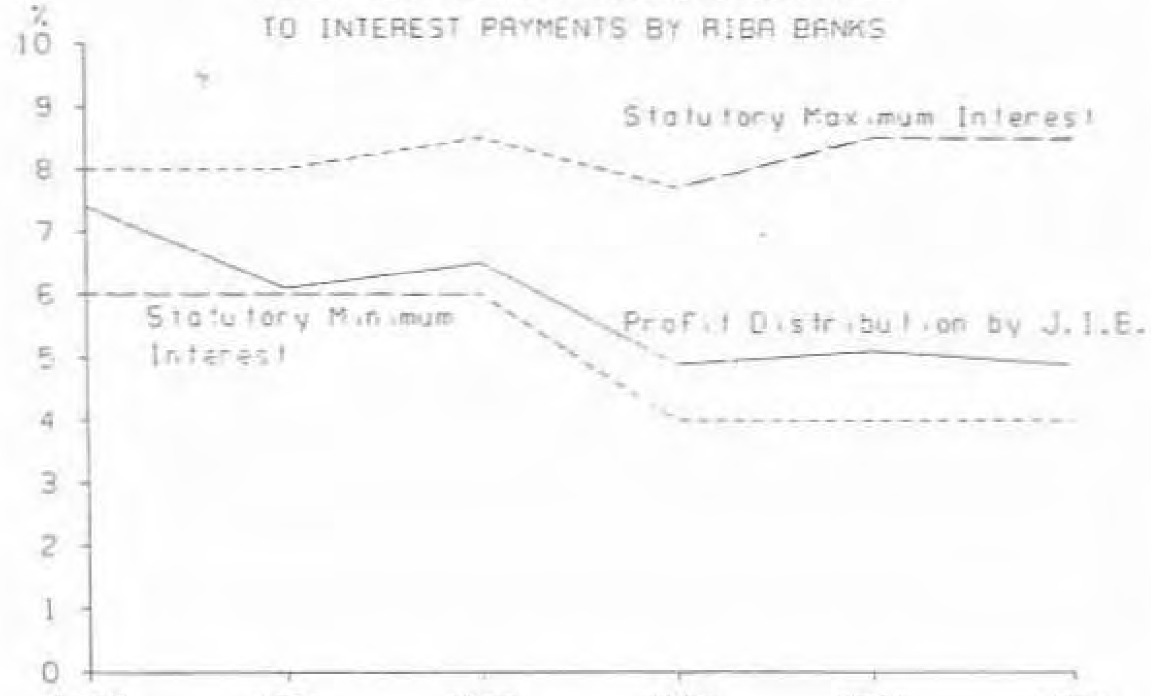
Returns on Investment

The revenue which the Jordan Islamic Bank earns on its investments compares favourably with the earnings of other financial institutions. Chart 5 shows the returns since 1980, which are expressed

Chart 5 : RETURNS ON ISLAMIC INVESTMENTS
AND RISK PROVISION %

Source : JORDAN ISLAMIC BANK Annual Reports 1979-85 and Interim Statement for1986

Chart 6 : PROFITS FOR DISTRIBUTION TO JOINT
INVESTMENT ACCOUNT HOLDERS COMPARED
TO INTEREST PAYMENTS BY RIBA BANKS



Source:JORDAN ISLAMIC BANK Annual Reports 1979-85 and Interim Statement for 1986 in money values. The decline over the 1982-84 period merely reflects the drop in the rate of inflation, and in real terms the return is higher. Inflation has declined from over 7 per cent in the early 1980s to under 4 per cent per annum.[19] This means a real rate of return of 3½ per cent over the 1984-85 period, which is quite adequate by Jordanian standards. Higher returns can of course be earned by more risky investments, but the bank's management tends to be prudent in its asset deployment policy, as already indicated. Furthermore the bank is keen to back socially constructive projects, rather than ventures of dubious national value to Jordan.

Chart 5 also shows the margin for risk which the bank sets aside in case of default by those funded. In practice the calls on these reserves are very limited, as the banks clients, being committed Moslems, are honest in their business dealings, and are fully aware of their responsibilities towards the bank and its depositors. The bank has perhaps the best clientele in Jordan in terms of the customers to whom it makes advances. Nevertheless in business problems often arise which are unforseeable, as this is the nature of any investment undertaking. Therefore the bank likes to adopt a safety first approach, and allow an adequate margin of funds to cover any contingencies that might arise. With the favourable repayments record, and good return on investment, it has been possible to establish a large contingency fund for investment risk, which stood at over JD 3 million in 1986. A specific portion of the bank's cash assets are earmarked for this fund.

Distribution of Profits

Chart 6 shows the profits which have been distributed to investors. These are, of course, determined by the bank's own investment returns. They compare favourably with the interest paid by riba based commercial banks, the returns being consistently above the rate of inflation. The return has been calculated on the basis of 90 per cent of the declared dividend, the rate earned by those holding fixed term joint investment accounts, which, as already indicated, accounts for the overwhelming proportion of investment deposits.

This return is above the interest which most of those holding time deposits with the riba based banks earn. Only those who deposit very large amounts with the Jordanian commercial banks can earn higher returns. The Central Bank of Jordan until 1982 set a minimum rate which riba based banks paid to those with time and savings deposits. Following concern that this was raising interest rates for borrowers, the Central Bank decided to set a maximum rather than a minimum rate. Both rates are shown in chart 6 for the respective time period for which they applied by the long dashed lines above and below the profit return on Islamic investments. The dotted lines indicate the actual maximum and minimums which the commercial banks paid during periods when these were not enforceable by statutory limits. Overall, it seems that investors with the Jordan Islamic Bank have fared well, and the bank has been able to reward them adequately while still maintaining a cautious investment strategy.

Staffing Issues

The Jordan Islamic Bank recruited most of its initial senior staff from other Jordanian banks and the financial services sector, as the emphasis was on the hiring of competent and experienced banking personnel. There was little need to recruit abroad given the wealth of banking talent within Jordan, some of whom were enthusiastic about the new type of financial institution as it meant they could pursue an attractive career which was in harmony with their religious beliefs. Most had university degrees as well as professional banking qualifications.

Further down the seniority ladder, school leavers were recruited for clerical and other tasks, and the bank developed its own training programme. Within the bank's new headquarters building in the Shmeisani district of Amman there are a lecture room and teaching facilities. Specialist courses are provided for the bank's staff on Islamic banking practices and techniques. Employees have also been sent to the Banking Institute of the Central Bank of Jordan for training. The bank has also co-operated with local educational institutions including the University of Jordan, and has offered traineeships in Islamic banking to a number of economics and business studies students, some of whom have subsequently been taken on by the bank. Scholarships in Islamic finance are also offered to outstanding students which are tenable at the University of Jordan on a sandwich course principle combining academic study with practical training. Recruitment is generally presenting no problems, with many more applicants than jobs at all levels. Jordan with its well educated workforce now faces the problem of graduate unemployment. The bank is therefore giving priority to graduate recruitment, although, of course, given its small size, it can only hire a limited number of graduates each year from Jordanian universities.

The Islamic Investment House

The encouraging success of the Jordan Islamic Bank contrasts with that of the kingdom's other major Islamic financial institution, the Islamic Investment House. This institution was founded on 10 September 1981 with an authorised capital of JD 4 million, the same amount as the Jordan Islamic Bank.[20] It received its permit to operate from the Central Bank of Jordan on 28 December 1981. Very comprehensive regulations were drawn up for the working of the institution, even more detailed in fact than those for the Jordan Islamic Bank. The institution was partly founded as a result of a Kuwaiti initiative, with Mr. Tukhaim Fahd Al-Tukhaim as chairman. Most of the directors were Jordanian however, including Mr. Khairy Ayyoub Al Hammoury, the Vice Chairman and General Manager. Sheikh Motlaq Al-Mohtaseb, a prominent Jordanian religious authority was appointed as the Sharia advisor.

The aims of the institution were similar to those of the Jordan Islamic Bank, as it was intended to provide financial services for both investors and those in need of funds on a riba free basis. From the start, however, the institution was regarded as a vehicle for those with substantial funds to invest, rather than an ordinary deposit bank. As its name suggested, it was primarily an investment house, although the use of the word house in the title was partly because some Moslems object to any reference to banks.[21]

The Jordan Investment House did not establish a branch network however, although it offered similar types of accounts to the Jordan Islamic Bank, including demand deposits, and three kinds of joint investment deposit. Initially in 1982 only demand deposits were accepted, and JD 729,971 was deposited. By 1983 when joint investment deposits started to be accepted, demand deposits fell to JD 633,251, as some investors switched to profit earning deposits. Notice deposits proved the most popular as with the Jordan Islamic Bank, these accounting for around 90 per cent of the JD 1.5 million in joint investment accounts in 1983. By 1984 this figure had grown to over JD 5.5 million, including JD 628,000 deposited in foreign currency. This represented about 9 per cent of the amount invested in the Jordan Islamic Bank.

Investment Policy

The Islamic Investment House pursued an active investment policy with the limited funds it had at its disposal. The investments undertaken were imaginative, and at first sight seemed sound projects to back. A 30 per cent stake was acquired in the ship "Farah" which carries passengers, cars and trucks from Aqaba to other Red Sea ports including Jeddah in Saudi Arabia, and more recently Nueiba in Egypt. Advances were also given to house purchasers, who repaid by installments over a ten year period. Over 150 advances were given for such purchases. The Islamic Investment House also financed the building of villas in the Zayy and Al-Ghour areas of Amman for rental.

In 1983 an agreement was signed between the Islamic Investment House and the Tukhaim International Exchange Company of Kuwait for the House to manage the latter company in return for a share of its profits. This company was also controlled by the Islamic Finance House's chairman, Mr. Tukhaim Fahd Al-Tukhaim. The purpose of the agreement was to facilitate money transfers between Kuwait and Jordan. The House also invested in Jordanian industrial companies, including the Jordan Steel Industries Company and the Vegetable Processing and Preservative Company. In addition a plot of 1500 donnoms was acquired for market gardening through greenhouse cultivation of vegetables, and it was planned to use part of the plot for a dairy farm, and another part for lamb fattening.

All these ambitious projects were supervised by the Islamic Investment House's small staff of 15 in 1982, and 35 by 1983-84. A very high proportion of the House's deposits were invested, only 22.7 per cent of asset being liquid cash or bank deposits in 1982. The following year this proportion declined to 11 per cent, although in 1984 there was a slight increase to 13.7 per cent. This left only a small margin to meet unexpected withdrawals by depositors. These were less than half the proportion of cash reserves held by the much more prudent management of the Jordan Islamic Bank. Clearly with hindsight it appears the Islamic Investment House was not adequately covered to meet unforeseen contingencies.

The Financial Crisis

The worsening recession in the Jordanian economy and the neighbouring Arab states had disastrous consequences for the Islamic Investment House. Problems started to appear in 1983, but the House was committed to the projects it was backing, and did not want to let its clients down. The real estate ventures were particularly unfortunate, as there were problems letting the villas in Zayy and Al-Ghour, as the market became depressed, and there were few newcomers seeking this type of rather expensive rented accommodation. Many of those who had been given advances for house purchase were unable to repay the installments to the House, as their incomes had fallen with the recession, and a large proportion were dependent on income from the Gulf.

The fall in remittances with the oil recession and the dismissal of Jordanian workers in Saudi Arabia and the Gulf, affected the business of the Tukhaim International Exchange Company, whose profits were sharply reduced. Furthermore the recession even affected the profitability of the ship "Farah" which had fewer passengers and vehicles to carry. In spite of these setbacks, the Islamic Investment House tried to maintain a high return to depositors, as the management realised that funds might be withdrawn if the rates did not stay competitive with those offered by the Jordan Islamic Bank. Profits paid out were as shown in table 4 for 1983 and 1984. These were in fact higher than those for the Jordan Islamic Bank, being over 60 per cent greater for the one year fixed deposits in which most account holders invested. Those investing with the Islamic Investment House may have expected a higher return however, as placing money with a small institution always implies a greater risk.

With low profits on its investments, and the need to pay out

Table 4: Returns to Deposits with the Islamic Investment House and Jordan Islamic Bank

	Islamic Investment House		Jordan Islamic Bank	
	1983	1984	1983	1984
Investment deposits	5.4	5.5	2.7	2.8
Notice deposits	6.3	6.5	3.8	4.0
Fixed deposits	8.1	8.3	4.9	5.1

Source: Islamic Investment House Second and Third Annual Reports, 1983 and 1984, Amman and Jordan Islamic Bank Fifth and Sixth Annual Reports, Amman, 1983 and 1984.

high returns to its account holdings, the Islamic Investment House got into serious difficulties in 1984. A rumour spread that it could no longer meet withdrawals by depositors, although this was unfounded. Nevertheless, the value of its shares started to decline rapidly, and the Central Bank of Jordan feared that the situation might become critical if it did not step in.[22] Share dealings in the Islamic Investment House were suspended, and the House was prohibited from taking further deposits. The value of existing deposits was guaranteed by the Central Bank, but no dividend was paid out for 1985, and none is expected for 1986. The institution has, in practice, become a closed fund, although depositors will be able to get their funds back in installments if they wish. Most are holding on however, as the Islamic Investment House hopes to pay dividends again in the future when the economic situation improves.

Investors cannot complain too much, as the Islamic Investment House has tried to honour its commitments, and they have not lost their deposits. Rather, all they have foregone are the dividend receipts. Their deposits were placed on a profit sharing basis, however, and with no profits, there can be no gain. This must be a lesson for the investors, but the principle of sharing in hardship as well as in good fortune is, after all, an important tenet of the Moslem religion.

Despite the setbacks which the Islamic Investment House has experienced, the Jordanian experience of Islamic banking has been on the whole one of success, with the Jordan Islamic Bank emerging as a major domestic financial institution. It now ranks sixth in terms of the value of assets as far as Jordanian banks are concerned, and it is the second fastest growing Jordanian bank after the Bank of Jordan and the Gulf. It accounts for over 5 per cent of the total assets of the Jordanian banking system.[23]

The Jordan Islamic Bank has also been successful in encouraging many believers to use its services as a riba free bank rather than hoarding. It ranks fifth in Jordan in terms of deposits, and its deposits are growing at a more rapid rate than any other major Jordanian bank. Its financial caution has proved justified given the experience of the Islamic Investment House. The Jordan Islamic Bank ranks seventh in its holding of liquid assets as a proportion of deposits out of 18 major Jordanian financial institutions, a position which the management intend to maintain. Yet it was the eleventh most profitable institution in gross (pre tax) terms, and ninth in terms of net profit in relation to paid up dividend. This ratio was a reasonable 16.6 per cent. All this augurs well for the future of Islamic banking in Jordan, which after seven years is already well established and prospering. Jordan is likely to maintain a plural banking system, with riba and halal institutions existing side by side, but the experience of the Jordan Islamic Bank shows that this type of bank can function effectively, serve its clients well, and compete in the market with the other institutions while strictly adhering to Islamic principles.

References

1. The Israeli military authorities prohibited Jordanian banks from operating in the West Bank after 1967, but recently the Cairo Amman Bank was granted permission to re-open its Ramallah branch.

2. Information from the bank's annual reports up to 1985.

3. There is no consensus about the definition of riba, which means an addition to a principal sum of capital. Most Islamic scholars equate riba with interest, rather than just usury. For a discussion see Rodney Wilson Banking and Finance in the Arab Middle East, Macmillan, London, 1983, p.70 ff.

4. Rodney Wilson "The Role of Commercial Banking in the Jordanian Economy" in Adnan Bardan and Bichara Khader (eds) The Economic Development of Jordan, Croom Helm, Beckenham, Kent, 1986.

5. Up to 1982 there was a statutory minimum for returns on savings and time deposits, but this was subsequently changed to a statutory maximum.

6. The value of the deposits is, however, guaranteed, so there can be no loss of principal.

7. Muqaradah: Islamic bonds on which no interest is earned, but their market value varies with the anticipated (variable) profit share.

8. Mudarabah. Equity sharing between bank and client.

9. JD 1 = $0.34 = £0.50 - DM 0.17 (October 1986)

10. Information supplied by the bank's management.

11. In Arabic, the Umma. (The Community of believers).

12. The question of opening branches in the West Bank or Gaza has not been considered, but the position will be reviewed if several Jordanian banks establish branches. There are plans for an independent Islamic bank in Gaza, controlled by local residents.

13. Qird Hasan: Interest free loan to those in need.

14. There is, of course, no spread of risk.

15. Halal. Permitted, as opposed to "haram", forbidden.

16. Credit cards, mainly the Visa type, are issued by a number of Jordanian commercial banks, but they are mainly used during overseas travel. The Jordan Islamic Bank cannot issue such cards, as interest is charged on debt outstanding. A charge card, which is paid in full monthly on the American Express principle, remains a possibility, but the question of penalty clauses for non-repayment has not been resolved. These could be regarded as a form of riba.

17. Ijara. Leasing contract.

18. 1 donnom = 1/10 hectare - ¼ acre (approx).

19. Official figures cited by the Central Bank of Jordan. This refers to the general index. Prices of clothing and imported consumer durables rose faster than the general index.

20. Details in the Institution's annual reports up to 1984, there being none for 1985.

21. The word being Italian in origin, and referring to a table (banco) on which the merchants of Lombardy carried out financial transactions, usually on an interest basis.

22. The House could not increase its share capital to JD 5 million as the Central Bank then stiuplated for all banks, although as the House did not regard itself as a bank, this was less of a problem. Nevertheless, the Regulation had implications for the House as a deposit taker.

23. According to the Jordanian Banker's Magazine's rankings for 1985.

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