

Small-Scale Industries in the Globalization Era: The case of Jordan

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Abstract

The research examines the role of SSI in the economic development of Jordan by showing the effects of the SSI on the unemployment rate, production, and sales. The research concludes with policy recommendations to ensure the sustained and competitive growth of small-scale industries in Jordan. The results of the study show that the growth of SSI in Jordan in terms of employment, production and sales has increased due to globalization and domestic liberalization. However, it is still not as significant as planned. The SSI sector should be encouraged to make a sustainable contribution to the national income, employment, and exports.

Keywords: Small scale industries, policy, globalization, Jordan, competitiveness.

Introduction

The development of small-scale industries (SSI) has been one of the major planks of Jordan's economic development strategy since Jordan's independence. The SSI sector occupies a place of strategic importance in the Jordanian economic structure due to its considerable contributions in terms of output, exports and employment. SSI play a key role in the industrialization and development of any country. This is because SSI provides an immediate large scale employment, ensure a more equitable distribution of national income, and facilitate an effective mobilization of resources, capital, and skills which might otherwise remain underutilized. It is possible to determine the concept of the SSI in accordance with two measures: the size of the labor force employed; and the amount of invested capital in this industry. Jordan has adopted the first concept to distinguish between the SSI and other industries. An establishment is considered small if it employs not more than 10 workers, while industry employing between 15-30 workers is considered a medium scale industries, and when having more than 30 workers the industry is considered large scale industry's category. Although many countries have adopted this criterion, other, countries determined the higher ceiling of the number of the labor in this industry to become 15 workers as it is in Iraq and Ghana, while Egypt, Belgium and Denmark adopted the criterion that the number of workers should not exceed 50 workers. In contrast, countries such as France and Italy adopted the criterion of 500 workers to distinguish between small-scale and other industries But in Japan and in the United States the total number of workers working in small scale industries was set at 300 in Japan and 1000 workers in the United States (Subramanian 1995). Furthermore, the SSI are characterized by their degree of spread as show in table (2), the SSI in Jordan comprise nearly 84% of the established industries during the period of 1990-1998 and increased to nearly 90% of the total industries established during the period of 1999-2006 (Hachure 2004).

Moreover, most of these industries were characterized as being environmentally friendly. The possibility of establishing these industries in different regions is favorable because they do not need a special infrastructure, once these industries are well established then the encouragement of their spread in the rural regions will help to achieve many of the social and economic goals, such as increasing income in rural areas, controlling the migration from rural areas to cities and controlling demographic growth.

Objectives of the study

The main objective of this paper is to highlight the importance of SSI in the Jordanian economy as SSI occupies a place of strategic importance in the Jordanian economy due to their considerable contributions in terms of production, sales and employment. These

contributions have emerged despite of the fact that this sector has been exposed to intensifying competition.

Research Questions

This paper is also attempting to answer the following research questions. The answers to these questions are part of the objectives of this study.

- Why should global and national policy development affect SSI in Jordan? How? What are its implications?
- How far have SSI been able to cope with the competitive environment? What was their growth performance in the last decade?
- What was their effect on employment, production, and sales?
- What policies need to be taken to strengthen SSI to ensure their sustained contribution to the Jordanian economy?

Methodology

This study is based on the primary and analysis of secondary data. The data was gathered from published studies and reports available in both English and in Arabic languages. Relevant statistics were obtained from the Central Bank of Jordan and the Department of Statistics. These data were then analyzed to describe and explain the objectives of the study.

Review of literature

The literature review indicated that the numbers of studies which have examined SSI in Jordan are very limited. The most notable studies are:

A special report was conducted by the International Bank in the Middle East and North Africa (2005). This report shows that the financial gap which is the difference between the capitals offered and the capital needed has decreased, which means the SSI influenced part of the financing problem.

Another study was conducted by the Royal Scientific Society (2001), concluded that if the SSI control the cost of needed materials for production, then the role of these industries in the economic development of Jordan will be significance.

Additionally, N. Khalil (2004) reported on his paper "The role of SSI in decreasing the poverty and unemployment rate in Jordan", that the SSI has a minor effect on the poverty and unemployment especially in the rural areas.

While, I. Krabiliah (2002) in his paper "Relation between the no. of SSI and the unemployment rate in south Jordan", that the no. of SSI in south Jordan is limited compared to other districts. Therefore, the SSI in the south has a minor effect on the unemployment rate.

Ironically, Almeyda (1996) reports that commercial banks role in SSI finance is significant even when compared to large and developed non-governmental organizations. It was found that 70 percent of the outstanding value of microfinance and SSI loans was extended by the 25 banks, whereas 150 non-governmental organizations were responsible for 4 percent only. A world Bank survey of 206 microfinance intermediaries world wide (2001), finds out that many area of the world – unlike the Middle East and North Africa and contrary to perceived barriers – banks are becoming a major player in microfinance. This report states that "banks may be the most efficient channel for providing microfinance to the entrepreneurial poor".

Global and national changes implications for small scale industries

Last decade was a remarkable period in terms of policy changes nationally as well as internationally. Since the beginning of 1990s, policy changes have been taking place at two different levels: global and national. Both have implications for the functioning and performance of SSI in Jordan. Globalization refers to free movement of factor inputs as well as output among countries. However, the developments that have been taking place since the early 1990s are mostly reference to the movement of capital, commonly known as Foreign

Direct Investment (FDI), and the free movements of goods, particularly from the developed not the developing economics.

The liberalization of FDI regimes and the strengthening of international standards for the treatment of foreign investors give foreign firms greater freedom in making internationally location decisions. More than 58 countries have annually introduced changes in their investment regimes during the 1991-2006. In 2001 alone, 70 countries made a total of 150 regulatory changes, of which 147 were more favorable to foreign investors (Stiglitz 2002). As a result, global FDI increased from US \$ 209 billion in 1990 to US \$ 1591 billion in 2000. The increased flow of FDI has led to its greater share in gross capital formation in all industries as well as manufacturing industries (Table 1). The increase was more significant in developing countries. This would have led to intensifying competition in the national as well as international markets for small firms.

Table (1): FDI in capital formation (1980, 1990, and 2005)

Region	FDI as a percentage of Gross capital Formation (All industries)	FDI as a percentage of Gross capital Formation In manufacturing
World		
1980	2.3	9
1990	4.7	14
2005	9.7	22
Developing countries		
1980	1.2	11.7
1990	4.0	22.3
2005	8.3	29.8

Source: UNCTAD

The formation of the World Trade Organization (WTO) in 1995 has only accelerated the process of scaling down tariff and non-tariff restrictions on imports. Jordan, as a member of the WTO, had substantially done away with its quantitative and non-quantitative restrictions by 2000. The process of removal of quantitative and non-quantitative restrictions across countries has led to a greater movement of goods between countries, including Jordan. However the reduction of restrictions on the movement of goods between countries and the subsequent increase in world exports have benefited Multinational Corporations (MNC) much more than small enterprises. This situation has not been examined along with the process of economic reforms launched by the government of Jordan at the national level. This has resulted in considerable freedom for enterprises - domestic as well as foreign - to enter, expand or diversify their investments in Jordanian industry.

Jordan's economic reforms have two major outcomes. Firstly, the growth of the public sector decreased considerably since 1988 compared to the earlier period, in terms of not only investment and employment but also production. Secondly, there has been a rapid increase in FDI inflow, into diverse sectors of Jordanian industry. This economic reform in Jordan has treated the small scale industries in two ways: first is due to opening the door for intensified competition for non-durable consumer goods industries. The second way is by providing an opportunity for outsourcing to small enterprises in durable consumer goods and capital goods industries.

Performance of small scale industries in the globalization era

SSI is considered as the backbone of the private sector all over the world, which assures their role in production, employment and sales. In addition to their role in economic development,

they play a vital role in social, political, and cultural development as well. However, the notable spread of SSI contributed to the increased severity of competition between these industries that often leads to the failure of these industries. Most SSI fail during the first year of establishment, and 90% of these industries are subject to failure during a period not exceeding their first 5 years. On the other side, the Mexican experience illustrates of the 200,000 small projects entering the market annually, no more than 70,000 projects continue in the market by the second year (Bencivenga, V. Bruce, S. and Starr, R. 1995).

Table (2): The relative importance of the SSIs in Jordan (1990-2006)

Year	No. of SSIs	No. of all industries	Relative importance
1990	52496	58984	89%
1991	54696	61388	89%
1992	64752	74369	87%
1993	66160	75920	87%
1994	66100	80363	81%
1995	74896	91520	82%
1996	76468	93432	82%
1997	78580	95856	82%
1998	81856	98768	83%
1999	92923	109532	84%
2000	106730	118271	90%
2001	103753	115820	89%
2002	105662	118492	89%
2003	130149	140338	92%
2004	126196	141944	88%
2005	132166	145699	90%
2006	135732	150222	90%

Source: Department of statistics, yearly statistical bulletins, various issues.

As shown in table (2) the number of the SSI increased from 52496 projects in 1990 to 135732 projects in 2006. These numbers illustrates the relative importance of the number of SSI of the total number of industries in Jordan is more than 80%.

The SSI was distributed in Jordan into three districts as follows (Department of Statistics 2005):

The northern district: 22% of the total small scale industries in Jordan.

The middle district: 68% of the total small scale industries in Jordan.

The southern district: 10% of the total small scale industries in Jordan.

Furthermore, discrepancy in the relative importance of the spread of the SSI in the districts can be attributed to many factors. The most important factor is the demographic distribution that characterizes Jordan's districts, as well as to the nature of the concentration of the economic activities in these districts. However, the geographic distribution of the spread of the SSI may not relate to other economic indicators, but it is possible to accept it as an indicator to express the strength of most of these indicators in favor of the middle district. On the other hand, the lack of data and information about the geographic distribution of all the economic and social indicators concerning the SSI – such as investment , employment , production , salesetc. - led to making the analysis inclusive for all of Jordan without dealing with details at the district level.

The investment

Investment is the major driving force for the development process in any country. For instance, the greater the size of capital invested, the more its positive effects on the national economy.

Table (3): Total amount of capital invested in the SSIs in Jordan (1990-2006)
JD. Thousands*

Year	Small scale industries	All industries	Relative importance
1990	26205	551811	4.7%
1991	39347	591426	6.7%
1992	44981	647104	7.0%
1993	39149	751231	5.2%
1994	46413	976636	4.8%
1995	51345	947662	5.4%
1996	47886	1208362	4.0%
1997	56048	1354252	4.1%
1998	54268	1429333	3.8%
1999	55355	1438452	3.8%
2000	57889	1457334	3.9%
2001	58322	1467441	3.9%
2002	60142	1492211	4.0%
2003	63324	1521123	4.1%
2004	65589	1543189	4.2%
2005	66639	1551132	4.2%
2006	67174	1561114	4.3%

Source: Department of statistics, yearly statistical bulletins, various issues.

* JD. 0.71 = 1 \$

From table (3), it can be noticed that the average of the relative importance for capital invested in the SSI is nearly 4% of the total capital invested in all industries during the period 1990 -2006. This illustrates that the SSI are characterized by the relative reduction in the capital needed to establish these industries compared to other industries. Such characteristics encourage and attract the investor's savings towards this category of industries because it achieves faster and bigger revenues compared to medium and large scale industries. Adding to such attractiveness the autonomy, flexibility and the accommodation the SSI are enjoying.

Furthermore table (4) indicates that the average of the available capital for the SSI does not exceed 3.6% of the total available capital for the different industries during the period 1990-2006. This is notably less than the average of the relative importance of capital invested in the SSI compared to the total invested capital. In other words, this category of industries depends on its financial resources from its own capital and from the circulated revenues more than the medium and large scale industries do.

Table (4): Total value of fixed assets in the SSIs in Jordan (1990-2006)

Year	JD. Thousands		
	Small scale industries	All industries	Relative importance
1990	32641	980996	3.3%
1991	45784	1007398	4.5%
1992	61329	1030155	6.0%
1993	48069	1062687	4.5%
1994	54317	1603036	3.4%
1995	72196	1698525	4.3%
1996	56977	2084144	2.7%
1997	69985	2471266	2.8%
1998	72803	2480713	2.9%
1999	73985	249687	2.9%
2000	73376	250991	2.9%
2001	72987	251543	2.8%
2002	73324	257198	2.8%
2003	73297	256244	2.8%
2004	74122	259822	2.8%
2005	75032	258970	2.9%
2006	76125	259765	2.9%

Source: Department of statistics, yearly statistical bulletins, various issues.

It is important to notice that it is not realistic to explain the aforementioned result on the basis that the financial institutions did not perform their duties towards the SSI in financing their investment activities. The justification must be linked by knowing the nature of the fixed assets for this category of industries. Despite the attractiveness of SSI for investment, financial institutions seem hesitate to finance this industry. This situation can be explained by the fact that SSI are characterized as being traditional assets, handmade in many instances, and their low prices when comparing the capital assets of the medium and large scale industries. Also, the SSI does not conduct systematic studies for the benefits of their capital expenditure in the field of fixed assets. Therefore, financial institutions appear not willing to finance these industries at the current interest rate in the market because of the high risk. But the financial institutions could provide the finance for this category of industries at low interest rates only if these industries could provide more guarantees to the financial institutions. There is another alternative to financing SSI so as to receive the needed finance for their operations without bearing any additional financial burdens through loan guarantee's program. In order to overcome this dilemma, the Central Bank of Jordan and the financial institutions established the Jordanian Company for Loans Guarantee in 1994, with the aim of providing the needed guarantees to cover the risk of the provided loans for SSI. This company guaranteed 5269 loans with JD.140 million during the period 1990-2006. The financial institutions are characterized by their wide spread, as there are 17 banks providing the finance for this category of industries, and they accredited more than 24 programs. Some programs were oriented towards a specific age category such as the youth. While others oriented toward a specific districts or specific geographic regions.

Moreover the number of the institutions and the differences in financial programs for SSI, created a big discrepancy in the nature of the small loans terms. For instance, the interest rates ranged from 0% as in the case of the National Aid Fund into 22% for the Jordanian

Woman Department Establishment. The term of these loans extended from 3 months for the Women Loan Fund to 15 years in the Agricultural Credit Corporation. On the other hand, the volume of the small grant reached JD.192 million during the period 1990-2000. The first stage of the Social Security bundle program (1998-2000) provided loans backed by JD.14 million for the SSI. The American Agency for the International Development (USAID) worked during the end of the last century to provide JD.18 million as a grant to finance the SSI. This illustrates the relative sufficiency for the small financial grants compared to the needs to finance the activities of these industries during the past decade.

To support this, one study conducted by the International Bank in the Middle East and several North African countries during the year 2005, showed that the financial gap for industries with less than 10 labors in Jordan reached nearly JD.38 million, while the previous estimates for the financial gap for the SSI, and was JD.48 million. Through this comparison it is evident that the financial gap was lowered, which means that the financial intuitions notably contributed in financing the SSI and the growth rate for the financing needs for these industries was lowered which contributed in reducing this gap. On the other side, the results of a field survey conducted recently by the Royal Scientific Society confirmed this indirectly as the study concluded that the cost reduction of the needed materials for production is one of the major factors that contribute to solving the problem.

Employment

The capability of the SSI to attract a large labor force is one of the most prominent aspects that characterized these industries. Also, the possibility of establishing these industries in all regions is considered an added function of the SSI to limit the unemployment in these regions. Table (5) indicates that the SSI provided opportunities for 18% of employment during the period 1990-2006. This percentage clearly demonstrates that the SSI contributes in alleviating the unemployment rate in Jordan.

Table (5): Total no. of employees in the small scale industries in Jordan (1990-2006)

Year	Small scale industries	All industries	Relative importance
1990	80134	421191	19.0%
1991	83522	455621	18.3%
1992	855121	479131	17.8%
1993	88991	482231	18.4%
1994	90115	491522	18.3%
1995	93145	501993	18.5%
1996	96244	521177	18.4%
1997	98100	539981	18.2%
1998	98541	544189	18.1%
1999	100241	563131	17.8%
2000	103788	585140	17.7%
2001	93269	575930	16.2%
2002	82008	573243	14.3%
2003	123248	617466	20.0%
2004	97340	705838	14.0%
2005	100541	706111	14.0%
2006	105211	706233	15.2%

Source: Department of statistics, yearly statistical bulletins, various issues.

The importance of SSI for employment in Jordan was similar to their role in other countries. In the African countries SSI reached nearly 40% of the total labor force during the 1980s, while this rate was more than 50% for the developing countries during the 1970s and 1980s. The SSI in the United States contributed no less than 50% of the employment in the private sector during 1970s. In addition to the aforementioned, percentages one study conducted by the International Bank in 2005 pointed out that the rate of the labor force in the small and middle projects increased in developing and developed countries, such as Indonesia (79%), South Korea (78%), Turkey (62%), Brazil (59%), and the United State (52%).

Also noted by comparing the contents of table (5) to the contents of table (3) is that the average capital density for each worker in the SSI reached JD.2146 during the study's period 1990-2006. This means that providing an additional job opportunity in this category of industries needs an investment of nearly JD.2100, while average capital investment needed to provide a job during the same period reached JD.1118, which is equal to the average of the capital density for each worker according to the industrial survey's data for the years 1984, 1988 and 1994. The result was surprising when it was noticed that the average of the relative importance for the number of the females working in the SSI during the research period was no more than 2% of the total labor force in these industries.

In addition to what was mentioned above, the data by the Department of Statistics for the period 1990-2006, pointed out that the percentage of the labor force in the small scale industries was 92% of the total industrial sector. The average of the relative importance of working women in small scale industries did not exceed 5% of the total female labor force in the total industries during the same period of the study. Some of SSI depends on employing foreign labor because low wages and salaries in this industries. Therefore, employment policies have to be geared to force the SSI to give domestic labors the first priorities for employment. However, the capability of these industries to eliminate poverty in Jordan is relatively limited.

Production

The SSI is characterized by their relative large contribution to the GDP. For instance, the average contribution of the SSI to the gross domestic product in Malaysia is 21%, the United States 40%, Spain 64%, Canada 52%, and France 54%. Table (6) shows the contribution of SSI to Jordan GDP is about 8.5%. the significance of SSI to GDP could be noticeable by relating their contribution to GDP (8.5%) to their need for capital (4%) from the total invested capital.

Table (6): Value added of the SSIs in Jordan (1990-2006) JD. Thousands

Year	Small scale industries	All industries	Relative importance
1990	49552	638955	7.8%
1991	56307	643299	8.8%
1992	84191	738460	11.4%
1993	76133	766819	9.9%
1994	73393	916853	8.0%
1995	85987	1001738	8.6%
1996	73277	988548	7.4%
1997	84163	1089376	7.7%
1998	93049	1145344	8.1%
1999	94154	1149805	8.2%
2000	93690	1116732	8.3%
2001	95050	1140964	8.3%

2002	96248	1169870	8.2%
2003	96119	1161779	8.2%
2004	98546	1179806	8.4%
2005	99187	1169901	8.5%
2006	100235	1206509	8.3%

Source: Department of statistics, yearly statistical bulletins, various issues.

This characterized can be explained by the nature of SSI as extensive use of labor which is considered the major element in the production process compared to the capital element. On the other hand, comparing the contents of table (6), to those of table (5), revealed that the average annual labor productivity for SSI during the period of the study reached nearly JD.3600. While before 1990 the average was JD.3300 annually. Additionally, the data of tables 5 and 6 showed that increase in the average of no less than 9%, which indicates an increase in the labor productivity in the SSI.

Table (7): Total sales of SSIs in Jordan (1990-2006) JD. Thousands

Year	Small scale industries	All industries	Relative importance
1990	67272	1499371	4.5%
1991	89472	1637914	5.5%
1992	149612	1947837	7.7%
1993	115469	2030058	5.7%
1994	104037	2482996	4.2%
1995	113891	2769218	4.1%
1996	115675	2766048	4.2%
1997	117988	3029266	3.9%
1998	136515	3094727	4.4%
1999	130665	3278654	4.0%
2000	135788	3199054	4.2%
2001	137430	3304530	4.1%
2002	140870	3587861	3.9%
2003	142997	3689954	3.7%
2004	143065	3788293	3.7%
2005	144087	3803572	3.8%
2006	148980	4006590	3.7%

Source: Department of statistics, yearly statistical bulletins, various issues.

Table (7) shows that the average contribution of the SSI total sales for all industries did not exceed 4.8% during the period 1990-2006. This average is considered "neutral" because it is completely equal to the small scale industries share of the total capital invested in these industries. Analyzing the sales structure of the SSI in Jordan demonstrates that 99.4% of total sales were directed into domestic markets. In other words, the share of these industries for international market did not exceed 0.06% of the total sales.

Conclusion

The findings of this study revealed:

1- Generally, the SSI plays an important role in achieving social and economic development. The average invested capital in these industries reached 4.8% of the total invested capital in all industries, during the period 1990-2006. Also, the SSI provided 22% of the total job opportunities and contributed in achieving nearly 8.5% of the total value added. Lastly, their share of the total sales in the industrial sector was 4.8%, and most of the sales were in the domestic market.

2- Despite the positive effects of the SSI in the Jordanian economy, the SSI still suffer from many weaknesses such as low average employment of women which is due to the socio-culture. The percentage of women working in the SSI was only 1.7%. Also, the percentage of foreign labor in the SSI is relatively high.

3- The financial institutions are characterized by their wide spread. There are 17 banks providing finance for this category of industry and more than 24 programs have been accredited. Some programs are oriented towards a specific age category such as youths, and some institutional activities are exclusively for specific district or specific geographic regions.

4- There is an increase in the productivity of labor in the SSI, which indicates that the training programs directed towards these industries have increased.

5- Increasing the investment in SSI by 1% lead to an increase of the value added by 0.78%, production growth by 0.81 %, and employment by 0.67%.

6- All the results of the statistical analysis of the SSI were statistically acceptable and no differences were noticed between the effect of SSI and other industries on the economic development of the Jordanian economy.

7- Marketing has been identified as one of the major problem areas of the small scale industries and it has been ranked as the second most important reason for the closure of small scale businesses. Accordingly, small firms will not be able to penetrate markets, national or international, even if marketing support is given by government agencies.

Recommendations

Based on this study's analysis and results, the following recommendations may contribute to increasing the role of development of SSI in the Jordanian economy.

1- Establishing government centers in all districts in Jordan to provide the needed services and facilities to SSI in order to increase their role in the economic development of the Jordanian economy.

2- Establishing specialized training centers for SSI to provide special training programs on how to establish a project and how to maintain the continuity of that project.

3- Fostering technology development through either technology transfer or technological innovations or inter-firm linkages should be emphasized in the light of dimensions of global competition and its negative fall out as well as positive opportunities, to SSIs entrepreneurs through seminars and workshops, at the local level.

4- The financial infrastructure is needs, and an adequate inflow of credit to the sector should be ensured, taking into consideration the growing investment demands including the requirements of technological transformation.

5- Limiting the establishment of small scale industries to designated industrial areas for better monitoring and periodic surveys, enabling the Ministry of Industry to make policy corrections from time to time.

6- Establishing strong relations between small and large firms. One of the major objectives of this scheme would be to provide reliable information by large-scale industries to the small-scale industries about new methods of marketing and how to participate in the international market.

7- Increasing exports of small- scale industries with governmental aid by exhibiting their productions in International Exhibitions.

8- To reap the benefits of SSI, Jordanian policy and decision makers have to enact and enforce the employment of Jordanian workers in the SSI.

9- It is highly recommended that Jordanian policy and decision makers to work in cooperation with other interest groups to train and encourage SSI to employ more Jordanians women. It is obvious that a large portion of unemployed in Jordan is among women.

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