



Jordan, minerals extraction and the resource curse

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ABSTRACT

In its role as a competitive producer of phosphate and potash Jordan has not suffered noticeably from the Resource Curse over the past 50 years. However, the effects on its economy because of its geographical proximity to major oil-producing states have been both positive and negative. It is arguable that an oil resource curse has applied to Jordan.

Significant capital inflows from the oil economies during the 1970s enabled development of key sectors of the Jordanian economy, including mining and some manufacturing and enhanced the nation's infrastructure. However, declining real oil prices and falling worker remittances during the 1980s led to painful readjustments and adversely impacted on Jordan's economic development. There has been little or no evidence of Dutch disease in Jordan since 1960, though wars in energy rich nations such as Kuwait, Iraq and even Iran, have had an adverse impact on the economy. Mineral exploitation also has not adversely affected education spending.

The direct and indirect effects of minerals and energy extraction at home and in nearby nations presently place Jordan at about the 50th percentile in the list of world nations in terms of their human development profile.

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Introduction

One is initially inclined to think that the possession of a significant mineral endowment is a blessing. This should be especially the case for developing countries because it potentially provides them with necessary foreign currency and should increase savings, thus facilitating investment and bringing economic growth and development. But several influential researchers have found a robust negative relationship between different measures of development and of resource endowments in the recent past.

The so-called conventional view, which asserts that mineral riches have a positive impact on economic growth when government policy is sound and national institutions are well developed, applies when looking at countries like the United States, Australia and Canada over the past two centuries, as well as to the more positive recent experiences of Chile, Botswana and some of the small oil rich Gulf States. It also seems to relate positively to the industrialisation of nations such as the United Kingdom and Germany.

During the 1970s, several mineral rich nations¹ (especially the oil producers) experienced strong economic growth. However, the

longer-term performance of oil-rich economies such as Saudi Arabia, Venezuela and Nigeria, as well as other mineral-rich nations such as Zambia, Peru, Papua New Guinea, the Democratic Republic of the Congo and Jamaica was then unimpressive in comparison to resource poor countries like Japan, South Korea, Taiwan and Switzerland. Several nations in the latter group were major importers of minerals to supply their successful manufacturing sectors. This led to the question about large mineral endowments—Are they a blessing or a curse?

Following notable case studies by Gelb et al. (1988) and Auty (1993), the “resource curse” thesis gained increasing attention in the 1990s for mineral-rich developing nations. This interest was soon extended to natural resources more generally, which also includes agriculture, forestry, and fisheries.

In considering the relationship between natural resource abundance and economic growth and development, a variety of empirical studies subsequently arrived at different results, i.e., negative, positive or mixed, depending on the time period of analysis and the variables they have used. The most influential have been those of Sachs and Warner². Considering a cross

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¹ Writers in this area such as Nankani (1979), Weber-Fahr (2002) and Eggert (2001) have used a number of rule-of-thumb measures in determining national mineral wealth and mineral dependence. They focus on mineral GDP as a

(footnote continued)

percentage of GDP, mineral exports as a percentage of total exports (or merchandise exports) and mineral taxation as a share of total government revenue.

² For a review of several of these papers, taking a mineral industry perspective, see Davis and Tilton (2005). Another interesting discussion of the debate, from a broader natural resources perspective, appears in Gylfason (2007).

section of around 90 nations between 1971 and 1989 in their regression analysis, Sachs and Warner (1995) found a significant negative relationship between economic growth and natural resource abundance. These results persisted when they considered the effect of other possible explanatory variables, such as the quality of legal and government institutions (reflected in indices of corruption, the rule of law and bureaucratic quality). A broad literature has since emerged in the field with various authors supporting, and some challenging, the Sachs and Warner findings.

One useful way to assess whether a resource curse effect has applied over extended periods is to assess a mineral economy's performance in terms of the impact of three broad sets of forces suggested by the authors of Mining, Minerals and Sustainable Development (MMSD) (2002). These are:

- *External market forces* such as *falling real mineral prices* and *mineral price volatility* that may cause major problems to a government in managing an economy;
- *Internal economic stresses* may lead to reduced economic growth arising particularly from *Dutch disease* effects; and
- *Forces of political economy* that may foster *corruption* and *excessive rent seeking*. This may in turn be associated with *violent conflicts* (often civil war) have a *negative impact on democracy* and on the *quality of institutions* and they may also lead to *insufficient investment in education*.

Supporters of the resource curse hypothesis see the sum of these forces overpowering the positive impacts of a large resource endowment for mineral rich nations. Those who see resources as a blessing take a contrary view.

Jordan is a small Middle Eastern developing economy. With a population of about 6.4 million in 2010, its estimated Gross Domestic Product was just over \$US 27 billion, and GDP per capita at Purchasing Power Parity (PPP) stood at a modest \$US 5300 per annum. Life expectancy at 73.1 years was increasing, while adult literacy was 91.1 per cent.

Jordan is a negligible oil and gas producer. Her mining industry is dominated by the production of phosphate and potash. Since independence in 1946, these latter minerals have made a contribution to the size of the economy and its exports but this has varied considerably over time.³ Table 1 shows two relevant summary ratios for five points during this period—1970, 1980, 1990, 2000 and 2010. Also, as Fig. 1 shows, the mining sector's value added as a percentage of national value added rose from just over one per cent in 1965 to 3.7 per cent in 1988 before spiking at 6.1 per cent in 1989. The dramatic rise in 1989 was due to surging global international prices for phosphate and potash. Mining's GDP share then trended downwards to around two per cent by 2007. In 2008, another sudden price spike in phosphates and significant price rises for potash brought a dramatic expansion of the mineral sector, before a fall in 2009 and some recovery in 2010 and 2011.

After 1975 there was considerable potential in diversifying Jordanian economy away from its reliance on exports of phosphate and potash. The recent economic expansion of other industry sectors has significantly altered the structure of the economy.

While Jordan remains an important producer of both phosphates and potash, neither of these industries is dominant in

monetary value terms in the world minerals and energy economy. Though subject to recent price volatility, the total value added by these sectors to Jordanian GDP has only recently exceeded \$US 1 billion each year.⁴ This contrasts to the situation of major mineral and energy producing nations such as Saudi Arabia, China, Russia, the United States, Norway and the United Arab Emirates, whose minerals and energy GDP stood at \$100 billion or above in 2010.

There are brief periods when commentators such as Eggert (2001) and Weber-Fahr (2002) may have described Jordan as mineral dependent, but the view of Gylfason (2007, p 8) is more widely accepted. He argues that Jordan has few mineral resources and does "not depend in any important way on the little that they have." It would seem, therefore, that Jordan is unlikely to have experienced significant resource curse or blessing effects from the expansion and contraction of its phosphate and potash sectors. Yet the nation's proximity and close economic and cultural relations with the major oil producing nations such as Saudi Arabia, Kuwait, Iraq and the other Arab Gulf States (particularly the United Arab Emirates, Qatar and Oman) does provide a platform from which it may have received benefits (or incurred costs) as a result of their riches.

Jordan appears to have derived considerable economic benefit, particularly during the oil boom periods of 1973 and 1979 when worker remittances from Jordanian citizens flowed strongly to support new investment in its industrial development and infrastructure. By contrast, Jordan and many other nations in the Middle East also have experienced the adverse effects of several major conflicts relating to the oil industry over the past five decades. Generally speaking these encounters have all affected the Jordanian economy in a negative way.

Trying to assess whether minerals have been a curse or a blessing for Jordan in this more complex environment is a challenging task. In seeking to do so, the present paper focuses on the overall economic development and progress of the Jordanian economy. The second section reviews these developments in more detail while the discussion of the third section then seeks to assess them in the context of minerals and energy sector. The fourth section – using the taxonomy of external market forces, internal economic stresses and forces of political economy – summarises these effects. We then make some concluding comments.

Some key economic indicators in Jordan

Economic growth, conflict and oil prices

The Middle East region has experienced several major conflicts since the 1940s. These include various outbreaks of war between Israel and other nations in 1948, 1956, 1967, 1973 and 1982. There was also the Iran–Iraq war in the 1980s and the Gulf wars of 1991 and 2003. Each of these conflicts has affected the Jordanian economy. Additionally the economic fortunes of Jordan have been significantly influenced by oil prices.

Initiated by the members of the Organization of Petroleum Exporting Countries (OPEC) in 1973, there were dramatic rises in world oil prices (from \$3 to \$12 per barrel). At that time, OPEC member nations were responsible for more than half of world oil production. This dramatically affected Western nations, which had been accustomed to cheap oil. It suddenly brought great wealth to the Middle East, and also to the other OPEC member nations. There were further major OPEC-led price rises in 1979

³ Weber-Fahr (2002) for example identifies mining as "crucial" for Jordan between 1990 and 1999 (accounting for 28.9 per cent of exports). There were 22 developing nations in her "mining is crucial" category (15 to 50 per cent of exports), while eight countries were in the "mining is dominant" category (accounting for more than 50 per cent of exports).

⁴ See for example the United Nations Statistical Database for relevant data.

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