Atlantic Council
RAFIK HARIRI CENTER
FOR THE MIDDLE EAST

ISSUEBRIEF

BY FAYSAL ITANI

Stability through Change: Toward a New Political Economy in Jordan

DECEMBER 2013

Although it appears Jordan has survived the Arab uprisings thus far, all is not well in the Hashemite Kingdom. Over the past twenty years, its political economy has changed profoundly, putting pressure on the foundations of regime stability. The state in Jordan has been retreating from many citizens' economic lives, shrinking its circle of privilege and patronage, and leaving the population to fend for itself in a dysfunctional economy. Worryingly, the segment of the population most affected is the monarchy's base, which sees the Palestinian-Jordanian population as benefiting from the new status quo. Today, Jordan is also coping with hundreds of thousands of Syrian refugees, many of whom may remain in the country long term. Yet the real danger to the monarchy's stability is not the immediate cost of refugee care but the alienation of its traditional power base.

Currently, the bloodshed that followed a peaceful uprising in Syria is helping contain the Jordanian people's appetite for political change. Rather than use this to scare its public into accepting an unsustainable status quo, the regime ought to use this breathing space to take the political risks associated with transforming its institutions and reimagining its relationship with its citizens.

The brewing crisis in Jordan calls for political creativity and boldness that the monarchy and its allies have yet to show. Simply put, Jordan needs a new social contract if it is to survive economically and politically. If it succeeds, it may present a much-needed transition model for other Arab countries. If it fails—or fails to try—the monarchy may well survive and muddle on, but only until its economic and political problems begin to fuel serious civil unrest.

Compared to conflict-ridden states such as Libya, Egypt, Yemen, and Syria, Jordan is relatively well placed to experiment with managed political and economic transition and to renegotiate the social contract between state and citizen. More broadly, Jordan's case highlights the importance of understanding and addressing the political economy of stability and change in the Arab world. Too often regional analysis focuses on geopolitics, the high politics of regime and party elites, and basic macroeconomic trends and indicators at the expense of a rich and nuanced understanding of how ordinary Arabs navigate the economy and public life. Integrating political economy analysis would allow policymakers to see how economic reforms impact political stability, and helps explain why, despite implementing some pro-market reforms, no Arab states have yet succeeded in creating dynamic, inclusive free market economies. If policymakers hope to influence Jordan effectively and responsibly, they need to account for the links between the political and economic foundations of regime stability.

Rafik Hariri Center for the Middle East
The Rafik Hariri Center for the Middle East at the Atlantic Council studies political transitions and economic conditions in Arab countries and recommends US and European policies to encourage constructive change.

The Old Social Contract in Jordan

The Jordanian state was built on an alliance between the Hashemite royal family of western Arabia and native pastoralists and farmers. These segments of Jordan's population are referred to as Bedouin, tribal, or East Banker Jordanians—as distinct from Jordanians of Palestinian origin from west of the Jordan River. The monarchy's careful management and preservation of its relationship with East Bankers allowed it to survive multiple regional and domestic challenges, including

Faysal Itani is a fellow with the Atlantic Council's Rafik Hariri Center for the Middle East. The author would like to thank Matthew Hall for his invaluable contributions in the research and writing of this issue brief.

a large-scale influx of Palestinians after the creation of Israel, an insurrection by Palestinian militia and, more recently, massive refugee flows from Iraq and now Syria.

Although half of Jordan's population is of Palestinian descent, East Bankers have historically dominated the state and security forces. In contrast to the largely rural East Bankers, Palestinians tended to settle in cities, particularly Amman and Irbid, and a largely Palestinian urban middle class emerged, distinct from the East Banker political elite. Despite limited resources, the monarchy secured East Banker loyalty by providing them with public sector jobs and allowing them to dominate the armed forces. These expenses were underwritten through foreign aid assistance from powers invested in the monarchy's survival for strategic reasons, including Britain, the United States, and fellow Arab monarchies.

By tying East Bankers to the state's survival, the monarchy was able to contain Palestinian mobilization around radical Arab politics in the 1960s and the 1970s, crush Palestinian militias in 1970, and check the rise of a predominantly Palestinian Muslim Brotherhood. The East Banker-dominated armed forces rallied behind the monarchy against the Palestinian militants, and despite whatever sympathy they may have had for the pan-Arab and Palestinian causes. Whenever Palestinian and East Banker political grievances could potentially converge, over issues such as widespread desire for political reform, the state played on East Banker suspicions toward Palestinian political motives. East Bankers' appetite for political liberalization was limited by fear of empowering the majority Palestinian population at their expense.

Cracks in the Foundation

As long as the monarchy sustained generous patronage networks for East Bankers, the old social contract was safe. Toward the late 1980s, however, the arrangement came under increasing financial pressure, and nearly fell apart in an economic crisis in 1989 caused by serious macroeconomic imbalances. Falling energy prices triggered a recession in the oil-exporting countries, on which Jordan had grown heavily dependent for expatriate remittances, trade, and foreign aid.[1] Jordan's GDP collapsed amid high inflation, massive external debt, a currency crisis, and a severe budget deficit, while unemployment reached 30-35 percent.[2]

Jordan had adopted a political model incompatible with its economic constraints.[3] The public patronage expenditures, through which the monarchy ensured the loyalty of its base, were unsustainable given a lack of natural resources, a serious scarcity of water, and high dependence on fuel imports in an unstable region. The 1989 crisis shocked the state into reevaluating this model. With Arab states facing their own economic difficulties and unable to finance it indefinitely, Jordan turned to the International Monetary Fund (IMF) for support. To meet IMF conditions, it began to rationalize and balance its public expenditures and to liberalize sectors of the economy. Reforms included broadening the tax base, reducing subsidies, enforcing new property regulations, liberalizing trade, setting up free zones, privatizing state enterprises, and investing in tourism. They also involved further developing mining and industrial exports and the knowledge economy, leveraging its growing strength in IT and software.

From the perspective of international financial organizations, Jordan's reforms were a qualified success and, strictly speaking, have met IMF conditions and targets. GDP growth stabilized and is projected to reach 3.2 percent in 2013. Although real macroeconomic challenges including inflation, a very high budget and current account deficit, and a high debt-to-GDP remain, this has not led to loss of international confidence in Jordan. It is judged as moving in the right general direction on economic reform relative to other Arab states' dismal performance.

As in other Arab states, however, improved macroeconomic indicators do not reflect much of the population's experience. Many East Bankers feel worse off as a result of economic liberalization. Reforms undermined public sector patronage on which they are especially dependent, as compared to Palestinian-Jordanians, who are better integrated in the market economy. While some sectors such as industry and communications have benefited from increased foreign investment, the jobs created tend to require high skills, which many Jordanians lack due to incongruity between the state education system and employers' needs. Regulatory obstacles to doing business and limited access to capital (which tends to flow to larger domestic corporations) constrain indigenous entrepreneurship. As a result, many citizens do not benefit from the market economy. Unemployment remains high and job creation lags behind population growth. Despite pro-market reforms on paper, the regulatory environment

1 Antonia Dimou, "Jordan, Success Story of the IMF," Worldpress.org, August 19, 2010, http://www.worldpress.org/Mideast/3610.cfm.

2 Ibid; "Jordan's Economy: Crisis, Challenges & Measures," presentation by Hamzeh Jaradat at the 3rd Annual Meeting of Middle East and North African Senior Budget Officials, October 31-November 1, 2010, http://www.oecd.org/gov/budgeting/46382448.pdf.

3 Other constraints include a scarcity of natural resources including water, and a high reliance of increasingly undependable fuel imports from neighboring countries. For more information, see World Bank's "Jordan Overview," http://www.worldbank.org/en/country/jordan/overview.

is opaque and contradictory, allowing for arbitrary implementation of policies.[4]

A new urban economic elite has emerged, comprising a narrow circle of regime insiders seen as having preferential access to lucrative privatization and investment deals. Although this circle includes elite East Bankers with a considerable stake in the increasingly privatized economy, less-privileged East Bankers see it as Palestinian-dominated and empowered by Queen Rania, King Abdullah's Palestinian wife, and her associates.[5] Some East Bankers even accuse the 'new rich' of appropriating tribal lands in collusion with the state. East Bankers increasingly feel the state has abandoned them to build an inaccessible economy of privilege in cooperation with the urban elite.[6] In addition, the expectation of holding a white collar job in the bureaucracy makes some East Bankers reluctant to accept manual labor jobs created in the new market economy.

Historically, Jordan's subsidy program has been a key component of the state patronage system and social stability. Jordan depends largely on oil imports for electricity production, fuel imports for transportation, and agricultural imports for food. Less prosperous areas inhabited by East Bankers are especially dependent on such government support. Most fuel is imported by the state and sold at a subsidized price. The government can no longer afford to continue this level of subsidization, but any attempt to reduce subsidies risks provoking large-scale public discontent amid accusations that the government is unfairly financing itself at citizens' expense. In November 2012 a government decision to reduce subsidies on fuel and cooking oil triggered widespread rioting that killed three and injured dozens. Many Jordanians apparently see subsidies not as a benefit or privilege, but as a right.

Jordan has followed the flawed reform model of other imperiled or extinct Arab regimes. It has abandoned a stagnant, statist economic model in pursuit of economic liberalization. This has improved some basic macroeconomic indicators at the cost of widespread public alienation and a narrowing of the regime's support base. By withdrawing from its citizens' economic lives, the Jordanian state has further diminished its ability to pursue painful but necessary economic reforms. At the same time, market liberalization gives rise to well-connected wealthy elites whose conspicuous consumption habits are further alienating its old social base.

Jordan's old political economy was financially unsustainable. However, what has come in its place contains a fundamental contradiction in that its political base and emerging economic elite are two distinct groups. This highlights a broader point about structural economic reforms often missed by its strongest advocates, including international organizations: economic liberalization in authoritarian states founded on patronage structures is seriously disruptive and carries grave political and social risks.

Backlash

Although the Arab awakening undoubtedly increased political mobilization across the region, the increase in frequency and scale of civil unrest in Jordan predates the Arab uprisings. Strikes and protests had been erupting over wages, food prices, working conditions, corruption, and other socioeconomic grievances. While Palestinian-Jordanian protesters tend to receive more media attention, East Banker unrest is arguably more threatening since it involves the regime's base. East Banker opposition is ill-defined and fragmented but includes the Herak youth movement (which draws support from young East Bankers), East Bank tribal elders, day workers, teachers, and retired employees of the state and security forces.

In demonstrations, announcements and open letters, many East Bankers accuse the monarchy of betraying the 'real' (by which they mean non-Palestinian) Jordanians, who have seen little gain from neoliberal reforms and feel entitled to a greater share of the growing concentration of wealth in Amman amid stagnant wages, inflation, and weakening public services. Public sector workers and military veterans have been at the forefront of this unrest and, significantly, protests have pitted the East Banker-dominated security forces, historically focused on containing the Palestinian threat to the monarchy, against fellow East Bankers.[7]

East Banker tribal leaders have emerged as an important opposition voice, accusing royal family

4 Jordan ranks 119th out of 189 in the World Bank's 2013 Ease of Doing Business Index, http://www.doingbusiness.org/rankings; Courtney Freer, Robert Kubinec, and Dillon Tatum, *The Struggle for Reform in Jordan: Elites, Non-elites and Fashion Café*, George Washington University IMES Capstone Paper Series, May 2010, http://www.gwu.edu/~imes/research/Freer,%20Kubinec,%20Tatum.pdf.

5 Anne Mariel and Pete W. Moore, "Beyond Boom and Bust: External Rents, Durable Authoritarianism, and Institutional Adaption in the Hashemite Kingdom of Jordan," *Studies in Comparative Institutional Development* 44, no. 3 (2009).

6 Samer Abu Libdeh, "Previewing Jordan's National Agenda: Strategies for Reform," Washington Institute Policy Watch 1032, September 16, 2005, http://www.washingtoninstitute.org/policy-analysis/view/previewing-jordans-national-agenda-strategies-for-reform.

7 "The Revolt of Jordan's Military Veterans," Middle East Channel blog, *Foreign Policy*, June 16, 2010, http://mideast.foreignpolicy.com/articles/2010/06/15/the_revolt_of_jordans_military_veterans.

members and their inner circle of advisers and business partners of corruption. To be sure, this betrays some lack of self-awareness. East Bankers have long depended on state patronage networks controlled by an autocratic state, which are corrupt by nature if measured against the standards of meritocratic, competitive political economies. Aggrieved East Bankers are not opposed to patronage, however, as long as it is rooted in what they view as a fair social contract. They see the new economic elite as predatory, undermining the public interest for personal enrichment.

East Bankers feel betrayed by the state's new economic direction partly because of what they stand to lose but also because they sense changes have unfolded in an unfair manner, enriching the privileged at the expense of the monarchy's most loyal supporters. They simply do not trust the state to act in their best interest, and are therefore unwilling to relinquish their privileges—or entitlements, as they see them—and expose themselves to the risks of a market economy.

Although East Banker opposition to the regime emerged from socioeconomic discontent, protesters and activists eventually and inevitably linked economic change with political access and accountability. As a result, although their slogans and demands usually avoid targeting the monarchy as an institution, the parliament, cabinet, and even the king are increasingly targeted. East Bankers and Palestinians are still divided and suspicious of one another, but this could change as their economic grievances and political demands converge. An opposition coalition of Palestinians and East Bankers would pose a real threat to regime stability.

The state has reacted to rising political tension and civil unrest by reshuffling cabinets and replacing prime ministers, restricting the media and civil society organizations; defining electoral laws and districts to ensure a weak parliament; playing on East Banker-Palestinian suspicions to divide the opposition; and relying on the security forces to quell protests and opposition mobilization. In other words, the Jordanian regime has stuck to the familiar recipe of crisis management reminiscent of struggling or extinct Arab states.

None of these measures address the regime's fundamental challenge: how to secure buy-in from the monarchy's social and political base for economic reforms. If the old patronage arrangement is increasingly untenable, and economic liberalization is still unpalatable and has produced insufficient results, how is the monarchy to proceed? The answer lies in an institutional transformation of Jordan that replaces a state of personalities and subjects with one of laws and citizens. This is made all the more urgent by Jordan's escalating refugee crisis, driven by a war in Syria that is not likely to end soon.

Spillover Pressures

On top of its difficult balancing act between East Banker and Palestinian-Jordanian communities, the regime is now struggling to handle the influx of thousands of Syrian refugees. Since mid-2011 the violence in Syria has driven hundreds of thousands of them into Jordan. Jordan now hosts more than 550,000 refugees, who account for roughly 10 percent of its total population. The purpose-built Zaatari Refugee Camp is now Jordan's fourth largest urban area. Jordan highlights to international supporters the cost of hosting the refugee population and the strain on healthcare, education, security, energy, and employment; but skeptics accuse the regime of using the humanitarian crisis to secure international financial support for its political survival. In truth, Jordan is making the best of a bad situation. The government would prefer not to deal with refugees but does require financial support and is understandably pressing for the maximum, thereby helping secure regime stability.

Although the financial cost to Jordan of hosting the refugees is immense—by early 2013 it had amounted to an estimated three percent of its GDP of $38 billion—the pressure on social cohesion is just as worrying. The camps are the most visible forms of the refugee presence, but 75 percent of Syrian refugees live in Jordanian cities and villages, angering local host communities by driving down wages, raising the cost of living, and, as some Jordanians see it, putting locals out of work.[8] Jordan's lack of natural resources further magnifies the economic strain of hosting the refugees, particularly given the pressure their needs place on the expensive subsidy program. Additionally, the fighting in Syria has disrupted agricultural export routes to Europe, leading to an estimated $140 million in losses and hurting farmers in neglected regions that are already struggling to cope with years of decline in the agricultural sector.[9]

The impact of Syrian refugees and the likelihood that they will stay in Jordan for the foreseeable future raises the urgency of economic and political reforms. More broadly however, the Syrian crisis also presents

8 Rents in many neighborhoods have trebled since 2011. Unlike Iraqi refugees after 2003, who stayed in high-end apartments and whose presence mostly affected the middle and upper classes in Amman, the majority of Syrian refugees are poor.

9 "Syria Crisis Causes $140 million losses for Jordan Farmers," ANSAmed, October 28, 2013, http://www.ansamed.info/ansamed/en/news/sections/economics/2013/09/16/Syria-crisis-causes-140-million-losses-Jordan-farmers_9309938.html.

an opportunity for Jordan. By dampening Jordanians' appetite for a confrontation with the regime, the conflict has given the monarchy time and space to carry out meaningful and necessary reforms.

Toward a New Social Contract

Unfortunately, Jordan remains a state of powerful individuals and groups rather than neutral laws and institutions. Parliament is unrepresentative, media and civil society operate at the pleasure of the state, security forces enjoy relative impunity, public institutions are essentially immune from judicial oversight, and corruption is significant at all levels of government. The regime occasionally prosecutes individuals, but this is done selectively and therefore in a corrupt fashion. The problem of arbitrary power and unaccountability goes far beyond individual violations. The abuse of power is structural, poisoning relations between the state and citizens and seriously undermining the implementation and benefits of reform.

Jordan's economic problems are not due solely to corruption (the scale of which is difficult to assess), but perceptions of a corrupt state undermine the public trust required to secure short-term economic sacrifices from the population and roll back the patronage state in pursuit of a new, more sustainable economy. Bribery, nepotism, and abuse of power sabotage the emergence of a dynamic market economy, which is ultimately rooted in fairness, predictability, and the consistent application of laws. Corruption at the higher levels of the state trickles down to workers, civil servants, security officials, business owners, and junior politicians, undermining the efficiency and competitiveness of the free market promise.

The rule of law across the public and private sectors is the state's single most effective economic reform tool, and the only way to build trust in public institutions and tolerance of change. It is also one of the trickiest to implement, and requires empowering institutions that can hold officials and private citizens accountable. These include a strong judiciary, a vibrant civil society and media, and a political process through which officials can be subjected to public scrutiny. Only these institutions can transform Jordan's political economy from a race to secure state patronage to an inclusive, competitive system. A state built on the rule of law would act as a substantial force-multiplier on economic reforms, expanding a narrowing circle of access, spreading gains from liberalization, and energizing the economy.

A Delicate Balancing Act

King Abdullah has tried to deflect criticism by blaming stalled reforms on entrenched elites opposed to his efforts. Although the king is less powerful than a coalition of all other elites, he is still the single most powerful political actor in Jordan and best-placed to establish new rules of the game. This would require a delicate balancing act of convincing the old guard that its interest lies in regime preservation through reform, disciplining the more recalcitrant or corrupt elites, nurturing broader popular support for economic change, and restoring public faith in the state through real institutional reforms.

Particularly harmful is the king's habit of dismissing cabinets and prime ministers who fall out of favor with the public, political allies, or the king himself and become convenient scapegoats for the state's failings. In the first thirteen years of his reign, King Abdullah appointed nine prime ministers. Regardless of their individual performance, the frequent dismissal of cabinets and prime ministers by the country's highest authority highlights to Jordanians the impotence and irrelevance of public institutions. It fuels public cynicism toward the political process and undermines popular tolerance for economic reforms and trust in the government to carry them out fairly and effectively. The king's first step toward restoring faith in the state should be to end this practice.

The king and his allies must also ensure that economic policies mitigate the disruption of citizens' lives and well-being caused by economic liberalization, while offering poor East Bankers a stake in the new economy. A market economy is by nature competitive and its emergence will inevitably create winners and losers. The most bitter will be those who lose privileges to which they feel entitled and have become accustomed, and these changes are likely to be more acceptable if they are gradual. International financial institutions and allies appear patient and supportive enough to allow this, and should be so as long as they perceive a trend toward economic liberalization.

The king will also have to manage tensions among institutional capacity, regime stability, and political mobilization. Eventually, he should expand political participation and establish more representative elected institutions. This may not be the immediate priority and should not be done hastily. For one, a rapid political opening may be destabilizing. It is likely to frighten East Banker allies in government and the security forces, the economic elite, and conservative elements of the East Banker opposition. The king does not yet have a sufficiently wide alternative support base and thus cannot afford to confront the current one all at once. East Bankers still fear that political liberalization would empower Palestinians at their expense. Rapid democratization may therefore weaken their drive for a new social contract by reviving East Banker support for the illiberal status quo despite its diminishing economic benefits. For this reason, the opposition has generally not called for radical change, but for moderate reforms that would empower parliament and establish greater balance between different branches of government. Yet even these demands for limited, gradual change have not been met.

A political opening may inevitably antagonize Gulf Arab states opposed to democratic change, potentially threatening an important source of foreign aid. A gradual approach to political reform would allow Jordan more time to lessen its dependence on Gulf states and move toward greater reliance on the West and international financial organizations, which are less hostile to political reform.

It may therefore be wisest for Jordan to begin by building effective state institutions, a government of laws that can absorb and channel political mobilization. As the political system most conducive to sustained economic development, democracy should still be the end goal. To succeed, the government needs to build a supporting infrastructure that includes an empowered civil society and media able to hold public officials accountable, an equally empowered judiciary and legal bureaucracy in which the security forces' role is less dominant, a consistent and rationalized legal system and laws, a healthy middle class that includes East Bankers, and ultimately an electoral law giving rise to a more representative parliament that does not engender fears of Palestinian dominance.

Finally, there is the formidable task of co-opting the old elite in government and the armed forces into the economic and political reform process, in order to preserve regime stability. This requires a sustained and intensive outreach to influential East Bankers in the military, government, and royal court. The king must make the case that the elites' interests lie in regime survival, made possible by an orderly, managed political and economic transition. The alternative is deepening poverty and unemployment, an increasingly aggrieved populace, and the ever-present risk of violent unrest that may eventually threaten the state and, with it, the old guard's survival. The latter's continued resistance to reform shows the king has yet to adopt a successful strategy to convince key partners that their interests will be served by the reform process.

Conclusion

Reforming fundamentally conservative regimes of entrenched economic, political, and bureaucratic elites is extremely difficult and may even be impossible, but it has not yet been fully attempted in Jordan. The economic and institutional knowledge and expertise is available, however, and with sufficient political will, such a fundamental process of reform could be possible. When this was proposed in the National Agenda in 2005, it was described by its main architect as "dead on arrival." Entrenched elites had no desire to compete in an open, meritocratic order, and higher authorities were unwilling to face the risks of proceeding anyway and unable to devise bold and creative ways of co-opting opponents and recruiting new allies.[10]

With an educated population, a monarchy that retains significant legitimacy, and a comparatively stable security environment, Jordan is a relatively strong candidate to become one of the first well-governed Arab countries. This will be a painful, delicate process requiring total commitment from King Abdullah and his trusted advisors, and much more than cosmetic electoral reforms and sporadic anticorruption campaigns. It will involve building a nation of citizens with a stake in the state and economy. At this time the institutional prestige of the monarchy is protecting King Abdullah and his allies. However, if the regime were to use widespread, sustained violence against its people in the event of serious economic and political unrest, prestige would hardly guarantee its survival. Undertaking an ambitious program to build a new political economy before such violence erupts would be in the long-term interest of the royal family, security establishment, old guard, new economic elite, and less privileged East Bankers.

---

10 International Crisis Group, *Popular Protest in North Africa and the Middle East (IX): Dallying with Reform in a Divided Jordan*, Middle East/North Africa Report No. 118, March 12, 2012, http://www.crisisgroup.org/~/media/Files/Middle%20East%20North%20Africa/Iran%20Gulf/Jordan/118-popular-protest-in-north-africa-and-the-middle-east-ix-dallying-with-reform-in-a-divided-jordan.pdf.

Atlantic Council Board of Directors

The Atlantic Council is a nonpartisan organization that promotes constructive US leadership and engagement in international affairs based on the central role of the Atlantic community in meeting today's global challenges.

1030 15th Street, NW, 12th Floor, Washington, DC 20005
(202) 778-4952, AtlanticCouncil.org