



## The Political Economy of Governance in the Euro-Mediterranean Partnership

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### **The Process of Economic Reform in Jordan 1990-2005**

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## 1. Introduction

In socio-political terms, Jordan may be classified as a semi-rentier country. In a rentier state three conditions must be met. First, the state is highly dependent on the export of a single resource. Second, the income generated from single resource export (such as oil in Saudi Arabia) is not based on the productivity in the oil industry but rather on the huge gap between the cost of production and the international price of oil. This pattern of production is usually limited to a very small segment of society that produces and distributes oil revenue while the remaining population falls on the receiving end. Third, in countries of single resource export, government spending is not based on domestic taxation but rather is acquired from external rent which does not involve large scale employment of human capital in the production process (Biblawi, 1987). Countries that best fit the rentier state model are the oil-exporting countries of the Arab world. Many of non oil-exporting Arab countries fit the model of the semi-rentier state. The oil wealth of rentier states made itself felt in neighboring Arab countries through workers' remittances to oil-poor countries (such as Jordan) and through petrodollar aid.

Brand (1992: 92) argues that Jordan's economy places it in the category of a semi-rentier state for four reasons. First is the heavy dependence on unrequited transfers in the form of expatriate worker remittances and economic aid. Second is the major disequilibrium in the Jordanian trade balance. Third, the country has a large budget deficit. Fourth, rentier income has for years permitted a level of consumption and investment well above what the country's GDP could otherwise sustain.

This paper aims to explore the ways in which the process of reform in a semi-rentier state differs from that in a "productive" state governed by market rules.<sup>1</sup> In the next section of this paper, a summary of the main arguments under discussion will be presented. The third section will provide the analytical framework by giving an overview of the socio-political characteristics of the Jordanian semi-rentier state and the implications of this for reform. Finally, the fourth section will describe the unfolding of the reform process in Jordan within the framework of rentierism.

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<sup>1</sup> In this regard Acemoglu et al. (1999) argues that While There are many well developed theories which explain why governments redistribute income. There are very few theories, however, which can explain why this redistribution often takes an inefficient form. Inefficient redistribution according to Acemoglu makes staying in or entering a group relatively more attractive than efficient methods of redistribution. The form of redistribution is utilized as a tool to sustain political power in situations where; (1) the political influence of a group depends on its size, and (2) political institutions cannot credibly commit to future policy. Given the framework of semi-rentier we are utilizing it is very likely that the sate in Jordan is more likely to distribute the accrual rent in an inefficient manner.

## **2. Summary of the Arguments**

The arguments put forward in this study will proceed according to the following themes: first, reform started in Jordan in 1989 as a result of the interaction between domestic factors (economic crisis) and international pressure (external debt crisis). Furthermore, the sequence of reform was dictated by two interrelated factors: the nature of the socio-political economy and the severity of the economic crisis.

Second, economic reforms are changing role of the Jordanian state and forging a "new social contract"<sup>2</sup> based more on production than rent distribution. The latter, it should be recalled, constituted the main pillar of the state-society contract from Jordanian independence in 1946 through to the 1970s and was based on the state generating revenue externally and redistributing that income according to non-economic criteria such as political loyalty. State elites -- that is, those who benefited from the old distributional system -- were likely to resist these changes and attempt to maintain the status quo. We argue that the nature of the reform process was fundamentally shaped by the political economy of the semi-rentier state and in particular the collapse of the patrimonial state-society relationship.

Third, with regards to the role of non-state actors, we contend that the private sector had become so dependent on rent that it was not keen on lobbying in favour of economic liberalization in the manner predicted by neo-classical theory. Furthermore, civil society, including NGOs, played a limited role during the reform process because these groups were not perceived by the government as influential enough to be included in the reform process. Overall, the reform process tended not to be participatory and in many cases was limited to ruling or rent elites.

Fourth, we will argue that there was a discrepancy between de jure official policies and de facto actual practices. On a number of occasions reform measures were incomplete and the government either retreated or postponed implementation to avoid the social and political ramifications of actions such as removing subsidies or privatizing state-owned enterprises (SOEs). These instances of backtracking have negatively affected the credibility of the reform process. Moreover, reforming and downsizing the bureaucracy has proved to be much more difficult than originally envisioned because forces opposing bureaucratic reform are well-

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<sup>2</sup> The World Bank (2003) argues that the social contracts established in the independence era have given rise to enduring institutions, interests, norms, and practices- structuring the constraints and incentives governments now face as they contend with demands for and against policy reform. For more details see : the World Bank (2003), "*Unlocking the Unemployment in The Middle East and North Africa: Towards a New Social Contract*" . Washington, D.C.

entrenched in major state institutions. Moreover, problems with downsizing the inflated public bureaucracy are exacerbated by the fact that the private sector cannot absorb the wage labourers produced by educational institutions. We shall also argue that reforms have been blocked or impaired because of inadequate governmental credibility and rapid changes in government: indeed, the average life of Jordanian cabinets over the last 15 years has been less than two years.

Fifth, we shall also propose that Jordanian citizens are more inclined to mobilize to protect their social rights (in the form of rent distribution, subsidies for basic goods etc.) than their political rights.

### **3. The Framework for Analysis: Socio-political Characteristics of Semi-Rentier States**

#### **3.1 Political Organization and Mobilization**

Historically, Jordan has been a ‘big government’ country. Public institutions and corporations reporting to the government are the largest employers of the active workforce. Some analysts have even gone so far as to argue that “Jordanian society is a creation of the state” (Salibi: 1993), in contrast to the conventional rule of thumb. Whatever the measure of accuracy in this judgment, it reflects the central weight of the Jordanian state and the magnitude of powers it possesses in relation to society. Perhaps in line with many other Middle Eastern countries, collective political or economic action in Jordan has enjoyed few incentives and faced significant deterrents. The state has actively discouraged the activity of unions or political parties. As of October 2004, only 17% of adult Jordanians reported themselves to be members of civil society organizations. According to surveys conducted by the Center for Strategic Studies, political parties have a membership of around 1%, while around 90% of Jordanians do not see any of the existing political parties as representing public interests.<sup>3</sup> The lack of an institutional capacity for the political representation of economic interests has meant that these interests are generally best pursued informally, through personal access and quiet lobbying of members of the political elite, well-placed tribal leaders, extended family members and patron-client linkages. The absence of parliament during most of the 1970s and

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<sup>3</sup> See Center for Strategic Studies - University of Jordan, Democracy polls 1995 to 2004. Each of these surveys dedicate a section to political parties and their popularity.

1980s also played an important role in encouraging the rise of informal networks developed between the state and wider constituencies to replace formal institutions.

Brynen (1992) argues that informal and patrimonial relations have negatively impacted civil society by leading to the decline of the role of formal organizations. At the same time, tribal, sectarian, and other ethnic differences may actually be reinforced by the patrimonial distribution of resources to loyal social constituencies. Such power structures typically favour personal relations and discourage formal associational activity. This structure hinders organizational interaction and delays the development of class-conscious groups or efficient trade unions.

### **3.2 Patterns of Rent Distribution**

It is important to recognize that rent distribution patterns differ from one society to another depending on the political system and the spread of economic resources within that society. In democratic rentier states economic resources are distributed in a manner that ensures satisfying the electorate constituency, while in undemocratic states these resources are used to create a renewable social basis for the political regime. One might, for example, argue that Norway is a rentier state, but because it is a democratic non-tribal state patterns of rent distribution follow an entirely different logic based on principles of equality of opportunity and meritocracy. In contrast, in undemocratic semi-rentier states, economic resources are distributed to ensure political loyalty to the regime. By so doing, the regimes guarantee the creation of dependent elites both in the private sector and the political class.

As well as governmental access to resources from abroad, the pre-reform era was characterized by a narrow domestic tax base. Until the mid eighties, domestic tax constituted less than 60 percent of the government tax revenue in Jordan. This percentage, shown in Table 1 below, grew to a level of 88 percent by the end of 2001 and has remained above 70 percent over the last few years indicating a shift in the tax base associated with the introduction of the adjustment programme. The narrow domestic tax base of the pre-reform era allowed the government to distribute benefits in various ways. At the elite level, social notables often received direct rewards from government. They in turn would play a significant role in mediating the allocation and provision of local services in their home areas or constituencies. This extension of the patrimonial pattern of subsidizing allied elites or social

notables reinforced their social status at home while rendering them increasingly dependent on the state's resources which began to shrink in the mid-to-late 1980s. (Brynen 1992).<sup>4</sup>

**Table 1: Sources of Central Government Revenue**

Year	Gov. Expenditures as % of GDP	Gov. Revenue as % of GDP	Domestic Revenue as % of Gov Revenue	External Borrowings as % of Gov.	Grants and Aids % of Revenue *
1988	47	42.9	57.1	10.2	33.0
1990	42.8	47.7	63.6	16.9	19.5
1993	45.1	45.1	72.4	14.9	12.7
1996	35.9	35.0	85.6	--	14.4
1998	36.4	30.1	88.1	--	11.9
2001	36.4	32.9	79.3	--	20.7
2002	35.4	31.5	77.0	--	22.9
2003	39.0	36.3	64.2	--	35.0
2004	38.0	36.1	72.3	--	27.5

Source: Government Finance Bulletin, Ministry of Finance (Jordan) 2002 and June 2005.

\*External borrowing and foreign grants were combined in one item after 1993.

The absence of domestic appropriation by the semi-rentier state may alter the nature of the political demands placed upon it. In many developing countries, state appropriation of social resources ("taxation") typically spurs the population to seek a greater voice in the allocation of resources or expenditures. In the semi-rentier state, the social contract is different: the state is expected to provide a certain level of economic security in exchange for which society grants state leaders considerable political autonomy or legitimacy. From a theoretical point of view, this pattern of relationships should change as patterns of taxation change. Yet, in

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<sup>4</sup> Here Patrimonial is used in the Weberian sense. Max Weber made a clear distinction between patriarchal and patrimonial systems. The first is indeed the core of all traditional systems and somewhat linked to the household kinship groups. It is a relation that bonds a master with family. For this reason the head of the house has no administrative staff and family member obeys him because it is his right to be listened to. But a patrimonial system is an administrative structure. The ruler's relations with the ruled are filtered through a network of bureaucrats. Despite Weber's emphasis on this distinction one can argue that the "patrimonial form of rule represents and extension and expansion of the patriarchal system." (*James Bill and Robert Springborg, Politics in the Middle East, fifth edition, 2000, p.112*). In the patrimonial Middle East, for instance, the sovereign is located at the core of the center of the political system. He is surrounded by ministers, advisors and military leaders and confidants. What all of those have in common is a kind of unquestioned loyalty to the leader. In most Islamic societies, patrimonial system is the norm. in such system, the physical nearness to the leader is an important variable that can explain the distribution of power. The closer the advisor to the leader, the more influential this advisor becomes on the ruler and on the people. More importantly, he would be perceived as such by the masses. In Islam and with the help of religion, the leader has the opportunity to represent himself with a kind of link to God. This has helped invest him with a mysterious and otherworldly aura that has allowed them to be exalted as models to be imitated by the people. That is why some leaders try to trace their ancestry back to the family of the prophet Mohammed.

Jordan, although domestic taxation has increased dramatically since the late 1980s, corresponding political changes have not taken place. This may partly be explained by the fact that the state remains the most important economic player in the market and is able to restrict the access of newly formed economic interests to the decision-making process. Another reason may be related to the extent to which people have internalized the link between taxation and representation / political participation.

### **3.3 State-Private Sector Relations**

In a semi-rentier economy, accessing available rents becomes a primary goal for both the private and public sectors, with each interacting with the other to enhance its own particular interest. For example, the government is expected to adopt and formulate policies to access the private sector's remittances and the private sector will organize itself to benefit from such public rents as government contracts, customs exemptions, or trade protection. In such an economy, sustaining rent becomes part of the social contract between the government and the private sector.

Indeed, Jordanian private sector leaders were busy scrambling to access funds through personal relationships, nepotism, and favouritism. This kind of relationship nurtured informal relationships between private and public sector elites, limited the circle of policy making and undermined formal business association. (Carroll: 2003). The private sector itself was satisfied with the comprador role and did very little to institutionalize its activities. This behaviour might be explained by the structure of the private sector, which encompassed people well-connected to the state apparatus.

As a result of the external resources available to the state, the government did not historically exert pressure to tax the private sector and was lenient in responding to its demands since the business class was not perceived, until the late 1990s, as an important source of revenue for the government.

Finally, in addition to the socio-political ramifications of a semi-rentier economy, a pattern of consumption has prevailed whereby the level of consumption exceeds domestic production. External resources such as workers' remittances created an imbalance between production and consumption, since higher standards of living than would be expected could be maintained. This extra consumption was disproportionately directed towards imports resulting in the emergence of a service-sector dominated economy where expatriate-related business

flourished in sectors such as construction and utilities, sectors which contributed very little to expanding the productive base of the economy. (Warwick 2001: 21).

### **3.4 Implications for Reform**

Departure from what Krueger (1974) calls “rentier mentality” is difficult since it entails adverse effects on well-organized interest groups, such as the government bureaucracy and some of its associates from the business community. These entrenched groups will try to maintain the status quo and explicitly block reform for as long as possible.

In such a context, reform requires a change in the "Rules of the Game" to create an environment in which actors are more amenable to a system operating according to market rules and constraints. Reforming bureaucracy means two things for the prerogatives of the old rules: 1) incumbents will no longer be able to use the public sector as an arena for social and political patronage, and 2) they will be threatened by newcomers who possess higher qualifications and skills. These changes require corresponding changes in the political institutions and the boosting of state capacities. Informal networks and rules must give way to institutional channels of communication in order to establish the necessary political framework for checks and balances that safeguard the continuity of reform and the integrity of the actors. Thus, successful reform requires changing the rules of the game in a way which includes all existing structures, including matching the level of taxation and participation in decision-making, a more participatory role for the private sector in political decision-making and changing the patterns of resource distribution to be more equitable. Policy makers often disregarded these factors in designing the first generation of reform programmes. Their implicit model of decision-making was largely apolitical and focused almost entirely on issues of economic design, taking the implementation of the programmes almost entirely for granted as argued by Kan'an (1995).<sup>5</sup>

## **4. Phases of Reform**

### **4.1 Government Response to Pre-Crisis Signals**

This section discusses why reform was initiated in Jordan. The slowdown in the Gulf region surfaced with the end of the oil boom and the eruption of the first Gulf war. The drop in oil revenue in the Gulf countries led to the curtailment of economic assistance to Jordan from

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<sup>5</sup> For more details see Fanalli *et al.* (2003).

nearly \$985 million in 1980 to \$480 million in 1983. During these years, the Iran-Iraq war started. The war depleted most of the resources in the Gulf countries and Arab assistance dropped further. In addition, workers' remittances dropped by nearly 30 percent from around \$2.3 billion in 1983 to \$1.5 billion in 1987. Jordan began to face mounting balance of payment problems as its current account deteriorated. As economic growth slowed and opportunities in the Gulf countries became limited, unemployment began to rise.

Despite the fact that external grants fell from more than a third of the government's expenditures to less than one sixth during the first half of the 1980s, state expenditures continued to grow at an average of 6 percent per annum. Aware of the imminent economic crisis, the late King Hussein named Ahmed Ubaydat as the new Prime Minister. While he was in office, a hostile relationship between the private sector and the government started to surface. When the business community complained, the state responded with traditional policies of cooptation despite the fact that it no longer had the resources to support such actions.

The Ubaydat government was followed by that of Zaid Refa'i (1985-89). However, although Refa'i was considered to be private-sector oriented, he followed nearly the same path as his predecessor and was unable to introduce the fundamental changes anticipated by the King. The Refa'i government remained reluctant, out of political and social considerations, to reduce government expenditures despite the aggravated economic situation. Instead, it continued to find recourse in external borrowing at increasingly disadvantageous terms. As table 2 demonstrates, external and internal debt increased almost threefold between 1985 and 1989. In 1988, the government suffered a severe economic and financial crisis. In April of that year, the Central Bank suspended currency sales and the resulting drop in demand for the Jordanian Dinar (JD) led to an even greater depreciation of the currency. The government responded by regulating the exchange rate and closing down currency exchange companies.

**Table 2: External and Internal Debt (JD millions)**

Year	External Debt	Domestic Debt	Total debt/GDP
1985	1584.7	370.4	0.97
1986	1709.7	414.9	0.98
1987	2122.5	624.4	1.24
1988	2144.3	921.8	1.35
1989	3721.7	995	1.99
1990	5064.3	1037.6	2.29
1991	4958.7	1061.7	2.11
1992	4577.6	1041.5	1.61
1993	4229.6	1096.4	1.37
1994	4338.8	1096.4	1.24
1995	4465.9	838.6	1.11
1996	4722.8	831.4	1.11
1997	4580.6	825	1.04
1998	5333.7	852	1.10
1999	5510.1	944	1.11
2000	5045.7	1235	1.05
2001	4969	1397	1.00
2002	5350.4	1656	1.03
2003	5391.8	1815	1.00
2004	5348.8	2082	0.91

Source: Central Bank of Jordan, several monthly bulletins.

With pressure on the JD mounting, Jordan prepared a national plan covering the period 1986-1990 to replace the previous (1983-85) plan which had contained unrealistic objectives and policies built on the assumption that external assistance would re-surge. The new plan (1986-90) explicitly called for more private sector engagement in the development process and for the privatization of SOEs.

To summarize, a year before the crisis erupted, it was clear that Jordan was headed for economic collapse but the government preferred to delay taking drastic measures. As (Khalaf 2004) argues, this delay and hesitance was not because analytical or institutional capabilities were lacking. What were missing were the required democratic institutions that would ensure proper disclosure of information by the executive authority and the accountability of that authority. Few knew about the volume of debt accumulated by the second half of the 1980s. Several cabinet members, planners and decision makers were simply not aware of the scale and nature of such transactions. There was no parliament to investigate and no independent media to probe officialdom.

#### 4.2 Economic Collapse and the Arrival of the IMF

By January 1989, the government could no longer borrow from abroad and the Central Bank terminated making payments on bilateral loans. The government turned to the IMF for USD 275 million in standby credits, and IMF officials arrived in March. According to the economic

reform programme, the government pledged to reform the tax system and reduce its budget deficit from 24 percent of the GDP in 1989 to a level of 10 percent by 1990. Additionally, the government pledged to consolidate tariff and non-tariff rates and to reduce variations between the maximum and minimum tariff rate. This implied a sharp reduction in state revenues.

When austerity measures were first introduced, they targeted capital expenditures rather than current expenditures. From 1987-1991, the capital expenditures growth rate as a percentage of GDP dropped substantially, a trend which persisted until 2002, as Table 3 below indicates.

**Table 3: Government Expenditures**

Year	Current Expenditure (million JD)	Growth rate	% of GDP	Capital Expenditure (million JD)	Growth rate	% of GDP	Total Expenditure (million JD)
1985	542.5	-	27.8	263.2	-	13.5	805.7
1986	570.5	5.2	25.6	410.8	56.1	18.4	981.3
1987	602.7	5.6	26.5	363.2	-11.6	16	965.9
1988	669.6	11.1	28.6	384.4	5.8	16.4	1054
1989	749.7	12.0	30.8	352.6	-8.3	14.5	1102.3
1990	841.4	12.2	31	278.7	-21.0	10.3	1120.1
1991	904	7.4	31	330.3	18.5	11.3	1234.3
1992	1019.8	12.8	28.2	352.7	6.8	9.8	1372.5
1993	1119.4	9.8	28.8	292.2	-17.2	7.5	1411.6
1994	1211.6	8.2	27.8	376.2	28.7	8.6	1587.8
1995	1309.5	8.1	27.8	384.4	2.2	8.2	1693.9
1996	1353.8	3.4	27.6	410.3	6.7	8.4	1764.1
1997	1524.8	12.6	29.7	427.2	4.1	8.3	1952
1998	1644.6	7.9	29.3	443.1	3.7	7.9	2087.7
1999	1643.1	-0.1	28.5	396.4	-10.5	6.9	2039.5
2000	1718.3	4.6	28.7	335.8	-15.3	5.6	2054.1
2001	1788.5	4.1	28.3	403.8	20.3	6.4	2192.3
2002	1852.3	3.6	27.8	436.8	8.2	6.6	2289.1

Source: Ministry of Finance (Sep. 2003), Monthly Statistical Bulletin.

The 1989 austerity measures represented a serious challenge to rentier patterns of economic management and the status quo. In the absence of formal channels of representation, people turned to violence to convey their dissatisfaction. Riots erupted in areas and towns that were highly dependent on state subsidies. When the inhabitants of these areas saw the erosion of what they regarded as their basic rights or their “social security,” they resorted to a form of collective action that could be described as “social mobilization” to defend existing economic gains. It is important to note that those who took to the streets were protesting against the poor management of the state but were not questioning the legitimacy of the regime per se. For its part, another significant economic agent, the business community, was gradually losing faith in the government’s ability to properly manage the economy, especially after the currency crisis of 1988-1989.

#### **4.3 Launching of the Reform Process and Stabilization (1989-1991)**

The government could not sustain its old policies so it embarked on a Structural Adjustment Programme.<sup>6</sup> The two key thrusts of Jordan's structural reform were 1) to promote a private sector role and 2) to increase export orientation. This was in contrast to what the government had done in the past: encourage import substitution industries and expand the role of the state.

In March 1989, the government officially requested assistance from the IMF. The first negotiated Stand By Arrangement (SBA) with both the IMF and the WB was adopted. The objectives of this programme were: 1) to maintain stability in the currency and exchange rate, 2) to achieve a real growth rate of the GNP at a rate of 4 percent at least, and 3) to reduce the budget deficit and broaden the domestic source of revenue. In order to implement this programme, the government decided to maintain a tight credit policy and reform the tax system with steps to introduce the Value Added Tax (VAT). A couple of other numeric targets were set concerning the current account and budget deficits as well as the targeted inflation rate.

It is also worth noting, that despite significant pressure from the IMF, the government was able to retain subsidies on a number of basic foodstuffs. As Warwick (2001) argues this was a politically important success which allowed the state, rather than the IMF, to be seen by the domestic constituency as dictating economic policy. Government resistance to external pressure and the ability to manoeuvre indicate that policy ownership was an outcome of negotiations between the Jordanian state and international donors.

But it was not long before another crisis hit. This time, argues Khalaf (2004), it was the Iraqi invasion of Kuwait in August 1990. Jordan did not join the American-led coalition. The war and Jordan's political position inflicted a heavy toll on the country. In 1991, the SBA and the national plan were called off as a direct consequence of the first Gulf war. Jordan's exports to the Iraqi market (biggest at that time) suddenly declined with no alternative market to which to direct exports to. In addition, nearly 300,000 Jordanians were repatriated from Kuwait after the war ended. Immediate losses for Jordan also included a reduction in the number of tourists and a cut in the activities in the port of Aqaba to Iraq and Kuwait which used to represent 70 percent of the cargo handled there. This indicates the extent to which the Jordanian economy is vulnerable to external factors. Indeed, external factors have been instrumental in shaping

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<sup>6</sup> Reforms are defined as movements towards a more market-oriented economic system, usually, but not necessarily, in the context of a more open political system. (Fanelli 2003 )

the process of economic reform in Jordan. This is unsurprising given that our framework of analysis is based on the assumption of the semi-rentier state, in which resources accrue to states from outside their borders. This period, more than any other, illustrates the importance of external factors in influencing Jordanian economic performance.

The loss of the Iraqi market and the erosion of workers' remittances in the Gulf countries made it almost impossible for Jordan to continue its adjustment programme while servicing its external debt. Not only did Jordan lose two important sources of foreign currency but it had to accommodate 300,000 returnees who had not lived in Jordan for a long time. This meant that government had to expand the budget for health, education, and other infrastructure facilities. The growth rate in 1991 was negative, unemployment increased and the whole regional environment was unfavourable for any kind of private investment. Faced again with these strenuous conditions, Jordan's reform agenda was pushed back. Politics took primacy and the Kingdom's leadership was focused on how to navigate through that difficult period.

On the positive side, most of the returnees were entrepreneurs and highly educated. More importantly, they brought with them savings that the country profoundly needed. It was estimated that the returnees brought back nearly US\$ 2 billion, a huge amount for a country with a GDP of US\$ 6 billion in 1992. Two main sectors absorbed most of the money: the Amman financial market, and the construction sector, which grew during 1992 and drove the economy into a growth rate not experienced for some years.

To conclude, the timing of the first phase of reform was dictated by the severity of the financial crisis. Although domestic advocates for reform had anticipated that Jordan would no longer be able to continue its old policies, it was only after the crisis hit hard that the government embarked on an adjustment programme under pressure from the IMF and the WB. Policy ownership until this stage was external and the government reaction was constrained, with little room for manoeuvring.

### **4.3 The Period 1992- 1998**

This period corresponds better to the question of the sequence of reforms and how they were introduced. By 1993, it became clear that the regional recession was severe and that the heyday of external resources would not re-occur. This meant that the only viable alternative available to the government was to reduce the budget deficit and stimulate internal taxes.

After the Gulf crisis, the IMF and the WB understood the difficult situation the country was in but they remained committed to the idea that the only way out of recession was to pursue reform more aggressively. In October 1992, the government adopted the second SBA (IMF: 1992-98). Having experienced several years of the adjustment programme, private sector leaders became more vocal in their demand for more participation in the decision-making process if they were to assume a larger role in development. It was clear that a new pattern of reconciliation and inclusiveness between the business community and the government should be reached.

However, many private sector leaders have claimed that even when top-level government officials took measures to please the private sector, bureaucracy at the mid-level -- which has never been subjected to serious reform -- was able to thwart these decisions during the implementation stage. According to some officials, the rigidity in firing and punishing of state employees did not facilitate imposing the desired changes. Furthermore, officials who negotiated these measures did not articulate the rationale to the second tier of bureaucracy, which was supposed to turn measures into action. This state of affairs has contributed in widening the gap between *de jure* and *de facto* policies throughout the entire process.

Moreover, there has been a clear lack of continuity of policies as a result of short-lived cabinets. Over the period 1990-2003, there were 14 governments that witnessed a total of 27 major and minor reshuffles. Not only was the government changing but laws and regulations were sometimes delayed, twisted or subjected to different interpretations. The private sector has noted on more than one occasion that by the time they made their case clear to one minister, another would be on his way to replace him.

By the mid 1990s, the Jordanian economy had stabilized. The IMF had a number of proposals and suggestions for the government at this stage. International donors' demands were focused mainly on broadening the tax base by introducing a general sales tax and reforming income tax. In addition, the IMF called for the reduction of food subsidies by rationing subsidies to target low-income groups. There was also a call for tariff reform, including the simplification of procedures and the reduction of both tariff and non-tariff-barriers.

In February 1996, the Jordanian government and the IMF agreed to extend the SBA to 1998. The new programme aimed at achieving annual real growth of six per cent and at maintaining low inflation while curbing the current account deficit to below three per cent of the GDP. However, the expected growth rate was not achieved. In 1996, the government introduced the ration regime of bread consumption aimed at targeting subsidies to the needy. In a manner reminiscent of the 1989 riots, this decision sparked what came to be known as the "Bread

Riots". Yet, the government remained steadfast and the late King Hussein extended his support to the government's action, aware that the austerity measures were irreversible.

Once more, social mobilization seemed to be functioning and people took to the streets to defend what they believed to be their basic social rights. But the level of violence was less than that witnessed in the 1989 riots. It seems that the people and the opposition forces had become more familiar with the reform measures and the real hardship that the economy was facing. The support by the King set the tone and when the riots took political dimensions, few lent them support. Again, protest seemed to be directed at the mechanism and functioning of the state but did not question the legitimacy of the regime itself. Challenging government decisions this time would have meant challenging the King himself, an endeavour no one seemed willing to undertake.

A comparison between the 1989 fuel riot and the 1996 bread riot indicates the role of parliament and political institutions in determining the pace and the speed of the reform process. Two explanations may account for how Jordanians behaved on these two occasions. Firstly, people had become more familiar with the reform process and after nearly six years of austerity measures government action to increase prices or reduce subsidies was predictable. Secondly and more importantly, as argued by Khalaf (2004), the government in 1989 was perceived as acting alone. People rebelled against what they thought were misguided unilateral directives, top-down with no popular representation. Seeking to be heard in the absence of a parliament or any other peaceful channel to communicate with government, they took to the streets to show their presence and anger about both the policies themselves and about not being involved in their formulation. In 1996, an elected parliament was active and engaged in the reform process. This endorsement granted the reform measures a much-needed legitimacy.

#### **4.4 1999 and After: The Bureaucracy Challenge**

So far, the story of reform tells us that several important measures were taken. However, there still existed hidden resistance to proceeding with the reforms and facing new realities. In this regard, Fidmuc et al. (2002) argue that protecting economic rent is not the only motivation for resistance to reform. Other motivations such as protecting existing informal political powers or avoiding negative externalities may also explain why some groups resist reform. The loss of political powers is perhaps instrumental in constituting incentives for resistance to change. Uncertainty is another important factor that may also explain why there is serious yet informal

resistance to reform. Most reform programmes are risky in that their outcomes are neither predictable nor identifiable with certainty beforehand.

The main characteristics of this phase are: 1) it witnessed the inauguration of King Abdullah II who seems willing to give economic development primacy over politics. 2) it has been more stable in terms of government changes 3) it witnessed the suspension of parliamentary elections from mid June 2001 till mid June 2003. This enabled the government to pass nearly 214 temporary laws (provisional legislations) amongst which several are economic in nature.

We have argued that when the process of reform became more participatory, the public became more receptive and implementation progressed more rapidly. Although reform was sometimes delayed as a result of deliberation in parliament, it was easier than when the government was acting alone. The suspension of the parliament took the process back to square one.

By 1999, the Jordanian economy had achieved a great deal of stability and the reform process had gained a high degree of credibility. In order to take further measures such as downsizing the public sector, what was lacking was a positive outcome that reduced poverty and unemployment. GDP growth was reasonably positive and the confidence in the JD was very high. However, the gains from these positive developments were not shared by the 15 percent unemployed or the 35 percent living below the poverty line. The dilemma is that one cannot start downsizing state bureaucracy before dealing with the serious disequilibrium in the labour market. Caroll (2003) neatly summarizes this by arguing that Jordan is facing something of a ‘chicken-and-egg problem’: bureaucratic reform cannot be completed until excess public employees can find work in the private sector, and the private sector cannot absorb these workers until bureaucratic reform facilitates economic growth.

#### **4.4.1 Private-Public relations**

During this period, the private sector demanded a greater role in the policy making process, claiming that market-friendly policies had been undermined by obstructive mid-level bureaucrats. This claim finds support in surveys and censuses. The WB (1995) and the Center for Strategic Studies of the University of Jordan, in two separate surveys at a firm level, found that nearly 80 percent of respondents regarded bureaucratic impediments--such as delays, lack of understanding by civil servants, and corruption--as seriously impeding and obstructing new investment. “Traditional” public sector incumbents still perceive a public post as a source of

income, not as a place for productive work. This is a clear manifestation of the rentier mentality stemming from the semi-rentier economy.

**Table 4: Numbers of Procedures required for Starting Business**

Procedure	Number of authorities involved	Approximate Number of Steps	Average estimated time to completion
Company Registry	1	3	6-10 days
Registry of patent and trade mark	5	4-51	2-3 months
Port Clearance for Duty Exempted-Imports	4	3	1-2 days in Amman, 3-7 days in Aqaba
Industrial License	17-21	20-40	2-4 months
Hotel License	14-16	20-40	Several weeks, could be longer
Leasing or Purchasing from the State	4 or many more	Unpredictable	Several months to several years
Environmental Clearance	7	4	Several weeks to several months
Building Safety Clearance	4	6	5-10 days
Utilities (Electricity)	1	4-6	8 weeks to 3 months
Utilities	1	3	2-4 weeks
Utilities (Telephone)	1	3	1-12 months
Tax Payment	2-3	Unpredictable	Unpredictable
Customs Procedures	5-6	2-5	1 day to 1 week

Source: Foreign Investment Advisory Services/ USAID, Jordan: Improving Administrative Procedures for Investors (“The Road Map Study”).

The table above indicates that Jordanian administration suffers from oversized and overlapping jurisdictions; a proliferation of departments, divisions, and public agencies; and poor coordination. Administrative structures generally do not contain strong incentive systems. Merit is not rewarded by upward mobility, since the top ranks of the civil service remain political and favouritism and nepotism remain pervasive. Moreover, Loayaza N. et. al (2003) argue that burdensome procedures arise as a result of the lack of procedural clarity; complexity of bureaucratic requirements, the imposition of overly restrictive regulations and excessively high rates of taxes, tariffs, and other public charges. This is clearly the case in Jordan as the table above indicates.

To overcome the problem of the massive bureaucracy and lack of responsiveness, the Palace<sup>7</sup> has initiated a few programmes and institutions to bridge the gap between the private and the public sector. In addition to the ECC, the Jordan Investment Board was created with the aim of establishing a one-stop investment window. The international community has also initiated several programmes such as Access to Microfinance Improved Implementation Policy Reform (AMIR), the European-Jordan Initiative (EJI), and Euro-Jordan Action for the Development of Enterprise (EJADA), all aimed at enhancing the government’s technical skills in new emerging fields such as competition law and manufacturing standards and specifications. These programmes function parallel to, and in support of, other government

<sup>7</sup> Normally refers to the economic team that surrounds and works closely with the King.

institutions. Because they are not subject to rigid civil servant regulations, they can afford higher salaries and incentives to attract qualified employees. The last step in the effort to overcome bureaucracy was the creation of the Aqaba Special Economic Zone (ASEZ), which aims at attracting business and has been declared as a duty free area governed by special rules and regulations and where staff have been appointed based on merit and are not subject to the rigid civil servants code.

Confronting bureaucracy is not an endeavour that a single Prime Minister has been willing to undertake. This is because of overlapping interests among influential players to maintain this institutional power. Apparently, the solution has been to resort to the creation of parallel institutions in order to speed up the process of reform. These parallel institutions must be more efficient and productive to reflect a positive image about the reform process. However, there are two caveats: first, little interaction between employees in the parallel institutions and the traditional government employees has taken place, thus limiting spill-over effects. Second, parallel institutions, with the exception of ASEZ, have been programme-based and externally financed. This casts doubt about their sustainability with the potential that their staff might leave when financing dries up.

## **5. Concluding Remarks**

The fact that Jordan is a semi-rentier and patrimonial society made the process of reform slower than expected and the potential to retract high. Moreover, the same old regime taking the role of new champion to advocate the new policies made reform especially difficult. This is very different from cases in former socialist European countries, for example, where the new regimes discarded the old policies unreservedly. However, the severity of the economic crisis and the persistence of IMF and WB conditionality ensured that the process remained on track.

A strong coalition of bureaucrats stands to lose from the reform measures. Therefore, it is no surprise that this group vehemently resisted the reform throughout the various phases of the process. Maintaining the status quo served bureaucrats' narrow interest better than jumping into the unknown. However, when the political leadership showed a strong commitment to reform, the process speeded up. This is especially clear under the reign of King Abduallah II.

From its end, the private sector was not ready to adhere to the new rules of competition and seemed to prefer the clientist and patrimonial relations that were developed with the state

before the reform process kicked off. Moreover, the continued tension between the private and public sector has negatively influenced the private response to government initiatives.

Civil society organizations, which are huge in number, have been inefficient or inactive in stepping in to fill the vacuum created by over-centralized government functions and private sector reluctance to come forward. This has resulted in a limited and insignificant role for the civil society organizations during a period that should have witnessed their active participation in the decision-making process.

As the country continues to open up with the aim of deregulating most of its sectors before 2012, the challenges ahead are many. As the processes of liberalization and privatization continue and the government continues to redefine its social role, issues such as social equity, inclusion of various stakeholders and political participation are increasingly attracting attention and surfacing as significant domestic conditions that will shape the future of the reform process.

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