Regional Instability and the Modernization Theory within the Euro-Jordanian Partnership Context

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ABSTRACT

This study has examined the relations of the Euro-Arab cooperation and the Euro-Mediterranean Partnership in particular since its inception in 1995. As far as Jordan is concerned, the paper concludes that the key shortcomings and limitations of the EU’s foreign policy towards its southern Mediterranean flank was and remains to reside mainly in the lack of its consistent and balanced cooperation policy especially as far as political dimension of the cooperation is concerned. The study perceives that regional instability as such appears a major determinant factor of Jordan’s economic development and growth. In fact, such external factors seem, to high extent, to influence most of the main components embedded within the nature of the Association Agreement (i.e. accumulation of origins). For example, foreign direct investment and regional economic integration which are conceived as the engine for economic development are becoming profoundly challenged by the continued deteriorated regional instability. Hence, based on the empirical analysis and findings, the study as a result deduced that principles which capitalized on economic development as a prerequisite to political development – with special reference to Modernization theory- fails to explain and to interpret the ultimate objectives of the EU cooperation policy towards Jordan culminated mainly with the Euro-Jordanian Partnership.

Keywords: The European Union, Partnership, Free Trade Area, Stability, Economic Integration, Euro-Mediterranean Partnership, World Trade Organization, Modernization, Regional Stability.

INTRODUCTION

Three years following the establishment of the European Union in 1992, the Union launched the Barcelona Declaration and the Euro-Mediterranean Partnership (EMP) based on three main pillars: political and security, economic and financial, and social and cultural cooperation. Their Mediterranean states counterpart accepted the framework cooperation of the partnership and built high expectations and ambitions hoping to fully benefit from such grand initiative to bolster its various levels of developments on the one hand and to create a prosperous, peaceful and stable region on the other. Accordingly, the EU has introduced MEDA(1) as a financial instrument program to assist its Mediterranean counterparts to smoothly adjust themselves to endure the various reforms and adjustments entitled in the transformation process of the partnership.

In this respect, the Declaration defended that it is “convinced that the general objective of turning the Mediterranean basin into an area of dialogue, exchange and cooperation guaranteeing peace, stability and prosperity requires a strengthening of democracy and respect for human rights, sustainable and balanced economic and social development, measures to combat poverty and promotion of greater understanding between cultures, which are all essential aspects of partnership” (Barcelona Declaration).

In this respect, the EU whether explicitly or implicitly is pursuing Modernization Theory doctrines in that it is concerned with modernization “westernization” of underdeveloped countries. It highly focuses on the economic growth, foreign aid, gradual social and economic transformation. Modernization theorists examine the social, political, and cultural outcomes of economic growth and the conditions that are essential for industrialization and economic growth to arise.

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Modernization theory, sometimes called development doctrine, focuses in internal factors

Modernization theory perceives\(^{(2)}\) the development of the world and relationships between developed and developing countries as the relationships of potentially equal countries which are just at a different stage of development at the moment. In other words, Modernization theory “stands on the position that western countries are well-developed and western way of development is viewed as the most successful and perspective while there is practically no other alternatives to this way of the development. This is why the supporters of this theory insist on the necessity to develop the cooperation between developed and developing countries in order to make the latter closer to the former. What is meant here is the fact that Modernization theory underlines the necessity of borrowing the experience of western countries by developing countries of the Third world” (Scott 1995: 196). Basically, developing countries should pursue blindly the model of more developed western countries and this will bring them economic, social, and cultural prosperity. Indeed, political component in according to Modernists is a product of the process– not within the process in that they contend that industrialization and economic development lead directly to positive social and political change. Furthermore, ‘westernization within EMP policy was clearly underlined by the ex Head of the European Commission, Romano Prodi, has explicitly stated during speech in 2002 that:

“Europeans would like to see the values and principles on which our European home is built recognised throughout the Mediterranean, starting with human rights. For the Mediterranean countries, acceptance of these principles will greatly enhance the credibility of their political proposals. Europeans would like to extend the liberalisation of trade to the neighbouring regions. For the Mediterraneans, the shared objective of starting to create a free trade area by 2010 will be a key factor contributing to the modernisation of their economic and social systems (Prodi, 2002: 4)\(^{(3)}\).”

The focal point of this study is to examine the second pillar of the partnership. Specifically, on the one hand, it tries to scrutinize whether economic objectives can be attained solely thoroughly economic means and measures and in isolation from political factors (e.g. political stability). The time framework will be dedicated to the first ten years of the Barcelona process – during the period of 1995-2004 and mainly before launching of new cooperation policy under the so called the European Neighborhood Policy (ENP) in 2004.

On the other, the paper will examine the extent to which Modernization theory explains the relationship between developed (the EU) and developing countries (Jordan) as far as the Euro-Mediterranean partnership is concerned. In other words, as far as the Euro-Jordanian Partnership is concerned, the study questions whether financial assistance – under MEDA Programs- and economic adjustments and reforms are merely capable to achieve the above-mentioned objectives? Or whether financial assistance deems sufficient factor enough to attain economic stability or development under the partnership? Though, as shown below, it is believed that regional stability dimension in the economic development process has been seriously ignored despite rhetoric speeches and statements underlined by the EU officials. The Jordanian case vividly reveals that regional stability remains to play a significant role in influencing and shaping its overall economic development performance - as it will be demonstrated in following sections. Hence, economic dimension of development cannot produce effective political or economic dividedness in isolation from political considerations. In fact, the following sections will illustrate that, after more than ten years since the launching of EMP, Jordan’s trade imbalance gap with Europe remains high. Furthermore, due to continued regional stability, Jordan’s failed to meet its various economic as well as socio-economic goals despite sustained EU’s financial assistance under EMP.

Thus, this paper will try to demonstrate how the continued implications of regional instability on Jordan (e.g. Foreign Direct Investments FDI) proved so far to adversely hindering any potential for attaining economic stability or development despite the continued leverage of financial assistance provided by the EU under the Euro-Mediterranean Partnership. Although the EU stresses on the importance of economic factors and FDI specifically towards attaining economic growth and development, it nonetheless neglects the political dimension in this process and regional political stability in particular. In this respect, the Barcelona Declaration of 1995 asserted that “economic development must be supported both by
internal savings, the basis of investment, and by direct foreign investment... [The participants] stress the importance of creating an environment conducive to investment, in particular by the progressive elimination of obstacles to such investment which could lead to the transfer of technology and increase production and exports” (Barcelona Declaration) (4). Accordingly, the EU is seemingly is pushing for economic objectives mainly via financial and economic means. It tends to shy away or neglect regional stability mainly in terms of achieving comprehensive and lasting peace in the region as a main vehicle to lay the foundations for prospected economic development ambitions or expectations.

I. Historical Background: The Economic Political Synthesis of the Jordanian Economy.

“It was said that Jordan, like other countries, cannot choose its neighbors. It was always a challenge to Jordan how to cope with regional turbulences given that neighboring countries are larger in population and richer in financial and other resources. Factors of regional instability went beyond Arab-Israeli conflict to growing fundamentalism, coup d’estate, diverging economic systems, weak regional institutions and very limited regional economic cooperation" (Ma’ani: 2000, 3).

Since its creation and the Jordanian economy remains profoundly attached and vulnerable to the regional geopolitical ups and downs developments. In fact, the golden as well as the dark days of the Jordanian economy were heavily shaped by these subsequent regional events. Whereas Jordan’s economic dark days emanated primarily from the Arab Israeli conflict, its golden days however came mainly as a result of oil boom industry particularly during the 1970s. “Jordan’s economic expansion accelerated in the 1970s in the wake of the regional economic boom, which opened up opportunities for Jordan’s exports and for employment of Jordanians in the area; these developments led in turn to a markedly higher inflows of external grants from neighboring oil-exporting countries” (Alonzo-Gamo and Mansur, 1996: 49).

Ostensibly, the lack of viable natural resources drove the kingdom to focus on human capitals and trade related services activities as the basis of its internal economic strategy. In turn, since early 1970s, the kingdom strategy became more concerned with promoting education and human development sectors and preparing well skilled manpower to export them to its neighboring Arab states- particularly in the Gulf region (Maciejewski and Mansur, 1996: 2). Thus, human capital was and remains a vital strategy to attract remittances from potential manpower workers from abroad. By 1981, an estimated amount of 350,000 Jordanian workers in the Gulf region – engineers, doctors, teachers, and est. - had transferred around one billion dollars averaging around 30% of kingdom’s GDP (Saltoff, 1986: 9). The country’s economic growth was robust as domestic prices and inflation rate (5 percent) were stable with an average investment rate of 20% of GDP and 10% of GDP belonging to private savings. Foreign aid in parallel-which was influenced by oil prices developments especially from Gulf States country- have had played a crucial role in the development process as the Gulf states alone had contributed up to 12% of GDP during 1975-1988 (Callatay and Mansur: 1996, 21). Eventually, Jordan had managed with considerable amount of worker’s remittances and financial aid from neighboring countries, to attain high income and consumption levels which exceeded those of domestic production levels. Clearly, this empirical scenario underlines the unequivocal role of foreign inflows over domestic production as far as the kingdom’s economy is concerned.

By mid-1980s, the heydays scenario of 1970s and early 1980s began swiftly to change adversely with the fall of oil prices along with the increasing fiscal deficit as a result of high recurrent expenditures by which the deficit reached as high as 20% of the GDP and inflation rate reached to double digits levels and the public sector debt-service increased sharply at the time where the option for external borrowing from commercial banks disappeared (Maciejewski and Mansur, 1996: 6-7). Indeed, the implications of oil prices affected negatively the smooth flow of foreign aid and remittances mainly from the Gulf region. Let alone the repercussions accrued by the Iran-Iraq War, where Iraq then had failed to pay its financial debt commitments to Jordan (i.e. agricultural products) due to its war burden with Iran. The situation was exacerbated with the shrink of Arab financial aid who were directing large amount of aid to Iraq (Jayyusi, 1998: 5). In 1989, King Hussein blamed – as the economic crises riots broke up - some Arab states who failed then to pay their full financial commitments to the
Kingdom in accordance with Baghdad Summit of 1978. With exception to Saudi Arabia (which was paying an amount of $322 million for ten years), the Arab states (such as Kuwait, Qatar, Iraq, Algeria, and Libya) was expected to contribute up to one billion dollars annually (Khoury, 1990: 27).

Such frustrated circumstances pushed the government unwillingly to seek international and domestic banks to deal with unsustainable levels of domestic aggregate demand which eventually exacerbated rapidly the budgetary deficits. An abrupt micro-economic policy was introduced to address these challenges highlighted by a large devaluation of Jordanian Dinar with 21% depreciation of the exchange rate in real effective terms in 1988. Consequently, Jordan then lived with the worst economic record ever and became one of the worst indebted countries in the world as the ratio of external debt to GDP amounted to 193 percent of GDP (Maciejewski and Mansur, 1996: 7).

In short, the World Bank Report sum up the course of two decades of Jordanian economy by recognizing that, “Fifteen years of economic boom in Jordan ended with the fall in mid-eighties of the price of oil and subsequent declines in worker’s remittances (primarily from the Gulf), external financial assistance, and exports” (1998 World Bank Report, 1998: 1). In 1989, the economic and financial difficulties reached its utmost which eventually entitled Jordan to seek international financial institution – with special reference to IMF, WB, and EEC. Subsequent failures to meet external financial obligations led the country to adopt IMF-support stabilization programs and request a rescheduling the compounded debt in coordination with Paris Club. Such financial turmoil has triggered social instability in forms of riots and demonstrations especially in the southern region of the Kingdom. In fact, the 1980s economic crises was so profound to the point where the government was forced to re-launch democratic process and the 1989 elections after twenty two years of suspension.

II. The Implications of the Regional Security on the Jordanian Economy

The role of foreign direct investment and its direct impact on the economic and social developments, of the regional security on the Jordanian economy, remains contested and controversial issues within policymakers as well as international relation discipline. The controversial issue resides on whether FDI through multinational firms exploits the natural resources and labors as well as controls and monopolies the economies of development countries or it becomes as a significant mean to accumulate capital inflows and transfer of technology?

Ann Harrison defended that “In 1993, direct foreign investment was the largest single source of external finance for developing countries, accounting for about half of all private resource flows. Following the virtual disappearance of commercial bank lending to these countries in the 1980s, many countries liberalized their restrictions on incoming foreign investment. Some countries even tilted the balance towards foreign firms by offering special incentives” (Harrison, 1994: 7). China for example, was a good model state who benefited substantially from inward investment. “Increased levels of FDI positively affected the provincial manufacturing export performance. Exports by foreign affiliates in China in 1998 were US$81 billion, comprising 44% of China's total exports in that year…From an almost isolated economy in late 1970s; China has become the largest recipient of FDI among the developing world and globally the second only to the U.S. since 1993. FDI flows into China in 1997 totaled US$200 billion, which constitutes 31% of total FDI in all developing countries” (Zhang and Song, 2000: 385).

As for the partnership, both the EU and the Southern Mediterranean States (SMS) are strong proponents of the latter perspective[6]. They have frequently stressed on the potential vital advantages of FDI on Med partners’ states. Tunisia for example, had responded positively from the onset of partnership’s initiative since it acknowledged the need to promote development and to guarantee better utilization of resources in the Mediterranean region. Tunisian’s Foreign Minister, Ben Yahia argued in November 1995 that, “the Mediterranean with a historic opportunity, which could enable the area to formulate a comprehensive strategy for development” (Ben Yahia, 1993: 5). Jordan and Morocco likewise expressed their interest in joining Tunisia. Moroccan believes that the EMP “Moroccan government officials and civil society representatives share a number of perspectives on the EMP’s more positive contributions. Moroccans have viewed the EMP positively, particularly due to the role that MEDA projects have played in enhancing socio-economic reforms. European financial assistance has been crucial for Moroccan NGOs carrying out projects aimed at protecting vulnerable sectors of society” (Ammor, 1995: 150). In the same vein, Jordan -which
signed the Association on November 24 1997 following Tunisia (February 26 1996), also expressed enthusiasm to join the partnership under economic grounds. The kingdom hoped to attain balance trade with the EU by increasing its exportation opportunities. Foreign direct investment and technology transfer opportunities become Jordan benchmark to attain development through the EMP (Khalaf, 1999)\(^7\). Dr Ammari also maintained that “improving living standards by alleviating poverty and reducing employment rate should be realized as capital inflows are expected to take place through our partnership with Europe” (Ammari, 1996). In short, Jordan along with many Arab states have conceded to the EU’s proposal based primarily on economic grounds with special reference to FDI: increased market expansion, technology transfer, job creation, and increased foreign direct investments.

Indeed, economic potentials and financial assistance were tremendous incentives for Arab Mediterranean governments to welcome the European initiative. The EU is deemed one of the biggest trade partners and major aid donor for all Arab Mediterranean countries. The latter expressed their fears lest losing such potential benefits and advantages in case they decline such lubricate offer (Selim, 1998: 8). The EU - with $6.6 trillion GNP and forms about 18.8% of world’s trade -occupies more than 50% of total Arab external trade\(^8\) (Al Dustoor Newspaper, 9/3/1999).

Yet, from investors’ perspective, a number of incentive factors are crucially needed to stimulate confidence and trust them. In fact, there are two types of factors affecting FDI inflows: qualitative (i.e. political stability) as well as incentive factors (i.e. investments codes and regulations) (Gastanga, Nugent, and Pashamova: 1998, 1301). Regardless of progress made on incentive factors, qualitative factors however seem to be much more determinant FDI factor in the Mashreq MED region and Jordan in particularly. Despite progress made towards investment promotion reforms, regional instability however appear to offset these measures and has played more crucial role in mitigating confidence amongst foreign investors- particularly since MEPP came to halt by mid 1990s. “In the period that followed the Oslo accord, capital flows responded positively to the peace atmosphere in the region and helped create more export-oriented economies” (Darrat and Hakim, 2002: 36). Table (1) revealed the overall adverse implications of MEPP retreat on economic growth of the conflicting parties.

<table>
<thead>
<tr>
<th>Region/Country</th>
<th>Post Oslo</th>
<th>Post Intifada (2002)</th>
</tr>
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<tbody>
<tr>
<td>Arab States</td>
<td>4.10%</td>
<td>-1.8%</td>
</tr>
<tr>
<td>Israel</td>
<td>4.5%</td>
<td>-3.9%</td>
</tr>
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In this respect, Borensztein and Lee cast the light on the profound empirical interaction that exists between FDI and economic growth “We test the effect of FDI on economic growth in a framework of cross-country regressions utilizing data on FDI flows from industrial countries to 69 developing countries over the last two decades. Our results suggest that FDI is in fact an important vehicle for the transfer of technology, contributing to growth in larger measure than domestic investment” (Borensztein and Lee, 1998: 117).

Hence, the above-mentioned economic growth in the Middle East – post peace treaties -was expectedly associated with increasing influx in FDI. The above-mentioned conclusion appears to lay a plausible argument regarding the empirical experience of Jordan and the Palestinian Authority (PA). Table (2) provides the sharp decline of inward investments for Jordan and Palestinian Authority (PA) during (1997-2000) period on the verge of regional stability retreat in 1997– only three years after concluding peace agreements with Israel.

<table>
<thead>
<tr>
<th>Year</th>
<th>FDI Inflows to Jordan</th>
<th>FDI Inflows to Palestinian Authority</th>
</tr>
</thead>
<tbody>
<tr>
<td>1995</td>
<td>13</td>
<td>-</td>
</tr>
<tr>
<td>1996</td>
<td>16</td>
<td>4</td>
</tr>
<tr>
<td>1997</td>
<td>361</td>
<td>149</td>
</tr>
<tr>
<td>1998</td>
<td>310</td>
<td>58</td>
</tr>
<tr>
<td>1999</td>
<td>158</td>
<td>19</td>
</tr>
<tr>
<td>2000</td>
<td>39</td>
<td>-</td>
</tr>
</tbody>
</table>

The sharp ‘loss’ of investments for Jordan and PA territories coincided with the downfall of MEPP by mid 1997 (post Barcelona). According to these statistics, figure (1) clearly shows identical turning point periods (1997) for Jordan and PA – which coincided with Likud’s arrival to power that year and the retreat of the peace
As for foreign trade, the Kingdom also lost about 26% ($229 millions) of its total exports as Iraqi and Kuwaiti markets were shut down in front of Jordanian’s industries -as Iraq alone then formed at least 20% of Jordan’s total exports. Let alone, the implications of short-term economic blockade taken against Jordanian’s exports imposed by Arab Gulf States- which accounted for no less than 40% of its total exports. Not least to mention, the losses accrued when Saudi Arabia ceased oil exports to Jordan (15% of its import dependence of oil) which in turn cost the kingdom $564 millions only in less than four months (1/8/90-31/12/90) (Al Ayid, 1992: 120-121).

This scenario was exacerbated after economic sanctions were imposed on Iraq by the United Nations as the Jordanian industries were much more heavily deteriorated. For instance, the Potash and Phosphate industries losses reached $155.5 and $191 million respectively whilst the total losses for the rest of industries reached $450 millions. Along with industrial sector, other sectors such as tourism and agricultural were two of the most non-industrial areas which also profoundly have been affected with total losses of $850 and $233 million respectively (Central Bank Annual Report, 1991).

Indeed, the losses should not be conditioned only to financial matters, it should also encompass those potential ‘export catalyst’ benefits associated with FDI such as technology transfer as well as domestic economic dividends connected with employment rate in which “Political stability depends on employment and employment depends on investments” (Kienle, 1998: 7).

The EU Delegation Annual Report 2000 admitted that “Jordan is most certainly a casualty of the Middle East crisis, which intensified in late September with the advent of the Al Aqsa Intifada. There is little doubt that, to foreign investors, the continued violence in West Bank and Gaza

| Table 3. Total losses of the Jordanian Transport Sector in 1991 ($ 100m) |
|---------------------|---------------------|
| Land                | 425                 |
| Maritime            | 293.5               |
| Air                 | 237.6               |
| Railways            | 18                  |
| Total               | 956.1               |

and the faltering peace process raises the risk of doing business in Jordan. Equally, tourists will have second thoughts about booking their vacations to the region while tensions remain high. There is some evidence that fewer tourists visited Jordan since the surge in violence began in September 2000. An estimated 40% of all region-wide tours were cancelled and foreign visitor numbers dropped from 562,000 in August to 316,000 in November 2000, a decline far from the seasonal averages” (European Delegation Annual Report 2000, 15).

Most importantly, the negative implications were associated with sharp decline in remittances from Jordanian labors working in the Gulf region. The remittances were counted as significant element for improving living standards, increasing budgetary reserves from foreign currencies, and of course promoting economic growth. The financial burden amounted to around $700 million as more than 300,000 Jordanian lost their jobs and had to return home. Ostensibly, unemployment and poverty rates increased sharply which in turn embroiled the kingdom once again into enormous economic crises (Al Ayid, 1992: 123).

III. The Adverse Implications of the External Factors for the Euro-Jordanian Free Trade Area (EMFTA)

Recognizing the significance of the said external geopolitical and economic factors on the shaping of the Jordanian economy, and realizing the vital role of FDI and capital accumulation in advancing economic growth and development, it can be argued that the fulfillment of the central conditions upon which Modernization theory is based on, can hardly be achieved without considering the above-mentioned external factors. The argument revolves around those likely conditions which are conducive for promoting economic development based on the following grounds: First, economic growth or development is primarily and highly contingent much more upon external factors rather than on those technical or institutional framework associated with open market principles. Second, areas related to open economy principles are also conditioned by regional stability conditions.

A) Economic growth or development is also primarily and highly contingent upon external factors rather than on those technical or institutional frameworks associated with open market principles.

In fact, some of the latter’s’ main component (i.e. accumulation of origins) can only be determined upon the ebb and flows of regional developments and particularly with regards to south-south economic integration plans. To this end, the Jordanian case study reveals that open economy and liberalization principles are considered essential complementary factors only within stable regional framework. Historical evidence proved that the latter provided higher economic impacts on the formation of the Jordanian growth scale since the past few decades that the former. In fact, regional instability over the years has been more determinant factor for enforcing economic stability than that of foreign financial assistance accompanied by reform programs. As shown below, regional instability was a very decisive factor on FDI despite staunch institutional reforms undertaken by the government lately. This observation indicates to some extent the shortcomings of adjustment programs amidst deteriorated external environment.

In 1995, the government has introduced the Investment Promotion Law No. (16) of 1995. Accordingly, The Higher Council for Investment Promotion (the Council), The Jordan Investment Board (The Corporation), The Board of Directors of the Corporation. (The Board), The Investment Promotion Committee (The Committee), and The Director General of the Jordan Investment Board (The Director General) are the main institutional and administrative bodies which have been formed pursuant to this Law (Al Ayid, 16/1/1996). Generally speaking, under the law, Article (3) of the law provides that “any project falling within the following sectors or sub sectors shall enjoy the exemptions and facilities provided by this Law: industry, agriculture sector, hotels and hospitals, maritime transport and railways, and any other sector or sub sectors, the Council of Ministers approve of upon the Councils recommendation” (1995 Investment Promotion Law) (9).

However, as shown below, it seems that the new law – which was undertaken within an overall institutional and legal reform - became a significant incentive for foreign investors but only when regional stability prevailed. Without doubt, the law began to reap its dividends as the foreign investors’ confidence reached its peak particularly following the 1994 peace accord with Israel. Though, as mentioned earlier, and as regional instability began to intensify, these newly legal incentives and reforms provided by the amendment law became considerably irrelevant to attract investments. Jordan’s rates of FDI have dropped significantly since 1997 despite of the institutional and legal reforms made on this
Based on the above-mentioned table (3) figures and considering that the year 1997 (retreat of the MEPP) as the baseline or turning point of FDI rates, it appears that latter drop-rates have risen incrementally in terms of 14.9%, 56.3%, and 89.2% in 1998, 1999, and 2000 respectively with a total ‘losses’ exceeding $570 millions. Such dramatic changes emanated from regional instability particularly on FDI appear to considerable extent offset the amount as well as the efficacy of EU’s financial assistance provided to Jordan under MEDA 1 (1996-1999). When viewing the total amount of financial assistance provided by the EU (as shown by table 4) during the MEDA 1 period to Jordan - under the country National Indicative Program (NIP) - received only 477m Euros including those long-term loans to form only 83.6% of the ‘losses’ ($570m) accrued only by FDI.

### Table 4. EU Financial Assistance to Jordan (1996-1999) In Million Euros

<table>
<thead>
<tr>
<th>Source</th>
<th>EC Budget</th>
<th>EIB</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>MEDA1</td>
<td>254.1m</td>
<td>233m</td>
<td>477.1m</td>
</tr>
</tbody>
</table>


In fact, King Abdullah II admitted, while addressing the European Parliament in Strasbourg (12 June 2002) that “Last year [2001], Jordan succeeded in achieving 4.2 percent growth in GDP. However, the regional situation, costs us at least, one percent per year, in growth. That drain impacts a whole range of national priorities. And ours is not the only country affected” (Euro-Med Report, 2002: 4). It is clearly hardly to conceive that direct financial assistance of any foreign donor can significantly affect as nearly as one-fourth growth in any given recipient state. In this respect, and most importantly, he conditioned economic security and prosperity only with regional stability by asserting “let me say plainly: we will never see a truly stable, prosperous Middle East, and the economic and political security that this would promise our neighbors, until the Palestinian-Israeli situation is solved” (ibid. 4). This to high extent reiterates the above-mentioned argument regarding regional stability-economic prosperity priority relationship. Whether directly or indirectly, his remarks seemingly tend to put the partnership with Europe in the second stage of priority – although remains of a highly significant long-term economic and financial scheme - behind the regional dimension one as far as economic growth is concerned.

In addition, the decrease in FDI inflows has in turn exacerbated the efficacy of domestic investment industries as well. The adverse implications on FDI rates is not only associated with the decrease in capital inflows but also to encompass other crucial areas such, the rates of employment and export potentials (Driffield and Hughes, 2003: 277-278) as well as technology transfer which is considered “one of the dominant reasons why developing countries are interested in attracting FDI” (Glass and Saggi, 1999: 507). Taking the tourism sector as an example, according to World Bank Report, “Jordan’s main source of growth and employment are expected to be exports and tourism. However, developments in the external environment are not making it easy to create more jobs and equity” (World Bank Report, 1998: 4). To high extent, this hypothesis proved to be plausible as the tourism sector has been negatively affected for the past few years. Table (5) demonstrates that not only the incremental downfall of tourism sector as a result its implications on value added/GDP starting in 1997 (1997-2001).

Within four years the tourism has lost more than 3% of income/GDP (12.3%-9.1%) and around 15% of room occupancy ratio (43.6%-30.5%). Indeed, such disappointment results have triggered major repercussions on other tourism-related activities. The director of reservation office in Amman, Malik Haddad, complained about the continued decrease in tourism revenues due to political events in the occupied territories. According to him, the transport tourism industry has lost 52% of its revenues during the first six months of 2002 compared with same period in 2001 (Al Rai, 16/10/2002). Mohammed Al-Bilbaisi, chairman of the company, likewise asserted that the total losses for Petra Transport Tourist Company had reached JD234, 000 during 2001 (Alrai Newspaper 7,4,2002).

After discussing the implications of regional instability at domestic economic performance levels, the following section will focus its implications at regional level. Both cases present the significance of this dimension of stability on any prospects for economic growth and developments at regional as well as state levels.
Table 5. Main Indicators of Tourism Sector

<table>
<thead>
<tr>
<th>Year</th>
<th>1997</th>
<th>1998</th>
<th>1999</th>
<th>2000</th>
<th>2001</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gross tourism income/GDP at current basic prices (%)</td>
<td>12.3</td>
<td>11.6</td>
<td>11.6</td>
<td>9.9</td>
<td>9.1</td>
</tr>
<tr>
<td>Value added of tourism sector at current prices</td>
<td>256.8</td>
<td>259.4</td>
<td>279.7</td>
<td>266.4</td>
<td>265.4</td>
</tr>
<tr>
<td>Value added/GDP at current basic prices(%)</td>
<td>5.8</td>
<td>5.5</td>
<td>5.8</td>
<td>5.1</td>
<td>4.9</td>
</tr>
<tr>
<td>Outstanding credit facilities extended by licensed banks</td>
<td>70.0</td>
<td>108.7</td>
<td>140.5</td>
<td>155.2</td>
<td>171.0</td>
</tr>
<tr>
<td>Outstanding credit facilities extended by the IDB</td>
<td>29.6</td>
<td>39.4</td>
<td>43.4</td>
<td>32.5</td>
<td>33.5</td>
</tr>
<tr>
<td>Room occupancy ratio (%)</td>
<td>43.6</td>
<td>37.9</td>
<td>34.9</td>
<td>39.5</td>
<td>30.5</td>
</tr>
<tr>
<td>Employees in tourism sector</td>
<td>16,438</td>
<td>17,550</td>
<td>20,569</td>
<td>21,515</td>
<td>22,864</td>
</tr>
</tbody>
</table>

B) Areas related to open economy principles are also conditioned by regional stability conditions.

Without doubt, inter-regional conflict shall hinder any effort towards regional economic integration (south-south integration). Whereas FDI is associated with the flow of capital and technology, regional integration is also appears to be highly significant factor toward attaining accumulating of origins – an essential asset for empowering ‘export catalyst’ dimension. To this end the EU stressed the urgency toward attaining this objective as a step toward fulfilling the objective of EMFTA “The completion of the Euro-Mediterranean free trade area depends on implementation of agreements between the partners themselves the EU’s role in this dimension comes only when partners began to build a free trade area amongst themselves. The countries in the region need to decide for themselves to open their economies to doing business with their neighbors but the Commission can process by providing technical assistance on what is needed in order to make South-South trade work” (Reinvigorating The Barcelon Process, 2000: 7).

Generally speaking, with exception to Israel(10), Arab Mediterranean states possess genuine means to establish economic integration block as these states enjoys considerable geographical proximity, similar economic development levels, and similar economic challenges in terms of high levels of tariffs and non-tariffs rates. One of the major advantages that may accrue through south-south integration resides mainly in tackling the complex issue regarding accumulation of origin. As mentioned above, the goal towards attaining comprehensive accumulation of origin shall ultimately increase export potential in that it facilitates their mission to meet the high value added criteria. In turn, a comprehensive peace settlement is an essential indispensable condition to attain such end. Chris Patten asserted that “successful market integration will also depend on the possibilities to cumulate origin” (Patten, 2002)\(^{(11)}\). The continued unresolved Arab-Israeli conflict however, has mitigated chances for inter-regional integration by moving from the existing bilateral system to a wider comprehensive accumulation of origin system. Let alone the fact that the prospected south-south integration shall also stimulate opportunities to attract FDI as investors seek to invest in big markets. Failing to do so, investors would prefer to invest in the EU countries where they can export to EU (27 countries) plus Med region markets (15 states) (accessing to almost 500 plus 250 million inhabitants respectively). In contrast, local or foreign firms in the Med region can only export to EU markets only (vertical integration) (Galal, 1997: 4). Indeed SMS are at stressing need to conclude free trade area amongst them – including Israel- in order to trigger investor’s incentives to establish new businesses in the region. In parallel, south-south integration shall facilitate the grounds for encouraging capital inflows through enhancing the role of foreign aid. Apparently, foreign donors shall be encouraged to finance inter-regional projects and programs within peaceful environment conducive for regional development (Kanovsky, 1997: 1). Let alone, the expected positive outcomes arising from significant reductions in defense budgets once regional comprehensive peace achieved as the conflicting parties are expected to reschedule their financial allocations.
towards developmental projects and programs instead of military spending outlays.

In sum, regional stability, particularly in the Mashreq region of the Mediterranean region, is a significant and determinant element that cannot be ruled out in any development process at both regional and state levels. In his article, Middle Eastern Economies’ External Environment: What Lies Ahead? Mohammad El-Erian, contends that there are two determinant factors influencing the economic performance for any given country: the degree of governments’ efficacy to implement their own economic policies and the extent to which external environment affect the economic performance. As for the latter, he asserted the stressing need for comprehensive peace amongst conflicting parties so that positive economic developments can be obtained (El-Erian, 1996: 138-144). To this end, the paper examined how regional dimension cannot be ignored in any economic development formula. Reforms and structural adjustment may be necessary but cannot solely triggers development in that its distinctive role remains to be observed only within regional development context.

In sum up the paper provides the following concluding points:

1. Although modernization theory stressed on the role of capital accumulation in forms of investment and savings as an essential step toward attaining economic development, it nonetheless failed to consider those factors that influence the process to attain the sources of development (i.e. capital and technology). Free trade areas and trade at least according to the Jordanian case are not sufficient factors to trigger development without considering the regional dimension. To put it more specifically, one of the main limitations of the theory is associated with those factors that lead to growth and development as a step towards attaining the final stages of democratizations. The theory omits the role of regional stability in achieving such end. The Jordanian experience reveals that major economic growth has been fluctuating in line with regional developments. Yet, the role of financial assistance or that of economic and financial reforms remains important whilst plays a secondary role in this process.

2. The strong nature of economic stability and growth option approached by the EU in terms of the amount of financial assistance and area of interests covered under this basket compared to the political one. Indeed the above-mentioned shortcomings as far as economic development is concerned does not necessarily reflect EU’s lack of interest on the economic dimension of the partnership in that history demonstrate that the Middle East regional ebbs and flows prove to develop beyond the capacity of states actors including superpowers.

3. The indispensible association between economics and political is a must for any prospected growth or development. The above analysis clearly demonstrated the adverse implication of politics on economic as far as Euro-Jordanian relations under the EMP is concerned. Ostensibly, the adverse implication of political uncertainty (e.g. regional instability) on economic growth, reforms, and development is not a new in world affairs and international relations. Philip Fellman and Roxana Wright depicted the strong association as well as the profound implications of political uncertainty on the transition transformations in Central and Eastern Europe and political attitudes and decision making on economic and fiscal matters, they maintained that,

“Political uncertainty also characterized the transition transformations (radical changes in governments, alteration of governments view on foreign investment, etc). Often, market uncertainties (obtaining access to resources, ability to find customers) shaped the strategic responses of high level actors in these economies, but this kind of response was always contingent on the conditions prevalent in the particular geographic location under consideration” (Wright and Fellman, 2007:3).

CONCLUSION

Generally speaking, various internal and external factors are clearly significant factors affecting the general behavior as well as the levels of economic, social, and political circumstances for any given state worldwide. However such efficacy may vary from region to another or from one country to another. The Middle East or the southern Mediterranean region is not only notorious for democracy exceptionalism but also for the its ongoing lasting regional stability particularly as far as the MEPP is concerned- and its direct implications for economic development progress particularly on the economies of the conflicting parties of the Eastern/Mashreq region of
the Mediterranean. In this respect, the role of FDI and capital inflows— which are being indispensable factors for development— have been profoundly shaped by the fluctuation of regional stability status over decades. External factors (e.g. regional stability) have always played an influential part in states’ economic, political, and social developments especially in the Mashreq region of the Mediterranean in that it is regarded of a vital concern not only for the host government but also for foreign and local investors alike. As for internal factors, domestic rules, regulations, and codes of investments on the one hand and the level of the so-called ‘sociopolitical’ factors such as the levels of corruption and transparency on the other form the major components of this dimension. Certainly, domestic political and economic stability in any given country are essential prerequisites to attract long term foreign investment. Most importantly, in both dimensions, trust and confidence are generally regarded as an essential prerequisites sought by any investors at any specific state— particularly in the Middle East region (Joffe’, 2000: 34).

As for the Euro-Jordanian case study, the study demonstrated the direct adverse implications of regional instability for the flow of FDI as well as south-south economic integration who altogether form the core for any prospected economic development in the region as a whole and Jordan in particular. In turn, such external factor will cast the limitation of modernization theory where economic development cannot be obtained without recognizing other political and security dimensions. The above chapters clearly demonstrated that despite enormous EU financial assistance and support to various Jordanian programs and projects, it nonetheless failed to bolster its economic performances. In fact, Jordanian experience reveals that economic trends was and remains much more contingent with regional stability than any other economic factors - for instance in terms of reforms and adjustments. In other words, economic dimension for development can be effective to some extent but not sufficient factor to deliver growth and prosperity in isolation from political considerations and changes.

Notes

(1) The MEDA (Mesures d’adjusment) Program is becoming the official financial instrument for the implementation of the EMP to replace the classical protocols financial arrangements. The EU has allocated a budget of 4, 68 and 5, 53 billion Euros for the periods of 1996-1999 and 2000-2006 respectively.


(3) Presented at, Université Catholique de Louvain-la-Neuve, Europe and the Mediterranean: time for action, Louvain-la-Neuve, 26 November 2002

(4) Economic cooperation and concerted actions section, Barcelona Declaration.

(5) Jordan is considerably a small Arab state and suffers from a shortage and supplies of water on one hand and a lack of natural resources on other such as - phosphate mining, petroleum refining, cement, potash, tourism, and light manufacturing. Its real growth reached 2% in 2000 with 25%-30% of actual unemployment rate. Services and human capital forms the major bulk of the GDP as its GDP proportion by sector in 1998 reached (72%) whereas agricultural and industrial sectors amounted for 3% and 25% respectively. This clearly explains the composition of labor force distribution where services occupies 62.5% of the total and leave other sectors such as agriculture, industry, and transport and communications with 7.4%, 11.4%, and 8.7% respectively (The World Fact book, 4).

(6) Though this may not be the case for few Med states such as Syria who entered in the Barcelona process mainly for political reasons. See Abdel Nour Ayman (2001), Syria Views of an Association Agreement with the European Union.

(7) Rima Khalaf, ex Vice Prime Minister and the minister of planning of Jordan. Her speech was made while addressing the Jordanian parliament in July 1999 before voting on the partnership (Al Rai Newspaper).

(8) Economic section/Al Dustor newspaper.

Who possesses higher economic, democratic, and institutional levels of development than all Arab countries.

Speech by Chris Patten, General Affairs Council, 10/6/2002.

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المعوقات والتحديات التي تواجه سياسات التعاون الأوروبية مع الأردن

ضياء أبو نبيح

ملخص

تتمحور الدراسة حول تقييم علاقات التعاون العربي الأوروبي، خاصة فيما يتعلق بالشراكة الأورومتوسطية منذ 1995. يتطلب الاتحاد الأوروبي من خلال الشراكة تحقيق أهداف سياسية، اقتصادية وثقافية، وذلك من خلال التركيز على البعث الاقتصادي والمادي لتحقيق هذه التطلعات. ينحصر الدراسة على أن المعوقات والتحديات التي تواجه سياسات التعاون الأوروبي نحو المنطقة والأردن على وجه التحديد كانت إرادة تحمي مع هذه السياسات في تناول القضايا السياسية، والتركيز على السياسات والأهداف الاقتصادية، ومن هنا، فإن حاول الاتحاد الأوروبي من خلالها تترجم مبادئ ورموز فترة الحداثة المتماثلة في الاهتمام بذل عجلة الاقتصاد والنمو أولاً بوجه تحقيق الأهداف السياسية. ولكن عند تقييم سياسات الاتحاد وتفصيلات النظرية خاصة فيما يتعلق بالحالة الأردنية، يتضح بأن الاتحاد يواجه تحديات كبيرة لترجمة هذه السياسات إلى أهداف، إذ أن منطقة جنوب المتوسط (الشرق الأوسط)، على عكس الأخرى من المناطق في العالم وخاصة أوروبا، لها خصوصيتها وبالتالي يجب أن يبنى التعلم عليها بناء فوضيات أخرى تتبني البعث السياسي كهدف أولي ورئيسي - وليس هذا الفعل بالاستقرار الاجتماعي المطلبي في تحقيق الأهداف الاقتصادية وسياسية حرة سواء. بغض النظر، فإن الاتجاه في تحقيق الأهداف الاقتصادية نظراً لأن هذه الأهداف تتأثر بشكل كبير بالمتغيرات السياسية وحالة عدم الاستقرار في المنطقة.

الكلمات الدالة: الاتحاد الأوروبي، الشراكة الأورومتوسطية، منظمة التجارة الدولية، الحداثة، منطقة تجارة حرة، الاستقرار الاجتماعي، الإنتاج الاقتصادي، اقتصاد السوق، الأسواق الاقتصاد الدولية، الاقتصاد والتنمية.