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Rethinking Economic Reform in Jordan:

Confronting Socioeconomic Realities

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Introduction

Since 1989, Jordan has passed through several phases of economic reform aimed at stabilizing the economy and managing the transition from a state-dominated model to one that is private export led. Initiated under severe economic crisis conditions, the reform process in Jordan has been slow, selective, and uncoordinated. Thus far Jordan has succeeded in stabilizing its economy and engaging in a process of trade and financial liberalization and privatization, but it has failed to find long-lasting solutions to major social and economic challenges facing the country.

Jordan has strong though not fully democratic political institutions, effective security forces, and a high level of political support from the international community. These factors have helped minimize external threats to Jordan's social and political stability. Remittances from Jordanian expatriates and foreign aid, especially from the United States, have also helped Jordan ease social and economic pressures in the country and postpone engaging in deep economic reform.

Jordan needs to confront its major social and economic realities, including poverty, unemployment, public debt, and high dependency on foreign aid. Failure to address these challenges may pose a real threat to social and political stability in the country, especially given the political frustration linked to unresolved problems in the region such as the Arab–Israeli conflict and the war in Iraq. The country also remains vulnerable to any major changes in the flow of foreign aid or remittances from abroad.

King Abdullah II has made economic reform one of his top priorities. However, the state's capacity to implement thorough economic reform is limited by three key constraints: first, economic reform in Jordan lacks a clear constituency; second, it faces severe resistance from elites benefiting from the status quo; and third, previous reform efforts have failed to address social and economic problems affecting the majority of the population, which has undermined public support for the reform process. In addition, Jordan has limited institutional capacity to implement complex economic reform programs, adapt to changes, and handle their consequences.

Jordan needs to find ways to address these impediments to reform and seize the opportunity to embark on deep economic reform while social and political costs are still manageable and the resources exist to mitigate some of its negative side effects. What can Jordan do to address these challenges, and what role can the international donor community play to help Jordan succeed in this mission?

This paper explores the extent of and limits to the economic reform process in Jordan, the nature of reform programs implemented since 1989, the type of social and economic challenges currently facing the country, the factors behind the failure to sustain deep reform, and the main actors who influence reform efforts and shape their outcomes. It also sheds some light on what could be done by the Jordanian state and the donor community, particularly the United States, to encourage a process of reform that can effectively address Jordan's socioeconomic realities.

Rise and Fall of the State-Led Model

Jordan is a low-middle-income country with a nominal per capita income estimated at about $2,000 in 2004.[1] A relatively small economy with abundant skilled human resources and limited natural resources, Jordan historically has relied heavily on external resources for its social and economic well-being. Such resources include foreign aid, remittances from nationals working abroad, loans, and interaction with Arab countries in terms of population movements and flow of trade and finance.

The availability of external resources has permitted Jordan to achieve four main objectives. First, external resources allowed the state to play a major role in economic development from the 1950s to the 1980s. They shaped state–economy relations and determined the nature of the social contract, with the state as primary player in allocating and managing resources as well as determining economic outcomes. During that period Jordan increased its expenditure on infrastructure and expanded its public sector institutions and enterprises, which became the largest employers in the country. Jordan also intensified government subsidies for basic goods and services, including bread, fuel, education, and health. Within these arrangements, the state pursued an import substitution strategy that was intensified during the 1970s and used measures such as high tariffs and financial incentives to protect domestic industry from foreign competition.

Second, external resources also permitted Jordan to live beyond its means. In 1972 exports of goods and services represented only 34 percent of imports in dollar terms, and in 1985 exports covered less than half of imports.

Third, the availability of external resources allowed the state to avoid taxation of the private sector or the Jordanian citizenry commensurate with its spending. In 1988, tax revenue contributed 57 percent of government revenue, with grants and aid contributing 33 percent, and external borrowing 10 percent. This situation has evolved as a result of reform efforts and changing external factors. By 1998, the share of tax revenue in government revenue had increased to 88 percent, before declining to 72 percent in 2004. As a share of GDP, tax revenue in Jordan has historically been larger than the Middle East and North Africa (MENA) average, reaching 21 percent in 2004, compared with 19 percent in 1990. The distribution of the tax burden, however, shifted during that period and became more regressive. Taxes on income, profits, and capital gains fell from 13 percent of revenue in 1990 to 8 percent in 2004, and taxes on international trade fell from 22 percent to 11 percent. In contrast, taxes on goods and services rose from 17 percent of revenue in 1990 to 32 percent in 2004.

Fourth, external resources enabled the state to redistribute income according to noneconomic criteria, such as buying political loyalty to stabilize the regime. Social and political elites in Jordan often received direct rewards from the state. Some of these rewards were used by the elites to provide services to their local communities and constituencies. This in turn strengthened the role of these elites in their local communities and played a significant role in buying loyalty from the local communities for elites and indirectly for the state.

The external resources contributed to Jordanian prosperity when they were plentiful, but they also allowed the government to delay engaging in deep political and economic reform when that became necessary. External resources have cushioned social, economic, and political pressures on the state. Jordan was able to trade limited economic comfort in terms of subsidies and rent distribution in exchange for real economic reform.

Regional conflicts played an important role in providing Jordan with external resources during that period. First, these conflicts played a central role in raising oil prices, as in the aftermath of the October 1973 war. As a result of the oil boom of the 1970s, demand for Jordanian workers increased dramatically in the 1970s and early 1980s. It was estimated that almost one-third of the country's labor force was working in the Gulf by the early 1980s, remitting an annual average of $828 million from 1976 to 1985 (nearly 22 percent of GDP).[2] The oil boom also brought high levels of Arab aid to Jordan, raising foreign assistance to the country from $26 per capita in 1967 to $257 per capita in 1976. Second, foreign aid to Jordan was justified politically, such as in the 1979 Arab summit's pledge to financially assist Jordan, as a "confrontation state" with Israel. Following the second oil boom in the early 1980s, the figure for financial assistance rose to an annual average of $428 per capita between 1980 and 1983. Third, the disruption of trade routes helped Jordan play an important role in transit trade: For example, the port of Aqaba became a maritime outlet for Iraq during the Iran–Iraq war (1980–1988). Average GDP growth in real terms for the 1974–1982 period was 11.6 percent, one of the world's highest growth rates at that time.[3]

But with the economic slowdown in the Gulf as a result of the collapse of international oil prices after 1983, the availability of external resources to Jordan became more limited. Demand for Jordanian products and workers in the Gulf declined, and remittances from abroad became more volatile and dropped by 38 percent, from more than $1.2 billion in 1984 to around $900 million in 1988. Aid from Gulf countries to Jordan declined, having been redirected to support Iraq in its war with Iran, which lasted longer than expected. In 1983 foreign assistance to Jordan dropped to 15 percent of gross national income (GNI), compared with 32 percent in 1980. Given these changes, Jordan faced mounting balance-of-payments problems and increased unemployment caused by the lack of job opportunities in the Gulf.

The Jordanian government did not respond effectively to the decline in the availability of external resources. The state increased military spending and continued its policies of expanding the public sector and providing subsidies. Government expenditure continued to grow at an annual average of 6 percent during the first half of the 1980s. To cover such expenses, the government relied on external loans and borrowing from the Central Bank, which led to depleting foreign reserves. In October 1988, the Jordanian Dinar (JD), which since 1975 had been pegged to a rate of 2.579 Special Drawing Rights, was allowed to float.

As a result of these pressures, the currency began a steep decline, with the exchange rate dropping by more than 33 percent in one year, from $2.4 per JD in October 1988 to $1.6 per JD in October 1989. With the liberalization of the interest rate regime, a banking crisis also ensued. Petra Bank—one of the largest in Jordan—collapsed in August 1989, and the government had to move quickly with funds of its own to protect depositors' holdings. External and internal debt increased from JD 1.96 billion (about $5.2 billion, or 97 percent of GDP) in 1988 to JD 4.7 billion (about $10.1 billion) in 1989, amounting to about 200 percent of GDP. Indeed, the Jordanian economy was in the process of collapse. In 1989, real GDP shrank by 10.7 percent, the inflation rate increased to 25.7 percent, and the budget deficit, excluding grants, reached 24 percent of GDP.

Against such a backdrop, the government was left with no option but to seek help from the International Monetary Fund (IMF) and the World Bank. The year 1989 witnessed the introduction of austerity measures to regain economic stability. As it will be shown below, these measures represented a serious challenge to the rentier pattern of economic management, the prevailing trend of resource allocation, as well as the nature of the social contract developed between the state and society during the previous decades.

Phases of Reform

Jordan has passed through three main overlapping phases of reform since it signed its first Stand-By Arrangement (SBA) with the IMF in July 1989 for $275 million.[4] The aim of the first phase (1989–1991) was to stabilize the economy through reducing the budget and current account deficits, control the inflation rate, rebuild the Central Bank's foreign reserves, and recover from negative economic growth. The government pledged increases in administered prices and specific taxes along with cuts in subsidies to reduce the budget deficit. With the advent of the Gulf War and Jordan's perceived support of Iraq, external aid dropped and the SBA with the IMF was terminated in January 1991.

The government reverted to its previous policies of capital and price controls and increased subsidies.

After the war, the second phase (1992–1999) continued the process of stabilization with the signing of a new SBA in February 1992, followed by two successive Extended Funding Facility (EFF) arrangements (1994–1999).

The second phase saw the implementation of limited structural adjustment measures, with many of the steps implemented coming after long delays. Jordan engaged in a process of tax restructuring, trade liberalization, and privatization. For instance, a general sales tax was introduced in 1994, and the maximum tariff rate was cut from 70 percent to 50 percent in 1996. The main objective of such measures was to promote exports and strengthen the role of the private sector in the economy. They came in contrast to what Jordan had done in the past, namely encouraging import substitution and expanding the role of the public sector in the economy. The policies implemented as part of the stabilization and structural adjustment programs during that phase aimed to achieve three main outcomes: (1) a gradual increase in real growth to 4 percent by 1997 (actual reached 3.3 percent); (2) a reduction in the budget deficit, excluding grants from about 18 percent of GDP in 1991 to 5 percent in 1998 (actual was 9.7 percent in 1998); and (3) a virtual elimination of the external current account deficit by 1998 (actual surplus of 0.3 percent of GDP).[5] One reason for the high budget deficit is that increases in taxes that were supposed to be introduced to compensate for tariff reductions did not materialize due to resistance from business and economic elites.

The third phase (1999 to present) marked a more consolidated reform effort under the new regime of King Abdullah II. Since assuming power in February 1999, King Abdullah II made economic reform one of his top priorities and launched a number of initiatives and projects aimed at promoting economic development, including the establishment of the Aqaba Special Economic Zone. During this phase, a new EFF arrangement was implemented from 1999 to 2001, which, according to the Independent Evaluation Office (IEO) of the IMF, "sought to reestablish the credibility of the IMF-supported program after a belated recognition of serious slippages under the preceding arrangement." Its targets were not met. A new SBA was introduced from 2002 to 2004, which emphasized privatization and pension reform. After the 2003 Iraq war, grants to Jordan increased substantially, more than covering its fiscal deficit. This period has featured an acceleration of the privatization process and a rapid integration of the Jordanian economy in the global economy: Jordan signed three free trade agreements with the United States (October 2000) and the European Union (signed November 1997 and coming into effect May 2002) and gained accession to the World Trade Organization (WTO) in April 2000.

The reform process initiated in 1989 in Jordan set high goals. It aimed at transforming the economic structure of the country to one that generates self-sustaining international activity, making the Jordanian economy more competitive at the regional and international levels and integrating it with the world economy. The reform agenda was pushed forward by the eruption of a severe crisis in 1989 and by external actors, rather than by the internal political process. The conditionalities of IMF arrangements mainly set the agenda for reform. Even though there were many slippages and delays, the IMF remained flexible regarding Jordan's implementation. As the IEO acknowledged, the size of programmed fiscal adjustment for Jordan was less "ambitious" than for other countries, and the deviation from the average was large in the 1992 and 2002 SBAs. Also the 1999 EFF quickly replaced the poor-performing 1996 EFF. But the IEO concluded that there was no overall preferential treatment for Jordan. In addition, bilateral investment and trade agreements with the United States and trade agreements with Europe pressured Jordan to ease restrictions on trade and investment. And Jordan's accession to the WTO has made the country more sensitive to international trade procedures and standards.

There is little doubt that Jordan has been engaging in broad—though selective, slow, and uncoordinated—economic reform. Reforms were broad in that they covered public finance, the financial sector, trade regulations, reform of state-owned enterprises and privatization, subsidies, and the social safety net. Reforms were selective in that they avoided addressing controversial issues such as the inefficiency of the bureaucracy and the size of the public administration. Many of the reforms were also incomplete, initiated but then stalled because of failure in the process or resistance from various groups. Finally, as we will see below, the reforms were uncoordinated, failing to consider adequately the interrelated social and economic challenges facing the country and to address key factors that influence reform efforts and shape their outcomes.

The results of economic reform have been mixed. Jordan has succeeded in stabilizing its economy and entering into a process of liberalization and privatization of state enterprises. But such reform efforts may not be sufficient to provide long-lasting solutions to the country's key social and economic challenges and to lead its economic transformation from an economy highly dependent on various types of rents—including aid, remittances, and loans—to a more productive economy and from a state-dominated model to a private sector–led one.

Economic and Social Balance Sheet

After eighteen years of reform, the country faces enormous economic and social challenges, some even more severe than during the pre-reform era. Although Jordan managed to achieve steady economic growth during the last three years with an average annual GDP growth rate of 7 percent, public debt is still high at around $8.5 billion, representing almost 60 percent of GDP. The current account deficit remains large at 18.2 percent of GDP in 2005, and the budget deficit is significant at 5.2 percent of GDP in 2005. These figures indicate that real economic transformation is still at an early stage.

Jordan relies heavily on foreign aid. Because of its political and strategic importance, the country received large flows of aid, mainly from the United States and the European Union. Aid to Jordan averaged $495 million annually (about 7 percent of GNI) over the 1991–2000 period. U.S. assistance was mainly a result of the October 1994 peace agreement between Jordan and Israel. It amounted to $810 million over 1991–2000, 82 percent of which came after 1997. In addition, following the United States' invasion of Iraq, U.S. aid increased by more than 200 percent, from $150 million in 2001 to $348 million in 2004. In 2003 alone, the United States assisted Jordan with $948 million (74 percent of which was emergency supplemental assistance). The United States is supporting the development of various sectors, including water, the environment, health, education, market institutions, entrepreneurship, governance, and the democratization process. More than half of U.S. assistance takes the form of cash transfers to support the public budget; Jordan matches these transfers by spending an equal amount in Jordanian Dinars on agreed-upon development programs.

Much work is still needed to create a healthy and enabling environment for business and investment in Jordan. In its *Doing Business in 2007* report, the World Bank ranked Jordan 133 out of 175 countries in terms of ease of starting a business; 118 in protecting investors; and 110 in ease of registering property.[6] And despite some progress, Jordan still suffers from significant corruption in public institutions and among senior officials. According to Transparency International's 2006 Corruption Perceptions Index, Jordan ranked 40 out of 163 countries, with a score of 5.3, on a scale of 0 (rampant corruption) to 10 (least corrupt).[7]

At the social level, the picture is no less problematic. Although the economy has enjoyed strong growth in the past few years, many sectors of society have suffered negative side effects. A common feature of all three phases of reform is the limited attention given to social problems affecting Jordanian society, including poverty, unemployment, and reduction in the quality of life. Poverty levels are still high, and standards of living have continued to decline. The World Bank has estimated that poverty in Jordan has declined by around a third from 1997 to 2002, with the share of population below the national poverty line dropping from 21.3 to 14.2 percent. [8] But many Jordanian analysts, using various poverty measures and surveys, argue that these figures are underestimated. Indeed, in its 2002 poverty alleviation strategy, the Jordanian ministry of social development confirmed that depending on the poverty measure used, anywhere from 15 to more than 30 percent of the population falls below the poverty line. Regardless of which estimation is most accurate, it is clear that poverty rates in Jordan are high and pose significant concerns.

Jordan also continues to suffer from significant levels of unemployment, especially among young people. The latest official data put the rates of unemployment at 14.8 percent for the general population, 12.8 percent for males, and 25.9 percent for females. The highest unemployment rate is among young people aged 20 to 24 years old, estimated at 28.7 percent—almost twice the national average.

At the same time, a recent national survey conducted by the Center of Strategic Studies at the University of Jordan revealed that 35.2 percent of respondents in the national sample and 43.2 percent of the opinion leaders polled said that their households' financial situation had worsened during the past three years; 43.6 percent of the national sample and 35.2 percent, respectively, stated that their households' financial situation had not changed over the past three years, and only 20.3 percent and 21.4 percent, respectively, stated that their households' financial situation had improved in the past three years.[9] Furthermore, consumer price inflation in Jordan is starting to creep up. It rose to 5.6 percent in May 2006, up from 2.4 percent during the corresponding period in 2005.

What are the coping strategies involved, and how have they contributed to postponing an acute crisis, and thus hindering a stronger push for reform in Jordan? Informal safety nets have helped Jordanians to cope with rising prices and to reduce the impact of poverty and unemployment on their daily lives. Likewise, the high flow of workers' remittances has permitted Jordan to finance levels of consumption and investment way above what could be sustained by domestic income. These realities have eased political and economic pressure on the state and allowed it to avoid more thorough measures.

The retreat of the Jordanian state from the provision of social services—mainly due to privatization of state-owned enterprises (SOEs), reduction in subsidies, and simultaneous decline in available job opportunities—has led to an increasing role for family associations. According to a recent study conducted by Anne Marie Baylouny, there are over 600 family associations in Jordan and around 60 percent of them were formed during the reform period between 1989 and 1999.[10] These family associations represent the largest organizational category in Jordan and include in their ranks more than a third of the population. They are mainly self-funded, with about 75 percent of their finances coming from their own activities. Though officially listed as nongovernmental organizations (NGOs), they chiefly provide services to their own members. The state closely monitors and supervises these organizations. Kinship associations help their members depending on their background: Lower class members mainly receive payments, and middle class members, who constitute the majority of kinship associations' membership, receive employment opportunities. These associations have increased the importance of kinship in Jordanian society and provided outlets to build support bases for aspiring elites. Although the state has benefited from their depoliticizing role, Baylouny warns that they could become prone to influence by ideologically motivated persons, which could backfire on the regime.

The private sector too has stepped in to compensate for the decreasing social role of the state. A number of companies from the private sector have started providing some social services, such as direct aid to low-income families as well as medical and tuition support. For example, the Fastlink Telecommunications Firm has set up an emergency aid fund to provide direct aid to large numbers of low-income families and individuals who are not covered by the national aid fund and has helped families across Jordan in paying for medicine for the sick and supporting families who are unable to pay their children's school fees. These services might be limited in scope, but they indicate an important trend and raise serious questions about the role of the state and its effectiveness in social provision.

Failure to Sustain Deep Reform

Reform in Jordan has suffered from three main limitations. First, as argued above, reform has been selective, often incomplete, and uncoordinated. On a number of occasions measures have stalled or implementation postponed in response to social and political pressure, especially measures aimed at reducing subsidies and privatizing state-owned enterprises. This limitation derived from the fact that economic reforms in Jordan have not sufficiently—if at all—addressed sociopolitical factors that strongly influence economic performance and shape its outcome. It is also linked to the rapid turnover in Jordanian governments during reform periods. The average term of Jordanian governments during the last fifteen years has been less than two years. This has often made governments and individual ministers too hesitant and unmotivated to implement controversial reform programs or make painful economic decisions, which further reduces the credibility of economic reform efforts.

Second, the policy-making and policy-implementation process related to reform in Jordan has not been participatory and has generally been limited to the ruling elite. Nor have other stakeholders been effectively involved in the process. The government was perceived by the people in Jordan as acting alone to implement top-down policies prescribed by international financial institutions.[11] Such a weakness is due to several factors. First, reform has indeed been imposed from the top; it has been initiated and shaped either by international financial institutions or by a small group of technocrats close to the royal court, without effective involvement of different stakeholders. Second, civil society, political parties, and unions in Jordan are weak, and their role in supporting or blocking reform is limited. Hence the state did not perceive these groups as influential stakeholders to be considered in the process of designing and introducing reform measures.

Third, reformers have not been accountable, and the state's institutional capacity to promote participation, make information available, and facilitate the process of debating reform and potential changes is limited.

Fourth, Jordan lacks effective and representative channels and networks of communication between the state and society on the one hand and between the public and private sectors on the other. Available networks are not independent and are often controlled by the state and its security branches. The telling example is the appointment of former prime minister Ahmad Obeidat as chairman of the National Centre for Human Rights, established in 2002. Obeidat served for many years as director of the General Intelligence Department, which human rights groups have accused of major human rights violations.

The third limitation is that reforms that include fundamental changes to the bureaucratic or administrative structure are often avoided by the government. Civil servants' share of total employment remains high at nearly 43 percent, and their wage bill represents 58 percent of total government expenditures. Appointment in the public sector is still a main pillar of the patron–client networks that help sustain the state. Little progress has been made to reform public administration and introduce merit-based recruitment and payment, which would weaken tribal and family considerations or deny long-established privileges to top-ranking civil servants and politicians in Jordan. The most recent report on competitiveness in the Arab world highlights that decisions on policies and contracts by government officials are significantly influenced by favoritism, and government spending is not always in line with providing goods and services that are not provided by the market.[12] The report also indicates that administrative regulations, including permits, tax regulations, and reporting requirements, make starting a business in Jordan very challenging.

The Jordanian public sector is the key instrument of the state–society relationship and the main pillar of rent distribution by the state. Reforming this sector means changing the social contract between state and society and reducing privileges to politicians and tribal leaders. Such a change is challenging for the regime to make since the state's stability rests on the support of those leaders and politicians and since this unwritten social contract goes back over many decades. Thus, any structural change in this contract and system of privileges is very threatening to the state, and cabinets initiating or implementing such changes face severe resistance from entrenched and privileged groups.

Understanding Resistance to Reform

As noted above, the social contract that took shape between the state and the public prior to the reform era (1950s–1980s) was characterized by the state planning and managing economic resources and protecting the local market on the one hand and acting as principal provider of social services, privileges to local leaders and politicians, and employment to the population on the other. The reforms initiated over the last eighteen years undermined the social contract because the government stopped delivering what it had promised. This deepened resistance to reform programs among groups whom the social contract protected.

Resistance to reforms has been driven by two main groups, with each having a different impact on those reforms. The first group is from the underprivileged who have been negatively affected by reforms, particularly those linked to removing subsidies on basic goods and services. In 1989, for example, riots erupted in several Jordanian cities over the government's removal of fuel subsidies. Protests started in Kerak, Ma'an, Tafileh, and later moved closer to the capital, Amman. Eleven people were killed during the riots and hundreds more injured. More recently, the decision of the government in 1996 to reduce food subsidies sparked what came to be known as the "Bread Riots."[13] Thus far, such resistance from underprivileged groups has not gone beyond protests and limited riots, and the government has been able to control these outbreaks. In other words, the regime has been able to continue its austerity measures.

In countries where there are strong civil society institutions and high policy coordination and responsiveness, such resistance to reforms could be considered constructive, forcing policy makers to pay attention to the needs of people whom they would otherwise ignore to involve broader strata of the society in the discussion, formulation, and implementation of reform. Resistance can also provide an incentive for the creation of effective social safety nets to compensate and protect people adversely affected by change until more economic opportunities can be opened up for them. But in the case of Jordan, the weakness of civil society and the absence of effective political parties (apart from the Islamic Action Front) have made such constructive resistance less effective than it has been in many other developing countries.

The second group resisting reform consists of the political and economic elites and tribal leaders. Many of them enjoy close relations with the regime, are protected within it, and benefit from prevailing economic arrangements, and thus they resist change. In Jordan, the political architecture reinforces such resistance to economic reform and strengthens these groups. In several cases government officials, including cabinet ministers, have distanced themselves from some reform decisions as their links to their tribes or local constituencies were more important to them than their temporary governmental positions. This resistance is both effective and destructive, preventing reforms from being proposed in some cases, blocking their implementation in other cases, and skewing the outcomes of implemented reforms.

For example, resistance from business elites, represented by the Amman Chamber of Commerce and the Amman Chamber of Industry, postponed the implementation of sales tax reform several times during the 1992–1995 period. The government was able to advance this reform only after succumbing to pressure from the business elites and offering them a range of alternative privileges and facilities, including tax and customs reductions for investment projects in the agriculture, industrial, tourism, and transport sectors as well as a reduction of corporate taxes from the previous rates of 38–55 percent to 15–35 percent.

The regime's survival considerations during the reform process have encouraged the development of a system of rent-seeking that allows political and business elites to block certain reform policies and manipulate others to fit their own interests. One form of rent-seeking can take place through business leaders using their political leverage to avoid implementing steps that harm their interests. As reported by Jordanian media, an alleged case was recently made public by former minister of water Hazim Nasser, who claimed that former prime minister Adnan Badran froze government tax claims worth JD 12 million from agricultural companies in the Disi area, in one of which he was a major shareholder.

Another form that rent-seeking can take is through business leaders pushing for policies that directly benefit them. For instance, a number of steps have been taken to promote information technology in the Jordanian public sector in the form of e-government. There are questions to be raised concerning the timing and suitability of such a system to Jordanian citizens, given that many are unable to use these services. Indeed, recent data reveal that only 5.3 per 100 inhabitants have a personal computer, and only 11.2 per 10,000 inhabitants use the Internet. How could e-government be held as a priority when only a narrow base of citizens are able to access it? The REACH initiative to develop Jordan's information technology (IT) sector was led by Karim Kawar, a member of the Economic Consultative Committee.[14] He is also president of the IDEAL group of companies that includes a major data communications provider and a representative for major international IT corporations.

Public sector reform has proven very difficult. Although resistance to privatization has been less severe than resistance to reforming the bureaucracy and administrative sectors, it has still been significant. The public perceived the process of privatization as the government withdrawing from its traditional duties of creating jobs, providing services, and granting benefits, in favor of a weak and self-serving private sector. Opponents to privatization have also argued that privatization was tantamount to selling the country's strategic assets to foreigners and would lead to labor redundancies. Recently, during the deliberations on the draft budget of 2007, for example, more than 50 members of parliament presented a petition to the government asking it to slow the pace of privatization, particularly in the energy sector. This type of resistance has succeeded in slowing privatization but has failed to block the process.

The government was determined to privatize state-owned enterprises because they had become a real burden on the central budget and the government was no longer possible to secure funding for them after the 1989 crisis. Success in overcoming resistance to privatization has perhaps been largely due to proper institutional management of the process. Jordan established the Executive Privatization Unit in 1996, which is affiliated with the prime minister's office, and is in charge of supervising and implementing privatization policies. In addition, Jordan introduced a special privatization law no. 25 in 2000 that provided the necessary legal and institutional framework.

It is important to emphasize that the different levels of resistance to reform, especially between public sector reform and privatization, stem from the logic of the regime itself. Traditionally, citizens of Transjordanian origin have dominated the public sector, whereas citizens of Palestinian origin have led private sector activities. The popular resistance to reform noted earlier initially came from regions where people of Transjordanian origin reside; they form the traditional support base of the regime, and are dominant in public sector employment. The regime has thus found it easier and more affordable to sell state-owned enterprises and privatize assets than to decrease the size of the public administration. As seen above, the size of the public sector has not significantly changed, mainly because it plays a role in buying and sustaining loyalty to the regime. The regime has sought to strike a balance between considerations of regime survival and commitment to reforms prescribed by international financial institutions. Accordingly, some changes can take place within the social contract, as long as the nature of privileges offered by the regime to various political and economic elites in Jordan remains intact.

Rise of a Young Globalized Elite

Young elites have been central to economic reform; both the technocrats in the reform process and the new business elite emerged during the reform era. It has been thought that the younger generation will bring substantial positive changes in Jordan, but the reality seems to tell a complex story. These elite are better equipped to implement economic reform and create a bridge between Jordan and the rest of the world, but many of them are disconnected from the realities of Jordanian society and favor specific rather than general interests.

The reforms initiated in Jordan have been implemented within a system of rent-seeking and privileges and have preserved a network of state-business relations. The beneficiaries from such arrangements have been not only politicians, tribal leaders, and the traditional economic elites but also a new generation of entrepreneurs, many of them the sons and daughters of the old political and economic elites. The Economic Consultative Council symbolizes this new role. Although it does not have executive prerogatives, it has risen to become more powerful than the government, sometimes setting deadlines for it. Many of its members eventually assumed different public service positions. The emergence of such elites is not the outcome of competitive economic and entrepreneurial criteria such as matching leadership skills, creative ideas, and business opportunities; rather, they have been able to gain advantage through supporting the palace, manipulating reform policies, and exploiting a system of personal networks to benefit from the new economic arrangements produced during the reform process.

These elites are well educated and highly connected with global corporations and forums such as the World Economic Forum. There is resentment among some Jordanians that these elites are not concerned with national problems and needs but are only interested in manipulating the system for their own interests and exploiting their privileges and connections to do so—that they only pursue rent opportunities and are interested in privatization only if they can reap its benefits.

The reform process in Jordan led to the emergence of a young entrepreneurial oligarchy, but the reform process itself was mainly led by a group of young technocrats educated in American and British universities. This group of reformers has often been accused of lacking a real constituency in Jordanian society and being disconnected from the socioeconomic realities that the population faces. They enjoy extensive support from the palace, however, which makes some of them more influential in determining political and economic policies than the prime minister or his government. The main player in this group is Bassem Awadallah, director of the King's Office and former finance and planning minister. Another major player in this group is Sharif Zu'bi, who was once minister of industry and is now minister of justice. A law firm his family owns handled several mega-deals in Jordan before he took office, including the privatization of the telecom and mining sectors and other infrastructure deals that have influenced economic policy.

The rise in power of young reformers, their lack of support in Jordanian society, and the strong backing received from King Abdullah have created obvious tension between young reformers and the traditional elites. A member of the Upper House summarized the situation as follows:

> There is tension between the old and new elites. The new elites are more in tune with the King's policies and they have more effect on the reform process. The new elites are not very aware of the social dynamics. They might think they are doing well, but they have no awareness of the real social problems. They do not take that into consideration. This is why the old elites say that the new elites have failed, because they could not solve the social problems.

King Abdullah has attempted to manage a delicate balance between promoting the reform agenda elaborated by young reformers—an agenda that he initiated and is also suited to the expectations of international actors—and maintaining the support of key players in the Jordanian political system. For example, the tensions surrounding an expenditures probe linked to the Social and Economic Transformation Plan (SETP) illuminate the dynamics of the relationship governing the old and new elites in Jordan, and how King Abdullah is trying to strike a balance between the two. In August 2005, the Lower House Speaker Abdul Hadi Majali formed a special committee to investigate the expenditures of the SETP. Bassem Awadallah, who had been forced to resign from his position as finance minister in June 2005, felt targeted by this investigation. King Abdullah defended Awadallah and blamed the latter's resignation on opponents of the reform agenda. King Abdullah also met members of the legislative and executive branches. In a speech he said: "If deputies are not satisfied with the performance of the government, citizens too are not satisfied with the performance of the deputies," and added that "it is not in the country's interest that the relationship between the legislative and executive powers be one of discord, or that parliament become a battlefield between blocs or power centers." Following this speech, the issue of the investigation had to be quickly closed. Accordingly, the government issued a financial report stressing that no decision was taken by one individual; instead, decisions were taken by the government as a whole. The king's pressure defused the tension. However, the case was closed without addressing the public on whether Awadallah had a record of poor results and lack of transparency in office, or whether he was a victim of the power struggle between old and new elites.

In sum, the tension between the young and traditional elites will continue to affect reform efforts in Jordan, and the monarch is caught in a quandary. On the one hand, the young globalized elites are well connected in the West and are more equipped to implement his economic vision; on the other hand, the regime's survival requires strong support from traditional elites well rooted in the Jordanian political system and much more connected with society. So far the monarch has succeeded in managing this tension by drawing on his own authority and by political manipulation. If the monarch is pushed to a choice between young and traditional elites, it is more likely that he would choose the latter.

Complex Effects of Regional Conflicts

Regional conflicts, particularly the Arab–Israeli conflict and the recent occupation of Iraq, have had a negative impact on the process of economic reform in Jordan. These conflicts have brought increasing economic opportunities, as people, goods, and capital move to Jordan or transit through it, providing temporary relief to the economy and concealing the necessity of real reform. The conflicts have also brought additional security and political constraints that lead to a more rigid state response and impose significant social and economic burdens on the majority of Jordanians, pushing the state to maintain its traditional services and patronage networks.

The Arab–Israeli conflict has been one of the main external factors influencing the nature of economic reform in Jordan. Because of its long border with Israel, Jordan received substantial financial support from the Arab countries to support its economy. In addition, the dynamics of the conflict and the eruption of the first (1987) and the second (2001) uprisings in the West Bank and Gaza have posed a real threat to internal Jordanian stability because of strong ties between people living in the West Bank and Jordan. More than half of the Jordanian population is of Palestinian origin, and many of the people who currently live in the West Bank hold Jordanian passports. This means that whenever a severe crisis occurs, these people can migrate to Jordan, which puts significant pressure on the local labor market and public infrastructure. In addition, the circulation of the JD and the presence of many Jordanian banks in the Palestinian territories make Jordan highly sensitive to any increase in the level of conflict in the West Bank or Gaza. Within such context and given the fact that the citizens of Transjordanian origin dominate the public sector, while citizens of Palestinian origin lead private sector activities, economic reform—especially privatization and bureaucracy reform—has been seen by Transjordanians as empowering the Palestinians in Jordan. This identity issue has been used as an excuse to avoid engaging in the political reform that is needed for economic reform. As will be shown below, political reform, especially a fairer electoral law, is needed in Jordan to promote balanced economic reform as well as to empower Jordanian citizens to benefit from the rewards of such reform.

The U.S.-led occupation beginning in March 2003 had also a set of various effects. Subsidized Iraqi oil stopped flowing, thus raising the energy bill. But the rise in oil prices came with larger remittances from Jordanians living abroad and substantial inflows of foreign aid, particularly from the United States, as well as increased foreign investment. The inflow of Iraqis to Jordan increased rapidly, including former supporters of Saddam Hussein's regime and a substantial business community who has chosen Jordan as a base until the security situation in Iraq improves. Today, the number of Iraqis in Jordan is estimated to be between 700,000 and one million.

There is no consensus on whether the Iraqi presence in Jordan has helped or hurt the Jordanian economy. On the one hand, many Iraqis came with ample resources and helped boost the real estate and retail sectors. They also acted as a bridge for ongoing business with Iraq. On the other hand, Iraqis added more pressure on Jordan's already strained public services and infrastructure, especially water and electricity, and were accompanied by a dramatic increase in housing prices and a sharp rise in living costs. One concern is the impact of the real estate boom and higher population density in major Jordanian cities, especially Amman, on the daily life of Jordanians. There is a popularly voiced complaint among large sections of the public that the Iraqi presence has benefited few but burdened many, because of the rise in the cost of housing and basic consumer goods, as well as the congestion of cities and the strain on public utilities and services.

How well founded are these sentiments? With regard to the rise in housing prices, according to the 2005 figures of the Jordanian department of land and surveys, non-Jordanians were responsible for only 2.5 percent of the total volume of transactions in the real estate sector. The boom in real estate prices was mainly the result of activity by Jordanian nationals based in Jordan or in the Gulf countries. The popular perception may reflect that among transactions by non-nationals, Iraqis held the largest share. A study published recently finds that higher inflation rates after the Iraq war were mainly due to rising food prices, with Jordan increasing its food exports to Iraq and importing more food from abroad. The elimination of most price controls and many subsidies as part of the reform agenda worsened the social impact of the Iraq war on the Jordanian population.[15]

With the structural problems that the Jordanian labor market is experiencing, some claim that the presence of a large number of Iraqis is having an adverse impact on the local job market. It has been reported that many Iraqis are working illegally and are willing to accept low wages and poor job conditions. Because of a strict and lengthy work permit process, only 1,700 Iraqis had valid work permits in Jordan as of May 18, 2007.[16] In such a situation it is likely that low-skilled Jordanian workers are negatively affected while high-skilled Jordanians benefit, as long as low-skilled and high-skilled workers complement each other.

To sum up, there is no doubt that, at a certain level, the Jordanian economy is benefiting from external dynamics, including regional conflicts, geopolitics, and the country's strategic location. However, regional conflicts have also provided the regime with excuses to delay implementing sensitive economic reform, especially if such reform meant bringing major changes to the social contract and required political reform. The main argument put forward in this regard is usually that reform under such circumstances risks generating political instability.

Prospects for Balanced Economic Reform

As we have seen, Jordan faces key social and economic challenges, but these challenges have not yet reached the breaking point. The impact of such challenges on the social and economic conditions of the population and the political stability of Jordan has been cushioned by current availability of external rents—namely, remittances from abroad and foreign aid—and economic and political manipulation by the regime.

Severe crises could emerge if rents suddenly decreased or if the state's capacity to cushion social problems or manage the political system through patronage dramatically decreased. Jordan must find ways to build on the success of stabilizing the economy after the severe crisis that erupted in 1989. It is best for Jordan to move now toward more comprehensive reform while the cost of implementing reform is manageable and resources are available to mitigate the side effects of such reform on the population.

The central challenge to moving the reform agenda forward is to address fundamental factors that influence reform efforts and determine their outcomes. As we have noted above, the main reason for the failure to address key social and economic realities lies in the convergence of political and governance issues that undermine the reform efforts. Therefore, if Jordan is to meet its current challenges, these agendas should be viewed as a crucial complement to economic reform programs. The international donor community can and should play a major role in helping Jordan to overcome these difficulties, but it must change its approach to dealing with Jordan.

Improving the Governance Framework

The lack of significant progress in governance reform lies at the very heart of the challenges currently impeding full economic transformation and the possibility of adequately addressing socioeconomic realities in Jordan. Progress is needed in three main areas: public sector performance, public sector accountability, and institutional capacity building. Improvement in these areas is important so that Jordan can strengthen the incentives, mechanisms, and capacities of state institutions to create a more accountable and inclusive reform process.

With regard to public sector performance, the main concerns are reducing the burden of government regulations, fighting corruption and favoritism, monitoring government spending, and improving the business environment. Jordan needs to simplify the regulations related to business opening and procedures for investment and business closing.

As for public sector accountability, the space for participation in the reform process is limited, holding policy makers and reformers accountable is rare, and the availability of accurate and timely information on reform programs to the public is scarce. Such blockages are driven by two main realities in Jordan. The first reality is the weakness of civil society and the absence of effective political parties—apart from the Islamic Action Front. Political life in Jordan is mainly divided between two major groups: the ruling elite and their supporters on one hand, and the Islamic Action Front on the other. Tribalism is a permanent facet of the social and political structures. Civil society organizations have not been able to replace in any significant manner the traditional social structures that exist in Jordan. In addition, the media is mainly controlled by the authorities, and decisions surrounding reform policies have been taken by a small group of technocrats and reformers who are often part of or close to the palace. Jordan needs to implement clear checks and balances mechanisms and allow greater public disclosure of government information.

The second reality is the limited space for public participation in politics. Many Jordanians and international institutions regard the electoral system critically. Political parties, professional associations, and some independent figures have argued for a new electoral system to ensure wider representation. As one prominent economist and former official put it:

> … the lack of political democratization and the change of the voting system from a "multi-member district" voting system (that is, a voter has the right to vote for a number of candidates equivalent to the number of seats allocated to that district in the house of representatives) to the "one person–one vote" system (that is, a voter has the right to vote for only one candidate in a multi-member district), was seen as a real blow to effective representation. This also affected the bottom-up approach to reform and the role that civil society could have played in economic reform.

According to Freedom House, the current electoral system "favors tribal and family ties over political and ideological affiliations."[17] Districts with populations of Transjordanian origin are overrepresented relative to districts where most Jordanians of Palestinian origin live. Amman, for example, has one member of the house of representatives for every 52,255 voters, whereas the small town of Karak has one member for every 6,000 voters. Consequently, a fairer electoral system would make the economic reform process more inclusive.

As for strengthening institutional capacity, the main challenge is providing incentives and increasing opportunities for reform, while addressing resistance to reform efforts and dealing with the side-effects of implementing reform programs. We have already noted the dilemma the regime faces with regard to public sector downsizing. High-level officials and key civil servants are underpaid compared with the salaries that can be obtained in the private sector. Better training for civil servants and clear and fair procedures for hiring, firing, and remuneration in the public sector would improve civil servants' performance and increase their lifelong employment prospects. Reform in that area would also decrease nepotism, which forms the basis for resistance to public sector reform. In parallel, the provision of incentives for doing business in areas traditionally supplying civil servants would ease the path for reforms.

To effectively address socioeconomic realities and their potential future repercussions, it is no longer possible for policy makers to manage a trade-off in dealing with one source of governance weakness versus the other. Good governance mechanisms cannot guarantee optimal solutions to all key challenges in Jordan, but they are indispensable for guarding against the implementation of poor reform policies and for ensuring that reform efforts enjoy a real constituency and are implemented fully and effectively.

Matching Political and Economic Reforms

The experience of developing and developed countries does not provide a definite answer regarding the extent to which political reform is needed for engaging in deep economic reform. The reform experience of Jordan indicates that encouraging deep economic reform requires parallel political reform.

There are two main features leading to this conclusion. The first is that the distribution of political and institutional power in Jordan permits resistance by certain political elites to deep reform programs. The current political arrangements help elites manipulating the system to maintain their privileges and keep their or their followers' control over certain institutions.

The second is that the population in Jordan does not have equal chances to benefit from economic opportunities emerging as a result of reform programs. As we have seen, benefits from economic opportunities, especially large ones, are often secured through a process of rent-seeking, networking, and political support rather than regular entrepreneurship criteria. In addition, employment in the public sector is not solely based on merit-based recruitment and promotion but is often influenced by tribal and familial affiliations.

Therefore, significant progress in political reform in Jordan is needed to change the rules of the game, reduce the power of groups resisting economic reform, and empower the population to have equal access to economic opportunities. In the absence of substantial political reform, the chance for engaging in comprehensive economic reform seems to be limited. In addition, the benefits of reform may go to a minority of the population while the costs associated with reform may be spread over the population, with the burden being felt disproportionately by disadvantaged groups.

Important Role for the International Donor Community

There is no doubt that international assistance to Jordan, particularly from the United States, has helped improve human capital and infrastructural capacity in Jordan and ease pressure on the state. However, an assessment of the Jordanian political and economic structure, the socioeconomic challenges currently facing the country, and U.S. assistance mechanisms suggests that the United States could modify its approach to better support reform and sustainable and equitable growth. An assistance approach more geared toward encouraging political and economic reform is vital to coax the country along the path of sustainable growth. The Jordanian government should also improve the governance structures to increase aid effectiveness in spurring growth. It is in the U.S. interest that Jordan is stable, prosperous, and committed to peace in the region; it is in the Jordanian interest that it address socioeconomic challenges efficiently and quickly.

The experience of developing countries teaches us that foreign aid works best in environments of good governance and well-designed policy. As we have seen, progress is needed in Jordan to improve the governance environment and institutional capacity, including effective governance, anticorruption enforcement mechanisms, and more effective political participation. Although overcoming such constraints is an internal imperative for Jordan, the donor community should be aware of these challenges and design their aid programs with these challenges in mind. Some Jordanian intellectuals and experts even favor aid conditionality to push political reform in Jordan forward; others, however, warn that within the context of Jordan such a mechanism would be counterproductive and perceived as external pressure that would automatically be resisted by the bulk of the public alongside most of the political elite.

As we have seen, Jordan has been highly dependent on external assistance to ease socioeconomic pressures. This assistance has allowed Jordan to postpone engaging in deep economic reform that requires changing the rules of the game and the nature of the social contract. Consequently, the United States should give more attention to three main areas: first, building the institutional capacity of different departments in Jordan to implement deep economic reform, adapt to changes, and mitigate the side effects of implementing painful reform programs; second, helping Jordan build an effective social safety net to help marginalized and underprivileged groups negatively affected by reform programs until more economic opportunities become available; and third, focus on developmental projects that reach poor communities and empower young people.

In addition, the United States should help Jordan in developing labor-intensive projects with high value added, especially projects that can employ local young adults. The Qualified Industrial Zones (QIZs) have not significantly contributed to the growth in employment opportunities for Jordanians; indeed, most jobs have gone to South Asian immigrants working under harsh conditions. Of the 46,000 workers employed in the QIZs, only about a third are Jordanian nationals. Moreover, nearly all raw materials and more than 90 percent of intermediate goods and accessories are imported, exhibiting low linkages with the Jordanian economy.[18]

Although the responsibility for addressing social and economic challenges lies with the Jordanian government, the United States and the international donor community can and should play a significant role in helping Jordan to overcome these challenges more effectively and quickly. Such a role requires finding better ways to empower the Jordanian people and help them build a more productive economy.

Notes

1. Data from World Bank, World Development Indicators 2006 (Washington, DC: World Bank, 2006).
2. Data for remittances and exchange rates from International Monetary Fund, International Financial Statistics, various years.
3. For an assessment of factors shaping economic growth in Jordan, see Taher Kanaan and Marwan Kardoosh, "The Story of Economic Growth in Jordan: 1950–2000," Amman, October 2002 (unpublished).
4. For details over IMF programs in Jordan, see Independent Evaluation Office, *Evaluation Report: IMF Support to Jordan, 1989–2004* (Washington, DC: International Monetary Fund, December 2005).
5. For comprehensive assessment of different phases of economic reform in Jordan, see Ibrahim Saif, "Changing the Rules of the Game: Understanding the Reform Process in Jordan" (Amman: Global Development Network, September 2005).
6. World Bank, *Doing Business 2007: How to Reform* (Washington, DC: World Bank, 2006).
7. Transparency International, Corruption Perceptions Index 2006, available at http://www.transparency.org/policy_research/surveys_indices/cpi.
8. See World Bank, *Country Assistance Strategy for the Hashemite Kingdom of Jordan FY 2006–2010* (Washington, DC: World Bank, September 2006).
9. The survey was carried out in June 2006 and covered both a national sample and public opinion leaders. The total size of the national sample was 1,163 respondents, and the sample size of public opinion leaders sample was 627.
10. See Anne Marie Baylouny, "Creating Kin: New Family Associations as Welfare Providers in Liberalizing Jordan," *International Journal of Middle East Studies,* vol. 38 (2006), pp. 349–68.
11. Rima Khalaf Hunaidi, "Reform in Hindsight: Promises and Illusions," in Timothy Besley and Roberto Zagha, eds., *Development Challenges in the 1990s: Leading Policymakers Speak from Experience* (Washington, DC: World Bank, 2005).
12. Margareta Drzeniek Hanouz, Sherif El Diwany, and Tarik Yousef, *The Arab World Competitiveness Report 2007* (Doha: World Economic Forum, April 2007).

13. See Lamis Andoni and Jillian Schwedler, "Bread Riots in Jordan," *Middle East Report,* no. 201 (October–December 1996), pp. 40–2.

14. King Abdullah II established the Economic Consultative Council in December 1999 to promote debate between private and public sectors. It should be noted that this council is no longer active.

15. Ibrahim Saif and David Debartolo, "The Iraq War's Impact on Growth and Inflation in Jordan" (Jordan: Center for Strategic Studies, University of Jordan, July 2007).

16. Saif and Debartolo, "Iraq War's Impact."

17. See Freedom House, "Jordan Country Report," *Freedom in the World 2006,* available at http://www.freedomhouse.org/.

18. For a detailed evaluation of the QIZ, see Marwan Kardoosh and Michelle Leanne Burgis, "A Story of Qualified Success? Qualifying Industrial Zones, Economic Policy Making & Governance in Jordan," (Jordan: Jordan Center for Public Policy Research and Dialogue, October 2006).

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