



THE 1991 GULF WAR AND JORDAN'S ECONOMY

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This article examines the 1990-1991 Kuwait crisis's damaging effect on Jordan's economy. Trade with Iraq was an important aspect of Jordan's economy and transshipment from Jordan's port of Aqaba to Iraq had been especially profitable for Amman. This enterprise was stopped by the war and then by the sanctions on Iraq. Other key elements for Jordan, such as Iraq's sale of reduced-price oil, financial aid from Saudi Arabia and Kuwait, remittances from expatriate Jordanians working in the Gulf, and to some extent international tourism all came to an abrupt after the Iraqi invasion of Kuwait.

Early in the morning on August 2, 1990, more than 100,000 Iraqi troops crossed the border and invaded Kuwait. Few people expected that their relations would reach this bloody end. The Gulf War divided the Arab world into two camps, with a small group supporting Iraq (Jordan, PLO, Sudan, and Yemen), and the rest supporting Kuwait. Many countries would feel the consequences of the invasion, but few are still as deeply affected as Jordan has been by that conflict's economic and political fall-out.

Even though Jordan is not, of course, itself a Gulf state, its interests are very much influenced by events there. Lacking oil and valuable natural resources itself, trade and aid involving Gulf states are vital for Jordan's economy. As part of the Arab world and Middle East, Jordan also has a special interest in events in that sub-region. Eight percent of its area is desert and another portion arid mountains that contains no oil. Among its population of 4.9 million people, almost 40 percent of them under 15 years of age, Jordan requires an inflow of capital to provide jobs and services.(1)

During the 1980s, a very significant part of its income depended on billions of dollars in remittances from Jordanian expatriates and hundreds of millions of dollars in financial aid granted by some of the Gulf countries (Bahrain, Kuwait, Qatar, Oman, Saudi Arabia and the

United Arab Emirates). Jordan also exported agricultural and industrial products to the Gulf states and Iraq. In addition, Jordanian trucks transported agricultural and industrial products all over the Middle East and beyond.

As a result of the 1991 Gulf war, Jordan, Iraq's main economic partner, found itself in a crisis that it did not create. In an attempt to save Jordan from its precarious position, King Hussein proposed the Arab League mediate the dispute between Iraq and Kuwait. Although the attempt failed, King Hussein was seen by some as the best hope for a peaceful solution.(2) After the mediation attempt failed and the conflict escalated, Jordan became affected by all of the social, military, political, and economical consequences. Jordan's position was especially complicated by the trade sanctions imposed on Iraq by the UN that resulted in a siege of Aqaba, Jordan's Red Sea port. The massive inflow of returning Jordanians and, temporarily, by the arrival of many foreign refugees on the way back to their home countries contributed to the economic crisis.

Aside from their common characteristics as Arab and Muslim neighbors, there was a special historical bond between Jordan and Iraq. When they emerged from the Ottoman Empire after World War One, both countries were ruled by members of the Hashemite family. Abdallah became king of Jordan and his brother Faisal

became king of Iraq. In Iraq, a 1958 military coup overthrew that regime and created a republic. Still, relations eventually recovered. During the 1980-1988 Iran-Iraq war, Jordan and its people genuinely supported Iraq both as a fellow Arab state and as a protector against Iran's brand of radical Islamism, giving the relationship an increasingly important strategic dimension. When Jordan faced a deep economic crisis in 1989, its Gulf friends refused to help, further increasing Baghdad's relative importance for Amman..

The economic aspect of relations was quite critical in all these years. During the war with Iran, Jordan's economy--including transportation, trade, agriculture, and industry--all became essential for Iraq. In exchange, Iraq supplied Jordan with cheap oil, grants, and low-interest loans. Today, Iraq remains the major supplier of discounted oil and Iraqi continues to be the largest market for Jordanian products. Delivering these goods in both directions has become one of the main pillars of Jordan's transportation sector.

Jordan's economy faced many problems before the Gulf War. There was a high unemployment rate of 20 percent. The foreign debt, exceeding \$11 billion, was triple the annual Gross Domestic Product (GDP). And the level of financial transfers from Jordanians working in the Gulf was declining.(3). As a result, Jordan had to devalue its currency by 50 percent in 1989. Another factor was Jordan's sensitivity to trade levels and its dependence on international commerce. For instance, exports were worth almost \$1 billion in 1989, with a further \$181 million in goods being re-exported through Jordan. Considering that Jordan's GDP was a mere \$4.3 billion, this is a staggering figure. No less important to Jordanian living standards, the country imported \$2.16 billion worth of goods in that same year.(4)

Before the Gulf war, well over half of Jordan's exports were sent to Gulf states. Iraq alone was the market for 23 percent of its exports; Saudi Arabia was generally the market for at least 10 percent more. Iraq's importance was underlined by the fact that it was the source

of between 10 and 17 percent of total Jordanian imports by the late 1980s.(5)

Largely as a reaction to the problems of deficit and debt described above, the International Monetary Fund (IMF) pushed Jordan to apply a tough economic reform program to increase production, decrease imports, reduce government spending, and stop government subsidies. These steps led to massive riots in April 1989 starting in Ma'an, capital of Jordan's transport sector, and swept throughout the country, forcing King Hussein to change the government and keep subsidies for most basic products. By 1990, Jordan's economy had begun recovering from the 1989 crisis but still needed serious domestic effort, international support, and time to reach better levels of performance.(6)

THE IMPACT OF THE GULF WAR

Immediately after the Iraqi invasion of Kuwait, the UN Security Council passed Resolution 661 which invoked economic trade sanctions against Iraq, a decision with which Jordan complied. UN sanctions deeply affected Jordan's interests and economy since, as stated above, Iraq was the largest Jordanian trade partner for the previous ten years.

Many Jordanian companies lost large amounts because Iraqi companies were unable to repay their debts due to the sanctions. Moreover, key Jordanian economic sectors such as transportation, agriculture, and industry, mainly serving Iraq, were severely affected by the UN resolution. The Amman Chamber of Commerce announced in November 1990 that the trade sanctions had already cost Jordan \$2 billion, and the loss was growing. According to the same source, they expected it to reach \$3.6 billion in 1991.(7) In addition, before the resolution Iraq was supplying 80 percent of Jordanian oil at reduced prices.(8) The sanctions forced Jordan to import oil from the international markets at the going rates.

Iraq was highly dependent on Jordan as the route for importing and exporting needed products. Each year, millions of tons of goods were handled for Iraq in the Jordanian port of

Aqaba and this aspect of Jordan's economy had been growing rapidly before the sanctions took effect. Imports via the port went from 6.2 million tons in 1989 to 3.2 million in 1990 to 1.5 million in 1991. Exports also were hurt, if less dramatically; from 10 million tons in 1989 to 8.9 million in 1990 to 7.7 million in 1991.(9)

The trade sanctions also caused the cancellation of many shipping visits, and as a direct result, the number of ships arriving at Aqaba decreased from 2,583 in 1988 to 2,075 in 1991. This, in turn, made it harder and longer for Jordan to receive products it needed for local industry and agriculture, in addition to disrupting Jordanian exports. Allied warships searched thousands of vessels each year and turned back many shipments belonging to Jordanian merchants who had business relations with Iraq, even if they were targeted for local consumption. Jordanian phosphate and potassium exports were also disrupted since they depended on Aqaba's port.(10)

The Gulf War affected (in various ways) forty countries around the world.(11) Some countries lost their exports to the Gulf area. Others lost the remittances of their expatriates. A few had to accommodate thousands of their citizens who returned from the Gulf area. Most countries were affected as a result of the interest rate increase on their old debts and difficulty to get new credits. Many were affected by the increase in oil prices. Jordan, however, was severely affected by all of these issues.

Crown Prince Hassan announced that the effects of Gulf War on Jordan could be summarized in three dimensions: the trade sanctions against Iraq, the refugees who fled the Gulf area and passed through Jordan, and the Jordanian expatriates who returned to Jordan.(12) At the time of the crisis, estimates on what losses would occur due to the conflict varied, but in Jordan, they were believed to be massive. Mudhar Badran, Jordan's Prime Minister at the time, estimated Jordan's total loss at \$8 billion, Badran added that while Jordan's exports to other Arab countries were \$485.7 million in 1989 and had increased by

\$42.8 million in the first half of 1990, they had since decreased gradually after August 2, 1990 reaching zero at the end of 1990 and the first 3 months of 1991.(13)

The Jordanian daily *al-Dustur* reported that Jordan's loss would reach \$1.4 billion in the last five months of 1990, and would reach \$8.4 billion in 1991, including both direct and indirect losses.(14) According to another Jordanian daily, *Sawt al-Sha'b*, the UN had estimated that Jordan lost \$1.52 billion in 1990, and expected it to lose another \$3.4 billion in 1991 (15). *Sawt al-Sha'b's* Sameh Hanandeh reported in November 1991 that Jordan had lost \$1.68 billion in 1990 and would lose \$3.97 billion in 1991.(16)

Regardless of how much these figures (especially Badran's) were an attempt to get more foreign aid, the real impact was vast and did cause Jordan's leadership to worry enormously about the future of its economy. Jordan's GNP declined by more than 8 percent, and Jordan's general economic growth dropped especially in the first five months after the war.(17) Jordanian reserves of foreign currencies and government revenues declined leading to an estimated budget deficit of \$308 million in 1991, excluding interest payments. The crisis affected almost all production sectors, led to an increase in the unemployment rate to nearly 30 percent, and also resulted in an increase of the poverty rate to 33 percent. Moreover, Jordan had to postpone the application of the IMF reform program. Writing in *al-Dustur*, Odeh Suleiman al-Swais concluded that, after the Iraqi and Kuwaiti economies, Jordan's economy suffered the most due to the Kuwait crisis.(18)

Indeed, when compared to other countries, the serious effect on Jordan becomes even clearer. During the eight months after the Gulf War, Jordan lost an estimated \$4 billion while Turkey, India and Yemen combined lost \$5.5 billion. Turkey estimated its losses to be \$3 billion, Yemen announced a loss of \$830 million, and India estimated its loss to about \$1.6 billion. Even Egypt's actual loss didn't exceed \$1 billion dollars. In addition, while

those countries' losses were less than Jordan's, they received more and better credits. Jordan obtained only \$1 billion dollars from Japan and the European Union.(19)

Furthermore, before the crisis Arab and International financial support was vital for Jordan's economy. Before the Gulf War Jordan was receiving almost \$600 million a year from the wealthy Gulf States alone. As a result of the Jordanian support of Iraq during the war, those countries cut off their support and European and other countries such as the U.S. and Japan took the same steps (a situation not reversed until Jordan became involved in the peace process with Israel, most especially after the Wye River Agreement). In addition, Iraq and Kuwait themselves had previously been the source of 30 percent of the total financial aid received by Jordan.(20)

Jordanian exports to Arab and other countries also declined. Kuwait and Saudi Arabia prohibited the import of Jordanian products because of Jordan's political position during the war. Jordanian agriculture, industry and trade sectors were thus shut out of the most important Gulf markets. The transportation sector was paralyzed as a result of the trade sanctions and the decline in exports and imports.(21)

Finally, the tourism sector was harshly affected by the Gulf War. Having taken nearly a decade to recover from the loss of the important tourist sites of Jerusalem and Bethlehem in 1967, by 1990, the industry in Jordan had reached all-time highs, with almost 2.6 million tourists entering in that year alone (most of whom were Arab). Utilizing its sites like Jerash and Petra to their fullest, tourism had even outperformed phosphates (Jordan's leading export) in net receipts. However, by 1991, this number dropped by almost 25 percent to 2 million visitors.(22)

RETURN OF JORDANIANS

There were many groups of people who passed through or returned to Jordan due to the Gulf War. These people can be classified into five categories: first, Jordanians who carry

Jordanian passports and have Jordan as their only home and who consequently returned to Jordan. Second, Jordan had to host Palestinians who carried identification papers issued by other Arab countries that then refused to receive them. Third, Palestinians from the West Bank, who had Jordanian passports, were forced to stay for a long period in Jordan until Israel allowed them to go back to the West Bank. Fourth, over 30,000 Iraqi refugees who escaped Iraq eventually settled in Jordan. Finally, as many as one million refugees during the last five of months of 1990, according to Prime Minister Badran.(23)

Jordan was one of the largest providers of white-collar employees to the Gulf countries. Jordanians living in the Gulf countries before the crisis exceeded one million (20 percent of Jordan's total population) distributed among Bahrain, Iraq, Kuwait, Oman, Qatar, Saudi Arabia and United Arab Emirates. These Jordanians living abroad also became the main supplier of foreign currency to Jordan, which official statistics estimated at over \$1.2 billion annually in the mid-1980s (unofficial estimates ran as high as \$3 billion). Jordanians in Kuwait and Iraq alone accounted for almost 40 percent of the total Jordanian expatriate transfers, as these two countries hosted over half a million Jordanians.

However, as a result of the war, these remittances decreased to \$460 million (the official statistic) in 1991. It was estimated that Jordan had lost \$122 million in 1990 and \$318 million in 1991 due to the decrease in the employee transfers.(24) In addition, it was estimated that Jordanian expatriates lost \$1.4 billion of their deposits in Kuwait and \$1.5 billion of their belongings. Making matters worse, after the Gulf War, former Jordanians working outside Jordan, previously a source of national income, suddenly became a major burden inside Jordan.

Jordanians started to migrate to Kuwait in the 1950s, and the total number of Jordanians working in Kuwait before the Iraqi invasion was almost 400,000. Jordanian labor helped in building modern Kuwait, with Jordanian

employees working in many government departments such as education, health care, military, as well as in the private sector. The Jordanian media reported that Jordanians were treated as second-class citizens, even though most of them had lived many years there and many were even born and raised in Kuwait.

Before the Iraqi invasion many articles requesting the government to deport Jordanians appeared in Kuwaiti newspapers, and the slogan "Kuwait is for Kuwaitis" became widespread. Jordanians were unable to buy private houses or operate their own businesses in Kuwait. Following the liberation, Kuwait started a comprehensive campaign to deport Jordanians out of Kuwait and an estimated 330,000 Jordanians returned to Jordan after the Iraqi troops were expelled from Kuwait by the US-led UN coalition.(25) Many other Jordanians, under indirect pressure and changing economic conditions, returned from other Gulf countries such as Bahrain, Oman, Qatar, Saudi Arabia, and United Arab Emirates.

The return of 330,000 Jordanians from the Gulf area, in addition to one million refugees who passed through Jordan, had many serious negative effects on Jordan. Jordanian unemployment rate soared from 20 percent to 30 percent.(26) White-collar employees were the main victims since Jordan was one of the major exporters of white-collar employees to the Gulf area. The situation worsened after the return of Jordanians from Kuwait and Iraq, a situation which continued until Jordan created more jobs and found vacancies abroad for the large number of unemployed.

Returnees increased the pressure on the limited natural resources (e.g., water and food) and on the Jordanian public utilities (e.g., education facilities, housing, and health care units). The return of the large number of Jordanians in a short period increased the number of Jordanians who lived under the poverty level up to one-third of the population. Before the Gulf crisis the total number of Jordanians who were living under poverty was 600,000--almost 20 percent of the population. A study of 500 Jordanian families revealed that

Jordan stepped down from a middle-income country to a low-income country.(27)

Salamah Hammad, writing in *Sawt al-Sha'b*, reported that over 1,625,000 persons had entered Jordan between August and December 1990, out of whom 885,000 continued their trip to their home countries (e.g., India, Pakistan, Philippines, Thailand, and Egypt). This number equals 23 percent of Jordan's population and would be equivalent to 13 million people passing through England. In order to help these refugees, the Jordanian Government spent over \$60 million of its budget, though the UN eventually reimbursed only \$12 million of that amount. Thousands of Palestinians also stayed in Jordan because the other Arab countries that issued their papers refused to receive them. Additionally, many other nationalities like Somalis, Liberians, and Eritreans stayed in Jordan for longer periods until they could find another country that would accept them.(28)

Jordanian authorities did not charge the refugees or international airlines taking the refugees home any of the fees normally paid by travelers. It also gave up the privileges of the national Jordanian Airline Company (Royal Jordanian) and cancelled many of its flights to allow other airline companies to carry the refugees.(29)

CONCLUSIONS

Thus, the damage of the Gulf War on Jordan's economy was multi-faceted and extensive. Jordan's economy was highly dependent on other Arab countries in several ways, and especially on Iraq. Aside from its heavy dependence on trade, Jordan also served as a major thoroughfare for Iraqi imports and exports and had previously prospered on the transport of goods from the port of Aqaba to Iraq. Jordan was also heavily dependent on Arab financial aid, subsidized Iraqi oil, and remittances from expatriate Jordanians working in the Gulf, and to a lesser extent, on international tourism—all of which came to an abrupt halt beginning with the Iraqi invasion of Kuwait.

In addition, the Gulf countries stopped importing Jordanian products because of Jordan's political support for Iraq, and many Jordanian employees were forced to return to Jordan from Kuwait and other Gulf countries. Dealing with hundreds of thousands of returning Jordanians became a major challenge for the economy, which was further burdened by over a million refugees in transit.

These difficulties still affect Jordan's economy. Gradually, the Gulf countries reopened their markets to Jordanian products and their job markets to the Jordanian employees. However, the UN-imposed trade sanctions on Iraq still strongly affect Jordan. The Gulf countries' financial support never returned to the levels reached before the Gulf War and was never entirely replaced by Western aid. Jordan still has strong economic relations with Iraq, which supplies Jordan with oil at half the international market price. With this in mind, it is clear that the already weak Jordanian economic situation could become even worse if the conflict in the Gulf area erupts again.

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NOTES

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2. Milton Viorst, "War in the Gulf, 1990-91: The Iraq-Kuwait Conflict and Its Implications," *Middle East Policy*, Vol. V, No. 4, (January 1998), pp. 196-8.
3. Slam al-Shawa, "Jordan Economy Loss from The Gulf War," *Sawt al-Sha'b*, Issue 2824, (February 26, 1991), p. 9.
4. Economist Intelligence Unit, *Jordan Country Report, 1992-3*, pp.14, 30.

5. Carolyn Faraj, "Gulf War Effects on Jordan Industry," *al-Ra'i*, Issue 7415, (November 15, 1990), p. 4. and Economist Intelligence Unit, *Jordan Country Report, 1992-3*, p. 30.
6. "Gulf War Affected Forty Countries," *al-Dustur*, Issue 8489, (April 7, 1991), p. 9.
7. Amman Chamber Of Commerce, "The Gulf War Effects on Jordan Economy," *al-Dustur*, Issue 8356, (November 25, 1990), p. 1.
8. Mufleh Akil, "Jordan Economy after the Gulf War," *al-Dustur*, Issue 8507, (1991), p. 7
9. Economist Intelligence Unit, *Jordan Country Report, 1992-3*, p. 26. See also previous editions of the report.
10. "By Increasing The Control On Its Borders With Iraq, Jordan Avoided a Severe Dispute With the U.S.," *al-Sharq al-Awsat*, Issue 4983, (July 20, 1992) p. 10; and Economist Intelligence Unit, *Jordan Country Report, 1992-3*, p. 26. See also previous editions of the report.
11. "Gulf War Affected Forty Countries," *al-Dustur*, Issue 8489, (April 7, 1991), p. 9.
12. Prince al-Hassan Bin Talal, "Gulf War Impact on Jordan Economy," *al-Dustur*, Issue 8349 (November 18, 1990), p. 1.
13. Mudhar Badran, "Jordan Total Loss As a Result of Gulf War," *al-Dustur*, Issue 8448, (February 25, 1991), p. 1.
14. Odeh Suleiman al-Swais, "The Gulf War Effects On The Jordanian Per Capita," p. 10. See also Lima Nabil, "Number of Jordanians Under Poverty Increased to One Million," *al-Ra'i*, Issue 7450, (1991) p. 19.
15. "Gulf War Effects on Jordan Economy," *al-Dustur*, Issue 8775, (February 24, 1992), p. 2.
16. Sameh Hanandeh, " Jordan Lost \$3.97 Billion As A Result Of The Gulf War," *Sawt al-Sha'b*, Issue 3085, (November 20, 1991), p. 1.
17. "Gulf War Effects on Jordan National Production," *Sawt al-Sha'b*, Issue 3021, (September 17, 1991), p. 8.
18. Odeh Suleiman al-Swais, "The Gulf War Effects On The Jordanian Per Capita," *Al-Dustur*, Issue 8369, (December 8, 1990), p. 10.
19. "Gulf War Affected Forty Countries," *al-Dustur*, Issue 8489, (April 7, 1991), p. 9.
20. Mufleh Akil, "Jordan Economy after the

- Gulf War," *al-Dustur*, Issue 8507, (1991), p. 7
21. "Jordan Economy Situation During The Gulf War," *Akhbar al-Esb'u*, Issue 1496, (January 21, 1991), p. 4.
22. Economist Intelligence Unit, *Jordan Country Report, 1992-3*, p. 25. See also previous editions of the report.
23. Mudhar Badran, "Jordan Total Loss As a Result of Gulf War," *al-Dustur*, Issue 8448, (February 25, 1991), p. 1.
24. Official statistics can be found at the Jordanian Central Bank
<http://www.nis.gov.jo/nis/owa//get_table?main_code=5&sub_code=21>
25. "Refugees Crisis," *Sawt al-Sha'b*, Issue 3139, (December 13, 1992), p. 1.
26. See for instance, "The Jordanian Unemployed Increased to 128,000, 62 Percent of Them Did Not Work Since One Year Ago," *al-Sharq al-Awsat*, Issue 4931, (May 29, 1992), p. 9. See also "Labor Distribution Does not Fit Jordan's Local Needs," *al-Sharq al-Awsat*, Issue 4992, (July 29, 1992), p. 9.
27. Lima Nabil, "Number of Jordanians Under Poverty Increased to One Million," *al-Ra'i*, Issue 7450, (1991) p. 19.
28. "Prince al-Hassan Discusses Methods to Absorb Jordanian Returnees," *Sawt al-Sha'b*, Issue 3109, (December 14, 1991), p. 1. "Refugees Crisis." *Sawt al-Sha'b*, Issue 3139, (December 13, 1992), p. 1. Hammad, Salamah., "Jordan Helped the Refugees for Human Reasons." *Al-Dustur*, Issue 8371, (December 10, 1991), p. 4.
29. "Refugees Crisis." *Sawt al-Sha'b*, Issue 3139, (December 13, 1992), p. 1.