

GLOBALIZATION AND THE POLITICAL ECONOMY OF REFORM IN
JORDAN
(1989-2002)

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ABSTRACT

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Economic reform packages became important for the Middle East and North Africa (MENA) by the 1980s. Mainly as a result of the growing external debt, together with the regional stagnation that began after the second oil shock in the early 1980s, most of the MENA countries were affected by economic crisis. As a response to the economic crises, which also mostly resulted in regime legitimacy crises, many MENA countries initiated economic liberalization programs in cooperation with the International Monetary Fund (IMF) and World Bank. In some of the Middle Eastern states, these economic liberalization processes were followed or accompanied by political liberalization policies.

This thesis analyzes the political economy of reform in Jordan between 1989-2002 with reference to globalization. This thesis chooses Jordan as a case study since Jordan has been regarded as a successful case in implementing economic reforms envisaged in the Washington Consensus by the IMF and World Bank, and a country holding prospects for democracy. In this respect, this study seeks to find out why and how economic liberalization reforms were implemented in Jordan. In addition to that, this thesis displays how domestic and external factors affected both the rationale behind and the implementation of economic and political reforms in the country. The

basic conclusion of this thesis is that regime survival is the main concern for the economic and political liberalization processes in Jordan.

Key Words: Globalization, Washington Consensus, economic liberalization, political liberalization, Jordan, regime survival.

ÖZ

ÜRDÜN'DE KÜRESELLEŞME VE REFORMUN EKONOMİ POLİTİĞİ (1989-2002)

Sütalan, Zeynep

Yüksek Lisans, Orta Doğu Çalışmaları Bölümü

Tez Yöneticisi : Yrd. Doç. Dr. Özlem Tür

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1980ler'le birlikte ekonomik reform paketleri pek çok Orta Doğu ve Kuzey Afrika ülkesi için önemli bir hale gelmiştir. Esas olarak artan dış borç ve ikinci petrol krizinin sonrasında, 1980ler'in başında, Orta Doğu'da ortaya çıkan bölgesel ekonomik durgunlukla birlikte pek çok Orta Doğu ülkesi ekonomik krizlerden olumsuz etkilenmiştir. Bu gelişme, çoğunlukla rejim meşruiyeti krizini de beraberinde getirmiş, pek çok Orta Doğu ülkesi, Uluslararası Para Fonu (IMF) ve Dünya Bankası'yla işbirliği içinde ekonomik liberalleşme programları uygulamaya başlamışlardır. Bazı Orta Doğu ülkelerinde siyasal liberalleşme süreci, ekonomik liberalleşme süreçlerine eşlik etmiş ya da ekonomik liberalleşme süreçlerinin hemen arkasından başlamıştır.

Bu tez, 1989-2002 yılları arasında Ürdün'de yaşanan reform sürecinin ekonomi politikasını, küreselleşme referansı üzerinden incelemektedir. Bu çalışma için Ürdün'ün örnek olay incelemesi olarak seçilmesinin nedeni IMF ve Dünya Bankası tarafından gerek ekonomik liberalleşme, gerekse demokratikleşme açısından başarılı bir örnek olarak gösterilmiş olmasıdır. Bu bağlamda, bu tez, Ürdün'de hem ekonomik, hem de siyasal liberalleşme süreçlerinin sebeplerini ve uygulamalarını incelemektedir. Bunun yanı sıra, çalışma, iç ve dış faktörlerin ülkedeki ekonomik ve siyasal reformların arkasındaki mantığı ya da bu reformların uygulanmasını ne

şekilde etkilediğini ortaya koymaktadır. Bu tezde ulaşılan en temel sonuç ise rejimin sürekliliğinin sağlanmasının, Ürdün'deki ekonomik ya da siyasal liberalleşme süreçlerinin arkasındaki en önemli endişe olduğudur.

Anahtar Kelimeler: Küreselleşme, Washington Konsensusu, ekonomik liberalleşme, siyasal liberalleşme, Ürdün, rejim sürekliliği.

To My Parents

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LIST OF ABBREVIATIONS

FDI: Foreign Direct Investment

FED: Federal Reserve Bank of New York

GATT: General Agreement on Tariffs and Trade

G-7: Group Seven

IMF: International Monetary Fund

ISI: Import Substitution Industrialization

JASBP: The Jordanian Arab Socialist Ba'ath Party

LDC: Less-Developed Countries

MENA: Middle East and North Africa

NGO: Non-governmental Organization

OPEC: Organization of Petroleum Exporting Countries

SAP: Structural Adjustment Program

WTO: World Trade Organization

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CHAPTER 1

INTRODUCTION

This thesis analyses the political economy of reform in Jordan between 1989-2002 with reference to globalization. The aim of this thesis is to draw conclusions about the liberalization processes in the Middle East at large. The reason why this thesis chooses Jordan as a case study is twofold. On the one hand, Jordan has been regarded as one of the few successful examples in implementing economic reforms envisaged in the Washington Consensus by the International Monetary Fund (IMF) and World Bank. On the other hand, it is also regarded as a country holding prospects for democracy, which is rather contradictory considering its traditional monarchy and a semi-rentierism by coalitions. In this respect, this study seeks to find out why and how these reforms were implemented in Jordan. What was the rationale behind initiating economic liberalization? Was it just a response to the economic crisis that shattered Jordanian economy and a way to survive the regime whose legitimacy was in crisis? Or, were these reforms outcome of a vision that Jordan could not stand still in an increasingly globalizing world and should achieve the integration to world economy? Moreover, to what extent did these reforms change the existing economic and political structures in the country?

Before the analysis on economic and political liberalization in Jordan, it is important to set out the relationship between these two processes. There is a vast literature that sees the transition to a market economy and political opening as interlinked processes and focuses on the idea that economic liberalization leads to political liberalization. This is a perspective based on long-term assumptions underlining that reforms such as privatization and the retreat of state from economic sphere together with the growth in the middle class and new bourgeoisie will weaken the autonomy of state elites and bring about the organization of groups and associations as well as the formation of a civil society, which will lead to democratization.¹ Besides this,

¹ Rex Brynen, Bahgat Korany and Paul Noble, "Introduction: Theoretical Perspectives on Arab Liberalization and Democratization" in *Political Liberalization and Democratization in the Arab World, Volume 1: Theoretical Perspectives*, ed. by Rex Brynen, Bahgat Korany and Paul Noble, (Boulder, London: Lynne Rienner Publishers, 1995), pp.16-17.

there are also scholars that consider economic liberalization and political liberalization as two processes that reinforce each other despite denying a direct causal relationship between them. Harik, for example, asserts that although some Middle Eastern states like Egypt and Jordan initiated both economic and political liberalization, some other states like Syria, Iraq and Saudi Arabia just made economic reforms without political ones. He explained this differentiation with the ability of a state to manage economic reforms. If the economic crisis is severe in a country and the resources to maintain these reforms are scarce, these states adopt liberalization both at the economic and political realm. On the other hand, when states have enough sources to sustain economic reforms and able to manage the political bad effects of them, states might choose to avoid political liberalization.²

On the other hand, there is also another perspective relying on a shorter-term point of view. This perspective indicates that the ruling bargains in the Middle Eastern states, where the state allocates resources to certain groups in return for their support, are compelled to offer a new democratic bargain. States proceeded with new democratic bargains in order to cope with the political damage resulting from economic reforms and gain support for them as well. Thus, it appears that political liberalization processes in regions like Middle East turn out to be regime survival strategies rather than genuine democratization.

Under the light of these arguments, it is important to underline that there is not a direct correlation between economic and political liberalization. Neither political reform is a prerequisite for economic liberalization, nor economic liberalization is necessarily be followed by political liberalization. However, political liberalization might enhance the credibility of economic reform introduced within economic liberalization.³

² Iliya Harik, "Privatization: The Issue, the Prospects and the Fears" in *Privatization and Liberalization in the Middle East* ed. by Harik, Iliya and Denis J. Sullivan, (Bloomington and Indianapolis: Indiana University Press, 1992), pp. 21-23.

³ Brynen, Korany and Noble, "Introduction", p.17.

By analyzing the case of Jordan, this thesis argues that the economic and political liberalization processes in this country have been done for regime survival. Regime survival strategies have both political and economic dimensions. Economic survival strategies are initiated in order to promote economic changes by which it is possible to attract foreign investment, reduce debt payment and raise foreign exchange. During these economic changes, the main concern of the regime is to ensure that fundamental social and economic interests of the domestic groups and elites are not undermined. However, when regimes are no more able to dedicate resources to overcome domestic economic stagnation, they are compelled to address root causes of the crisis by adopting structural changes which are generally imposed by the international financial institutions in return for the credit they provided. These bring about social and economic costs on the public and shifts in alliances that provide support to the regime. In order to cope with the adverse effects of the economic survival strategies, regimes follow political adjustments in the form of political liberalization in order “to mobilize supporters of economic reform and isolate opponents”.⁴

In the Middle East and North Africa (MENA) region, there has been ruling bargains where the rulers used state resources in order to secure the loyalty of certain groups to the regime. In some Middle Eastern states, namely authoritarian populist states, these ruling bargains were generally financed through import substitution industrialization (ISI) strategies, public sector employment and extended bureaucracies whereas in oil-rich states and semi-rentier states they took the form of oil revenues and foreign aid and workers’ remittances. However, with the decline in oil revenues in the mid-eighties, the collapse of state-led development policies and pressures of Western creditors, most of the Middle Eastern regimes were compelled to introduce economic reforms through economic liberalization policies. These economic reforms not only resulted in burdens for the masses, but also shifts in coalitions that support the regime. As the public discontent grew, regimes had two choices to respond: Repression or political liberalization. States that preferred

⁴ Daniel Brumberg, “Authoritarian Legacies and Reform Strategies in the Arab World” in *Political Liberalization and Democratization in the Arab World, Volume 1: Theoretical Perspectives*, ed. by Rex Brynen, Bahgat Korany and Paul Noble, (Boulder, London: Lynne Rienner Publishers, 1995), p. 237.

political liberalization like Jordan introduced a ‘new social contract’ among the regime, coalitions and the public.⁵

Some scholars evaluated these political liberalizations as prospects for democracy. However, in general these ‘political liberalization’ processes should not be equated with political democratization. ‘In this respect, the difference between ‘political liberalization’ and ‘political democratization’ should be underlined as follows:

‘Political liberalization’ involves the expansion of public space through the recognition and protection of civil and political liberties, particularly those bearing upon the ability of citizens to engage in free political discourse and freely organize in pursuit of common interests. ‘Political democratization’ entails a political participation in such a way as to provide citizens with a degree of real and meaningful collective control over public policy.⁶

As a consequence, it is more appropriate to assess the political liberalization processes in the Middle East as political openings. The political liberalization in Jordan like in many other countries was a ‘liberalization from above’ and a political strategy appeasing or satisfying the masses and the losers of the economic reform process due to the shifts in alliances through their integration to the political life.

This thesis contains three chapters and a conclusion. The first chapter, first of all, addresses the notion of globalization. What should be underlined is that globalization due to the intent of this study is limited mainly to economic and then the political context. In broadest terms, this thesis defines globalization as the ‘increasing interconnectedness stemming from shrinkage of distances’.⁷ Here, globalization is characterized as a multidimensional and historical process. This study refers to the contemporary globalization, namely the period starting with the 1970s. In addition to the concept of globalization the first chapter addresses the milestones in the world

⁵ See in Daniel Brumberg, “Survival Strategies vs. Democratic Bargains: the Politics of Economic Reform in Contemporary Egypt” in *The Politics of Economic Reform in the Middle East* ed. by Henri J. Barkey (New York: St. Martin’s Press, 1992), pp.74-78.

⁶ Brynen, Korany and Noble, “Introduction”, p.3

⁷ See in Robert O. Keohane & Joseph S. Nye Jr., “Globalization: What’s New? What’s Not? (and So What?)”, *Foreign Policy*, Spring 2000, pp. 104-119.

economy such as integration of financial markets and the collapse of ISI strategies and the debt crisis in the developing world. Following these, the neo-liberal development strategies designed under the Washington Consensus and their implementations in the developing world are laid out. Then where the Middle East stands in this globalization process and to what extent it is integrated to the world economy is discussed. Before the analysis of the economic and political liberalization starting in the 1980s, the state-led development strategies and the corporatist state model are examined within the context of the regional economy. Then the structural impediments such as state centrality and patronage networks that prevent the region from integration to the world economy and threaten the sustainability of reforms are explained.

The second chapter examines the emergence of Jordan as a modern state, its economic and political structure, which is important to set out for an analysis of reform. By looking at its political and economic structure, it is sought if there are any structural characteristics that enabled the country to liberalize such as the constitutional structure of the monarchy and the notions of political pluralism and tolerance. In addition to that, semi-rentierism is also discussed throughout the second chapter since it is a key concept in understanding both the economic structure of Jordan and the patrimonial networks which are of vital importance for the regime and its supporters. The leading social actors, the relations between these actors and the regime are also explained throughout his chapter. In compliance with this, the neo-patrimonial system that the Hashemite regime in Jordan rested upon and within which divergent interests and groups are co-opted in order to sustain the legitimacy of and the support for the regime is set out. Eventually, the economic success story of Jordan in 1970s, which inherently contained the developments leading to the upcoming economic recession in the mid-1980s are also dealt with. How did the oil boom years in the Middle East after 1973-74 oil crisis provide ground for the economic success of Jordan during 1970s? What were the outcomes of the planned economy years in the country? What were the reflections of the economic development policies of the state at the social realm? How did the notions of ‘continuity and change’ apply to the country during these economic success years?

The third chapter is designated to analyze the reform process in Jordan, which started after the 1989 economic crisis. The reform process examined in this chapter is dedicated to the period from 1989 to 2002, which covers the death of King Hussein and the early years of reign of King Abdullah II. First of all, in this chapter, the reasons for the economic crisis; international, regional and domestic factors are addressed. Then the response of the Hashemite regime to economic crisis by introducing economic liberalization in cooperation with international financial institutions is analyzed together with the interaction between these financial institutions and the Hashemite regime. It is also set out how semi-rentierism affected the decision of initiating reforms and also implementing them. The economic reform process and the reflections of the measures taken to overcome the constraints of the economic recession at the social realm are also explored. In that context, the outbreak of mass riots as a reaction to the austerity measures introduced within the economic reform process and how these riots compelled the Hashemite regime to political liberalization are described. Then the reason why the Hashemite regime chose political liberalization, instead of repression is discussed. The political liberalization process with its 'up's and 'down's is also analyzed with reference to the implementation of the structural adjustment programs. Besides, the political and legal reforms introduced within the political liberalization of the Kingdom are addressed in order to see how far the reforms reached at the political and social level and also utilized by the regime.

CHAPTER 2

GLOBALIZATION AND THE MIDDLE EAST

By the 1990s, with the dissolution of the Soviet Union and the demise of communism, the discourse on globalization, which carries the banner of democracy and free-market economy, stood as the most popular discussion on the top of the world agenda. This coincided with the assertion of Francis Fukuyama that the collapse of Soviet system meant the end of history and western liberalism has won a definite victory which will extend over the entire planet. This brought in the discussion that the main source of financial capital, technology and culture was USA and the US model became the reference point for rest of the world. In fact, within this context, most of the globalization debates revolved around Westernization, more specifically Americanization. Some viewed it as a recipe to restore the declining hegemony of the US in 1970s, or as an American foreign policy principle in the early 1990s. However, globalization was not something new and was more than that.

The ‘unavoidable’ process of globalization is believed to be the ‘panacea’ for all the political and economic problems all over the world. This was, in fact, reflected in the Washington Consensus in the late 1980s and later on Post Washington Consensus in the late 1990s. Neo-liberal development policies have been set for the less developed countries (LDCs) that are overwhelmed by economic problems. These economic problems were stemming from the national developmentalism which is implemented through ISI. Thus neo-liberal policies for LDCs envisioned development by market forces instead of state-led ones. In addition to the path of development drawn for these countries, there has also been a foresight that the integration of these states to the world economy and the spread of market economies in the end will result with democracy in those states.

On the other hand, the already made calculations have not corresponded the experiences in the developing world. The equations envisaged by the neo-liberal development policies have not given the expected outcomes in every case with the

same variables. The reality is that globalization is, more or the less everywhere, but it has been perceived, lived and experienced completely different around the globe.

In order to understand the impact of globalization in the Middle East, it is important to highlight how globalization is perceived and debated first at the international, then at the regional level. Within the scope of this chapter, the concept of globalization, its definition and the characteristics of the contemporary globalization will be set out. Then globalization in the developing world and the Washington Consensus will be examined. Following the challenges to globalization, how globalization and its institutions were shattered by the economic and financial crisis in the Third World, how Washington Consensus policies appeared insufficient and then a need for Post-Washington Consensus arose will also be investigated. In addition to that, globalization in the Middle East, where the Middle East stands in this process, the structural impediments that hinder the progress of globalization in the Middle East will be discussed. Following this, the rationale behind the economic and political liberalization processes that some Middle Eastern countries initiated by the 1980s will be discussed with particular reference to the case of Jordan.

2.1 What is Globalization?

Globalization has become a buzzword since 1990s and a label for the new international order following the dissolution of the Soviet Union and the demise of the bi-polar world. Having occupied a considerable place in discussions about the contemporary world affairs, globalization is a complex, multi-dimensional and historical process. Although there is not a single, universally agreed definition of globalization, in its broadest terms globalization is the increasing interconnectedness stemming from shrinkage of distances.

Globalization has a lot of dimensions; from economic to political, from social to cultural and from technological to ecological. In economic terms, globalization mainly refers to the growing interdependence of countries in an increasingly integrated world economy, growth of trade, increasing foreign direct investment (FDI), increasing importance of private actors in the contemporary global economy,

especially in the financial sector. In political terms, it is perceived as the diminishing importance of political borders, the expansion of democracy, freedom of speech and the rule of law. In societal and cultural terms, globalization brought to the fore the increasing awareness of human rights, gender sensitivities and women empowerment. In technological terms, globalization includes the decreasing costs in communication and transportation, mainly the widespread use of internet. However, despite all these dimensions, this thesis will concentrate on economic and the political aspects of globalization. Hence from this point onwards, globalization will be used to mean economic globalization.

Globalization is not a new concept. Although there is not much consensus on when it started, it is widely accepted that it is a historical process. World System theorists like Immanuel Wallerstein claim that globalization is the expansion of capitalism around the globe and the capitalist world system with a single economy (a market and a regional division of labor) exists since sixteenth century.⁸ On the other hand, neo-liberal institutionalists like Keohane and Nye, taking rapid growth in international trade and investment as the most important variable, asserts that world has witnessed 3 major phases of globalization⁹. The first phase, called Belle Epoque, was between 1870-1914. There was an increased trade and capital flows between politically independent countries. During this era, due to the growth in the world trade and output, “the whole world became a part of a developed and interconnected commercial civilization”¹⁰. The second phase was the era of Great Boom, which began after the Second World War and ended with the oil crisis of 1973¹¹. Within this era, the world output grew very fast, superseding the earlier periods. However, world trade grew faster than the output. When we compare the trade rates with those of the era of Belle Epoque or 1990s, it is more than the both. The third phase began

⁸ Introduction, Explaining Globalization II, *The Globalization Reader* ed. by Frank J. Lechner and John Boli, (Madlen, Oxford, Victoria: Blackwell Publishing, 2004), pp.55-56.

⁹ Keohane and Nye, “Globalization”, p.107.

¹⁰ Paul Hirst, “The Global Economy: Myths or Reality?” in *The Ends of Globalization* (Bringing Society Back In), ed. by Don Kalb, Marco van der Land, Richard Staring, Bart van Steenbergen, and Nico Wilterdink, Labnham, (Boulder, New York, Oxford: Rowman & Littlefield Publishers, inc., 2000), p.109.

¹¹ Ibid.

just after the oil crisis of 1973 and 1979 and is still continuing. The world trade growth was immense during this period with the rate of 9 % (1983-90), but not more than the one in the Great Boom era where the annual trade growth was at the average of 9.4 %¹². In this context, contemporary globalization is not unprecedented. According to Hirst, in some respects, it is even “less open and integrated than the regime that prevailed from 1870 to 1914”¹³. When the free flow of capital and goods and free trade are born in mind, it is obvious that the world was much freer decades ago (maybe centuries ago) than it is today.¹⁴

In this context, the reference point for this thesis will be the contemporary globalization, namely the period starting with the early 1970s. First, it is important to lay out what distinguishes contemporary globalization. It is the sheer magnitude, complexity and speed of the contemporary globalization that differentiates it from the previous ones.¹⁵ This sheer magnitude, complexity and speed of globalization were mainly due to the technological changes which have an important impact on the world economy. There is an increased rate of technological innovations and the broad applicability of the new technologies with a quite low cost both in terms of finance and time compared with its applicability and its effects.¹⁶

There has been immense development in science and technology in a wide range of areas such as biotechnology, microelectronics and telecommunication. More knowledge has been produced since 1970s than the past five thousand years. These new technologies and their considerably low costs for storing and transmitting had

¹² Hirst, “The Global Economy”, pp.109 -110.

¹³ Paul Hirst and Grahame Thompson, *Globalization in Question*, (Great Britain: Polity Press, 1996), p.2

¹⁴ John Mickelthwaith and Adrian Wooldridge, “The Hidden Promise: Liberty Renewed” in *The Globalization Reader*, Second Edition, ed. by Frank J. Lechner and John Boli, (Blackwell Publishing, 2004), p.12.

¹⁵ Keohane, and Nye, “Globalization”, pp.111-112.

¹⁶ Robert Gilpin, *The Challenge of Global Capitalism: The World Economy in The 21st Century*, (Princeton, New Jersey: Princeton University Press, 2000), pp. 31-34.

significant effects on economic processes. In terms of manufacturing and services sectors, these new technologies were being used for process control, automation and automatic data processing. Hence the demand for low skilled and unskilled labor declined to such an extent that it created new problems of unemployment in these areas. Moreover, the time needed for production processes and a commercialization of a product is compressed with the implementation of new technologies.

In this respect, it is argued that with the end of the Cold War, the process of globalization has met with a new industrial revolution. The widespread use of computers and the rise of internet and the access to information through internet began to transform every realm from economic, political to social spheres. Although it is open to dispute if the advances in technology or specifically computer technology could be regarded as a revolution, there has been a certain shift to an information age.

Besides the technological developments accelerating the speed of interaction throughout the globe, there were substantial economic transformations experienced all around the world. The emergence of the international financial market and the growing international dependence, the need for reform in Bretton Woods institutions and the debt crisis in the developing world were the most significant developments shaping the contemporary globalization.

2.1.1 Financial Integration and the Transformation of the International Markets

Throughout the postwar years (1950s and 1960s), there had been strict controls over capital flows. Bretton Woods institutions were designed to prevent any return to the financial anarchy of the Great Depression, so there was a smoothly functioning international financial system with capital controls and fixed exchange rates. However, with the beginning of the 1970s, world financial markets witnessed a significant shift from a fixed exchange rate to a flexible exchange rate. By the year 1971, gold or any other commodity abolished as a standard for the international

monetary system. Besides, the growth of the Eurodollar market¹⁷ and the expansion of the American banks overseas led to the emergence of an international financial market by the mid-1970s. The international financial market became more integrated with the deregulation of domestic financial systems, removal of capital controls in several countries and the increasing size and speed of the global financial flows together with the advances in communications.¹⁸

The recycling of the huge amount of Organization of Petroleum Exporting Countries' (OPEC) monetary surplus after the 1973 oil crisis accelerated the development of the international financial market. In 1973-1974, price of a barrel of crude oil was quadrupled by OPEC. Oil-exporting countries invested their surplus funds in the Eurodollar market. During the stagflation years throughout the 1970s, international banks recycled a substantial amount of capital to developing economies, especially in Latin America and the communist states in the Eastern Europe.¹⁹

The 1973-1974 oil price shock also caused an over-standing inflation problem at the international level, which was totally magnified and globalized very quickly. As a result of the oil price shock, huge amounts of 'petrodollars' had to be circulated in worldwide markets to avoid international economic system to be crippled. International cooperation and the need for developing international policies were raised as the deficiencies of the interdependent international order. Eventually major economic powers or the Group of Seven (G-7), started formal coordination efforts through making summits such as Rambouillet Summit (1975), London Summit (1977) and the Bonn Summit (1978). However, these efforts were hit with only the second oil crisis in 1978-1979, but also the expansionist economic policies of Germany and Japan.

¹⁷ Dollar accounts in European Banks, which are not under the jurisdiction of Federal Reserve and subject to much less regulation than similar deposits within the United States, allowing for higher margins.

¹⁸ Gilpin, *The Challenge*, pp.73-75.

¹⁹ Ibid, p. 140.

The velocity of the international financial flows led to the transformation of the international economic system, which resulted in a significant increase in international dependence. In addition to that, the development in the financial markets also resulted in a transformation in the international business, namely globally integrated market for corporate ownership and cooperate takeover activities. There occurred substantial increases in alliances in multinational corporations.²⁰

The changes in finance, business and trade brought in the questioning of the adequacy of the rules for governing international economic affairs. The Bretton Woods institutions used to deal with different areas of economics among which there used to be certain dividing lines. However, as these dividing lines became more blurred owing to the growing integration and interdependency, the areas of responsibility of these institutions became unclear. There appeared the need for reform for these institutions, continuing until the mid-1990s, one of the outcomes of which was the creation of World Trade Organization (WTO).²¹ More than that “Bretton Woods institutions were the international expression of Fordism-Keynesianism: a regime of mass production, mass consumption and parliamentary democracy in the metropolitan capitalist countries”²². By the early 1970s, Bretton Woods system was already under question due to the decline of US hegemony throughout the 1970s, the re- emergence of Japan and Europe as economic powers together with the transformations in the international economic markets.

2.1.2 Debt Crisis of the Less-Developed Countries

By the mid-1970s industrial economies were stuck in stagflation. The real interest rates were very low and even negative and the banks were willing to give loans. Together with these, the emergence of capital market created a quite convenient

²⁰ Gilpin, *The Challenge*, pp.73-75.

²¹ Ibid, p.75.

²² Joel Beinin, “The Working Class and Peasantry in the Middle East: from Economic Nationalism to Neoliberalism”, *Middle East Report*, No.210, Reform or Reaction?, Dilemmas of Economic Development in the Middle East, (Spring 1999), p.20.

atmosphere for the developing countries for borrowing from international banks to finance their state-led projects and import substitution strategies. At a time when borrowing from IMF and World Bank was tied to certain conditions and dependence on US originated multinational corporations were not desired, being able to borrow directly from US, Europe and Japan appeared as an opportunity for the developing economies that should not be missed.²³

At the end of the 1970s, the situation favorable to developing countries reversed with the decision of Federal Reserve Bank of New York (FED) to increase interest rates in order to get rid of the hyperinflation. Soon developing countries found themselves in huge amounts of debt. With the increasing real interest rates, their foreign earnings began to decrease. In order to default on their debts, they used up their foreign exchange reserves. Eventually many developing countries in Latin America and Africa felt compelled to ask for assistance from IMF and World Bank. In order to get funds from these institutions, they were to implement structural adjustment policies in return. Roughly, it was the end of state interventionism in economy and the end of ISI strategies in these countries. Instead, they had to adopt market-oriented policies. The initial success of these policies was followed by recurrent crisis in the developing world, especially in Latin America throughout 1980s and 1990s.²⁴

2.2 Globalization in the Developing World: Washington Consensus

Achieving independence following the Second World War, developing economies adopted development policies based on ISI strategy. In simplest terms, ISI strategy is the attempt to substitute products imported, mostly finished goods, with locally produced ones. The main purpose of this trade and economic policy is to promote exports and minimize imports in order to increase national wealth. Besides, the policy has other principles like having protective barriers to trade and a monetary policy of keeping domestic currency overvalued. Since ISI strategy supports

²³ Gilpin, *The Challenge*, pp.84-85.

²⁴ Ibid, p. 85.

government interventions by means of trade protection, directed credits and subsidies, it is controversial with the concept of free trade.

Throughout the time, ISI policies not only resulted in inefficient industries, but also rent-seeking behaviors, which increased economic inefficiency. By the early 1980s, the ISI strategy began to fail, mainly due to the increasing government spending. Governments started spending huge amounts of their foreign exchange reserves in order to keep their domestic currency stable. With the ISI strategy failing, governments of the developing economies were no more able to default on their debts. Eventually they were forced to turn to the IMF for help, the result of which was an economic doctrine called Washington Consensus. In this way, the paradigm of international development assistance changed significantly from 1980s to 1990s.²⁵

This new paradigm, called Washington Consensus marked a significant shift in development policy from state led development policy to a market led one.²⁶ It was at the end of 1980s and the beginning of 1990s that a phrase coined by John Williamson appeared encompassing the agenda set for less developed economies by the international financial institutions and governments of most industrialized countries. Washington Consensus was based on a neo-liberal understanding that market is the most efficient mechanism for allocating scarce sources and promoting growth. Governments were encouraged by the international financial institutions, namely IMF and World Bank to give up market controls.²⁷

What is desired is a minimal state whose role is limited to “securing law and order, macroeconomic stability and the provision of physical infrastructure”²⁸. This is in fact the organizing principle of the neo-liberal political economy. Since state is

²⁵ Yujiro Hayami, “From the Washington Consensus to the Post-Washington Consensus: Retrospect and Prospect”, *Asian Development Review*, Vol.20, No.2, 2003, p.40.

²⁶ Caroline Thomas, “Globalization and Development in the South” in *Global Political Economy* ed. by John Ravenhill, (Oxford: Oxford University Press, 2005), p.328.

²⁷ Hayami, “From the Washington”, p.40.

²⁸ Ziya Öniş and Fikret Şenses, “Rethinking The Emerging Post-Washington Consensus: A Critical Appraisal”, *ERC Working Paper in Economic* 03/09, November 2003, pp.1-2.

perceived as the problem, decreasing the involvement of the state in economy through trade liberalization, privatization and the reduced government spending is seen as the panacea for underdevelopment. The understanding is that “imperfect markets are always superior to imperfect states.”²⁹

According to this economic doctrine, the economic growth foreseen for the less developed countries is to take place in three stages: the first stage should be controlling inflation by stabilization through cutting public spending and raising interest rates.³⁰ The second stage is structural adjustment encompassing reducing state intervention and liberalizing trade, investment and finance. Here the emphasis is on promoting exports rather than reducing the impediments on imports.³¹ The last stage is the export-led growth where encouraging the foreign investors to bring in capital and technology is the main purpose.³²

The “ten commandments” of the Washington Consensus are:

1. Fiscal discipline
2. A redirection of public expenditure priorities toward fields offering both high economic returns and the potential to improve income distribution, such as primary health care, primary education, and infrastructure
3. Tax reform (to lower marginal rates and broaden the tax base)
4. Interest rate liberalization
5. A competitive exchange rate
6. Trade liberalization
7. Liberalization of inflows of foreign direct investment
8. Privatization
9. Deregulation (to abolish barriers to entry and exit)
10. Secure property rights

²⁹ Öniş and Şenses, “Rethinking”, p.2.

³⁰ Thomas, “Globalization”, p.328.

³¹ Joseph Stiglitz, *Globalization and its Discontents*, (London: Penguin Books, 2002), p.92.

³² Thomas, “Globalization”, pp.328-329.

These principles of the Washington Consensus are implemented through Structural Adjustment Programs³³ (SAPs) under the guidance of IMF. The deficiencies of the government-led ISI strategy were already evident by the 1970s. However, the urgent drive for abolishing this strategy came to the fore with the economic crisis in the natural-source based economies, following the collapse of the second oil boom in 1981. When the developing economies were overwhelmed by the problems of growing external aid, decreasing world market prices for primary commodities and increasing interest rates, IMF and World Bank adopted an approach stating market-oriented reforms for the developing economies as a condition for granting credit called Structural Adjustment Policy.³⁴

The Structural Adjustment Policy implemented in Latin America after the debt crisis brought success to the Washington Consensus elevating it from an economic doctrine to a paradigm. However, this early success did not last long and soon the recurrent crisis in Chile, Mexico and Argentina and then the financial crisis in the East Asia shattered the credibility of the Washington Consensus. In addition to that, the Structural Adjustment Policy had failed to achieve economic growth and reduce poverty in low-income economies, especially in Africa.³⁵

2.3 Challenges to Globalization

Globalization in the developing world has become a challenge to the process itself throughout the time. This has mainly stemmed from the assumption that economic modernization, on which the global free market rests upon, is the same thing everywhere. It is presumed that globalization is experienced or at least should be experienced in the same way all around the world. Besides, what is drawn out of the globalization of economy is the unstoppable advance of the American free market, which is counted as the single type of western capitalism. However, there are several cases exceptional to this interpretation which declares the principle of exceptions

³³ See “The Two Stages of Economic Liberalization” in Appendix B.

³⁴ Hayami, “From the Washington”, p.41.

³⁵ Ibid, p.42.

prove the rule null and void. When the cases of China, Japan, East Asia or Russia are taken into consideration, the picture seems completely different from what the global free market presupposes. China, Japan, East Asian countries and Russia display totally different experiences and profiles of capitalism. In China they have produced a new variant of capitalism and in Russia after the collapse of the Soviet Union the outcome was not the free market as it is supposed to be, but what is defined as the new variant of ‘post-communist anarcho-capitalism’. Gray evaluates this situation as the ‘end of the epoch of western capitalism’ instead of the extension of western values and institutions.³⁶

Another misinterpretation appears in the notion of ‘laissez-faire economy’, which has been a complete misnomer even in its very heydays according to Gray, because ‘laissez-faire economy’ was created by state coercion and heavily dependent on the power of the government.³⁷ Hence, today economic globalization seems to weaken laissez-faire economy rather than strengthening it. This is because there is nothing that can protect the global market from the social stress and unrest stemming from the uneven economic development between the societies.

2.3.1 Globalization in “Crisis”

After decades of experience with contemporary globalization, what is witnessed all around the world is very different from the early premises and optimism. Time has falsified the optimism of the globalization boosters like Fukuyama and Friedman. Today the world is far away from a perfect integration of markets, services, factors of production as well as cooperation and peace and stability. Since globalization is the ‘shrinkage of distances’ due to the increasing speed of interaction, crises and the events in one part of the world can immediately affect different parts of the world. 1997 East Asian Crisis not only influenced the whole world, but also falsified the

³⁶ John Gray, “From the Great Transformation to the Global Free Market” in *The Globalization Reader*, Second Edition, ed. by Frank J. Lechner and John Boli, (Malden M.A: Blackwell Publishing, 2004), p.24.

³⁷ Ibid, p.25.

policies imposed by the global financial institutions, and their foresights about certain economies in the third world and their economic development processes.

In addition to that, East Asia case is quite interesting and even unique in terms of the economic development stories of the so-called 'Asian Tigers'; South Korea, Hong-Kong, Taiwan and Singapore since they did not follow the path that the neo-liberal paradigm has foreseen for the developing countries. Those countries did not develop growth strategies compatible with the Washington Consensus policies. Washington Consensus policies underlined rapid financial and capital market liberalization whereas the East Asian countries preferred a gradual liberalization. According to the Washington Consensus, state-led industrialization policies were a mistake. However, it is the government that took the responsibility and the initiative for economic development in the case of East Asia. No matter how much Washington Consensus emphasized the necessity of privatization, it was again the government both at national and local level that took the lead to create efficient enterprises. Eventually and ironically, this lead to the success of the Asian giants and what has been regarded as 'miracle'. On the other hand, since Washington Consensus policies paid little attention to inequality, the policy of maintaining social cohesion was taken into consideration to attract and provide a convenient environment for investment and growth.³⁸

However, these miracles were not able prevent the 1997 crisis that hit the entire world besides East Asia. The reasons behind this crisis are in fact out of the scope of this chapter, but this crisis was important to display not only the defects of the Washington Consensus policies, but also the malfunctioning of the international control mechanisms³⁹. Besides, East Asian economic development model was a challenge to globalization in the sense that these countries have created their own model of development, but succeeded in integrating to the world economy. On the contrary, in the Middle East, also in the case of Jordan, most of the liberalization

³⁸ Stiglitz, *Globalization*, p.92.

³⁹ Adam Zwass, *Globalization of Unequal National Economies, Players and Controversies*, (New York: M.E Sharpe, 2002), p.117.

policies initiated especially in the late 1980s and early 1990s were completely neo-liberal policies of IMF or World Bank. In fact, after a decade, the outcome has not been a market economy and does not seem to be likely in the future, either.

2.3.2 Post-Washington Consensus

After a decade, in mid-1990s, Washington Consensus was replaced by another paradigm called Post-Washington Consensus. It was in contrast with Washington Consensus due to its emphasis that government interventions to the market could have a positive role in economic growth. The focus of Post-Washington Consensus is on poverty reduction and the allocation of social services to the poor by the government. Since neo-liberal Washington Consensus policies could not prevent the recurrent crises in several countries, it fuelled opposition to IMF and World Bank policies in the Third World because of the increasing poverty and inequality.

It is argued that SAPs may be effective in middle-income economies with, more or the less, well-developed market institutions, but they are ineffective in economies with underdeveloped markets. SAP reforms of liberalization, privatization and deregulation are not able to improve these kinds of economies, but even worsen their economic conditions. That is the reason why it is considered that in that kind of economies government intervention in resource allocation and promotion of infant industry may be healthier in promoting economic growth.⁴⁰

With the beginning of this millennium, Post-Washington Consensus has become the new signpost for the developing economies, but the question if Post-Washington Consensus will be a better recipe for the developing economies is another matter for discussion, which is out of the scope of this thesis. However, Post-Washington Consensus is critical for displaying that even the ‘globalizer’s, realized the fact that Washington Consensus is far from being a full-fledged road map for the developing countries and there is the need to incorporate country-specific institutions into the development policies. Within this context, it deserves further analysis whether the

⁴⁰ Hayami, “From the Washington”, p.56.

policies on the integration of ‘unglobalized’ regions such as Middle East in the globalization process will work. Therefore, the following chapters will examine the globalization process in the Middle East over the case of Jordan under the questions of what was proposed to these states since 1980s until now and to what is achieved in practice.

2.4 Globalization in the Middle East

The Middle East and North Africa is one of the Third World regions that lags considerably behind the process of globalization. In economic realm, there is a considerably weak integration of MENA to the world economy. MENA “receives only one-third of the FDI expected for a developing country of comparable size and most is concentrated in a handful of countries”⁴¹

TABLE 1: Selected Trade and Finance Indicators in the Developing World

	World	East Asia and Pacific	Latin America and Caribbean	MENA	South Asia	Sub-saharan Africa
High Technology Exports (% of manufactured exports)	21.4	31.9	15.5	2.0	4.0	...
Foreign Direct Investment (Billion US \$)	630.8	54.8	44.7	2.7	4.2	7.8

Source: Adopted from the table in Memran Kamrava, “Structural Impediments to Economic Globalization in the Middle East”, Middle East Policy, Vol.XI, No:4, Winter 2004, p.98, which sourced from World Bank, World Development Indicators, 2004 (World Bank, 2004).

⁴¹ George T. Abed and Hamid R. Davoodi, “Challenges of Growth and Globalization in the Middle East and North Africa”, (Washington: International Monetary Fund, 2003).

Besides, portfolio investment is non-existent in the region and its trade performance and global financial integration is also far below even other developing regions.⁴² In political realm, when globalization is equated with democratization, the region again turns out to have no place in this process since there are only authoritarian or semi-authoritarian regimes, which are expected to exist in the near future. About the socio-cultural realm, there is an ongoing authoritarian social control in family, religion and society.

On the other hand, as Halliday puts forward, despite all those ‘exclusions’, one can talk about a ‘differential integration of the Middle East’ which rests on the fact that the region is shaped by not exclusion, but by the inclusion on unequal and conflictual terms.⁴³ According to him, politically Middle East is a product of modern world. It is the international system at modern times that shaped the political character of the region. Economically, the region is integrated to the world economy on a peripheral basis first due to the advent of imperialism and then oil’s becoming a global commodity. Today through the export of the most important global commodity and the large amounts of capital accruing to the region in the form of oil revenues seems to be an indicator for the region to be integrated into the world economy. In addition to that, there are large amounts of money flowing between the region and the developed world for investment, but the direction’s being opposite causes the absence of FDI in the Middle East. Thus, it is not possible to claim a full integration of the Middle East to the world economy. Culturally, Middle East is a part of the modern world, but with an opposing response.⁴⁴

Globalization is regarded as the primary external force affecting Middle Eastern and North African economies, political systems and societies in the twenty first century. Scholars like Clement Henry and Robert Springborg claim that since it was imperialism in the nineteenth century that defined the region, it will be globalization

⁴² Abed and Davoodi, “Challenges of Growth”.

⁴³ Fred Halliday, “The Middle East and The Politics of Differential Integration”, in *Globalization and the Middle East – Islam, Economy, Society and Politics*, ed. by Dodge, Toby and Richard Higgot, (London: Royal Institute of International Affairs, 2002), p.36-38.

⁴⁴ Ibid, p.38.

in the twenty first century that influences the region.⁴⁵ What is crucial here is the question of how this will happen. Will globalization lead to an inevitable transformation in the Middle East, beginning with the market and ending with democracy as the neo-liberal model foresees? Or will it promote more resistance to the model globalization provides for development? Or will it cause the building up of different roads for development in the Middle East and North Africa (MENA)?

There has been a tide of economic liberalization, in the Middle East that began in the 1970s. These liberalization efforts intensified and spread to the other countries in the region by the 1980s due to the impact of liberalization. In this context, it is important to find out why states in MENA engaged in economic liberalization policies, what were the pushing factors that forces regimes to adopt such policies. On the other hand, what are the reflections of the liberal economic policies on the political realm? Are those changes made for the sake of 'liberalization' or are they only cosmetic changes in order to overcome the economic crisis confronted with the financial assistance provided by IMF or World Bank? In other words, is the liberalization introduced for the survival of the regimes whose legitimacy and continuity were endangered with severe economic crisis?

2.4.1 Middle Eastern Economies before the Crises of 1980s

Following the global capitalist depression, namely the Great Depression, in the early 1930s, there was a trend of adopting import substitution (ISI) policies throughout the Third World in compliance with the statist and protectionist nature of the Keynesian economic model. Middle East was not an exception to that. Pioneered by Turkey and Egypt, ISI strategies⁴⁶ were started being adopted by the Middle Eastern states. After

⁴⁵ Henry, Clement M. and Robert Springborg, *Globalization and the Politics of Development in the Middle East*, Cambridge: Cambridge University Press, 2001, p.xiii.

⁴⁶ ISI was not the sole path experienced in the MENA region from 1950s to 1970s for economic development. In addition to IS-led growth, there were agro-export-led growth, mineral-export-led growth, manufactured-export-led growth and agricultural-development-led growth. States in MENA will select and combine some or all of the elements of these strategies. See in Alan Richards and John Waterbury, *A Political Economy of the Middle East*, (Boulder Colo.: Westview Press, 1996), pp.21-31. However, ISI pattern represents the logic of development, the economic and political policies implemented throughout the region until 1980s.

the Second World War, state-led development gained momentum in the region by deepening in scope and widening in geography.

Under the populist trends of nationalism and anti-imperialism in the post-Second World War era, Iran, Turkey, Egypt, Syria, Iraq, Tunisia and Algeria were implementing state-led development strategies. Jordan and Morocco were out of this orientation due to their stance in the Cold War. However, they were not able to isolate themselves from the influence of this atmosphere and developed large public sectors.⁴⁷

2.4.1.1 Corporatist State in the Middle East

The implementation of state-led economic development strategies, particularly ISI strategies, went along with corporatism in the Middle East. Corporatism, in broadest terms, is the theory and practice of organizing society into ‘corporations’ subordinate to the state.⁴⁸ It is defined by Richards and Waterbury as:

To oversimplify, corporatist ideologies conceive of societies as organic entities much like the human body. Societies have functioning parts that perform specific kinds of tasks. The brain (the government) and the nervous system (the party) control these parts and make sure they work harmoniously together to achieve a desirable end. [...] They must work harmoniously together just as one’s arms and legs cannot be at odds with one another if one is to walk, so the functioning parts of the society must be coordinated for the body to live healthily.⁴⁹

Within this framework, in the post-independence era, there were versions of corporatist state in the Middle East differing from each other due to their ideological or structural preferences such as pan-Arab nationalism under Gamal Ab’dal Nasser in Egypt and in Ba’athist regimes Syria and Iraq. However, traditional monarchies

⁴⁷ Beinun, “The Working Class”, p.18.

⁴⁸ Encyclopedia Britannica, www.britanica.com

⁴⁹ Richards and Waterbury, *Political Economy*, p.314.

had adopted a more organic, solidaristic and communitarian type of corporatism.⁵⁰ Although every state represents a different case originating from different characteristics and dynamics, more or the less there are common features of corporatist state in MENA.

The nationalist and populist regimes in MENA following the independence based their rhetoric and policies on a classless society where the state was for serving the common good rather than the interests of a single socio-economic group. However, ISI strategies resulted in the growing importance of industrial bourgeoisie. In most of the states in the Middle East, the industrial bourgeoisie was weak or non-existent in most of the countries. Since it was the state that planned development and allocated resources and the producer and the distributor, it led to the (re)emergence of the industrial bourgeoisie or formed it from its clients and employees.⁵¹

In the early phase of ISI, which Guillermo O'Donnell called "easy phase of ISI"⁵², state developed its own class, interests and resources. It mobilized human resources of the country by drawing the weal working classes and urban middle class into its rank as a cadre of bureaucrats.⁵³ In return, for the political support these groups provide for the development strategies of the state, state offered them welfare services, production and supply of new consumer products. By this way, state became an "inflated, self-perpetuating and self-interested bureaucracy"⁵⁴. This resulted in the expansion of civil and public sectors, which was disproportionate compared to the real requirements of them. Throughout this process, the bourgeois

⁵⁰ Emma C. Murphy, *Economic and Political Change in Tunisia: From Bourguiba to Ben Ali*, (London: Machmillan Press and New York: St Martin's Press, 1999), p.16.

⁵¹ Anoushiravan Ehteshami and Emma C. Murphy, "Transformation of the Corporatist State in the Middle East", *Third World Quarterly*, Vol.17, No.4, 1996, pp.753-754.

⁵² Ibid, p.754.

⁵³ The major functional groups in a corporatist state can be counted as agricultural producers, industrial producers, entrepreneurs, white-collar workers, the armed forces. See in Richards and Waterbury, *Political Economy*, p.314. A similar structure was existent in Middle East.

⁵⁴ Ehteshami and Murphy, "Transformation", p. 754.

bureaucratic state apparatus consolidated because it served the interests of the bureaucrats who wanted to increase their privileges.⁵⁵

As the development process deepened, ISI strategies and the political structure it was based on were no longer easy to sustain. The state needed to direct the capital and resources into investment and industrialization. Thus, the state was compelled to withdraw welfare provisions and abandoned its alliances with various classes and interest groups.⁵⁶

2.4.1.2 The Failure of ISI Strategies in the Middle East and the Crisis of Statist Development

Unlike many other regions implementing ISI strategies, MENA implemented state-led growth within the context of a ‘social contract’ between the state and its people. Despite the ultimate goal of industrial development, it was social transformation and economic redistribution that was placed in the front seat. This influenced the types of industrial policies implemented and the balance of power between interest groups. Together with this strong social structure built up for state-led growth, oil and strategic revenues and the non-existent full-fledged economic crisis, MENA region was capable of maintaining ISI strategies longer than other regions.⁵⁷

As the ISI strategies weakened, the growth declined and the world recession in 1970s highlighted the over-dependence of the Arab regimes on unearned oil incomes, Arab regimes turned to the international capital markets and then their own private sectors to introduce foreign capital as a substitute for fading national capacities to invest and produce. This caused the building up of a new coalition between the “core of

⁵⁵ Murphy, *Economic and Political*, p.21.

⁵⁶ Ehteshami and Murphy, “Transformation”, p. 754.

⁵⁷ Mustapha Nabli, Jennifer Keller, Claudia Nassif, Carlos Silva Jauregui, (The World Bank) “The Political Economy of Industrial Policy in the Middle East and North Africa”, paper presented in ECES Conference (Rethinking the Role of State: An Assessment of Industrial Policy in MENA, Cairo, 13 November 2005), p.4.

bureaucracy, the industrial bourgeoisie and a growing commercial bourgeoisie”⁵⁸. Limited economic reforms accompanied the new alliance formation such as removing the restrictions on imports and foreign investment and private sector activity. In fact, private sector had never been totally excluded from the economic sphere, because whilst the bourgeoisie was developing its own interests, they also “sought for investment opportunities and ways to increase their own wealth”⁵⁹. On the one hand, this was rent-seeking, and on the other a kind of survival strategy for sustaining the functioning of the state and their place within the state provided that the funds were cut off.

These incremental steps towards economic opening up can be exemplified as Sadat’s *infitah* policies in 1970s in Egypt, Assad’s liberal reforms in Syria in the late 1970s and Habib Bourguiba’s abandonment of socialism in 1969 in Algeria. However, the corporatist state structure in the MENA was no more able to sustain itself. ISI strategies were no longer able to promote economic growth. The state’s populist rhetoric of representing the common good of its people were no longer viable and legitimate since it was the interests of class created by the state that were represented and pursued. Besides, the populist alliance formed with the working and the lower-income classes began to dissolve, because they were no longer able to implement the institutionalization and articulation of their interests.⁶⁰ Due to the deteriorating economic conditions stemming from the failing ISI strategies, social unrest began to escalate through labor strikes, protests and demonstrations. These were suppressed by the regimes through authoritarian means such as arresting and imprisoning the demonstrators and censorship of media, which indicated a move from corporatism to authoritarianism. However, soon with the problems that the authoritarian-bureaucratic state confronted, political liberalizations were introduced throughout the region at different times.

⁵⁸ Murphy, *Economic and Political*, p.23.

⁵⁹ Ehteshami and Murphy, “Transformation”, p. 759.

⁶⁰ Murphy, *Economic and Political*, p.23.

2.4.2 Economic Reform in the Middle East and North Africa

By the early 1980s, the strategy of state-led development, which manifested itself in the failure of the ISI strategies, was no more viable in the MENA region. The state, as the engine of growth and development, ceased to fulfill its functions. This was accompanied by a regional recession originating from the drastic declines in oil revenues. The regional recession influenced every economy in MENA resulting a 'fiscal crisis of state'. The deterioration in economic conditions, the indicators of which were the declining growth rates, increasing unemployment and worsening living conditions, together with the feeling of regime legitimacy under threat, put pressure on most of the MENA countries to initiate economic reforms in the late 1980s and early 1990s.⁶¹ The economic reforms introduced in MENA included fiscal reforms such as introducing value added taxes, cutting subsidies and management of public expenditure. In addition to the fiscal reforms, trade liberalization and encouraging FDI took place. However, reform process was not a 'one-shot deal', but rather than a 'stage by stage process'.⁶²

The first phase was the stabilization phase, the focus of which was remedying the immediate imbalances like budget deficits and high inflation rates. Budget deficits were generally overcome by reducing government expenditures and cutting subsidies. The second phase was the structural adjustment, which is the most difficult one to endure, because it necessitated structural changes like reducing state intervention in the economy, privatization, liberalizing trade, promoting export-led growth and sustaining them. In addition to sustaining the stabilization measures, structural adjustment necessitated the privatization of the state owned enterprises and phasing out the impediments for international trade.⁶³

⁶¹ Abed and Hamid, "Challenges of Growth".

⁶² Henri, J. Barkey, "Introduction: Economic Reform in the Middle East" in *The Politics of Economic Reform in the Middle East* ed. by Henri J. Barkey (New York: St. Martin's Press, 1992), p.2.

⁶³ Ibid, pp. 2-3.

In MENA somehow it was easy for states to initiate economic reforms compared with sustaining these reforms which was the most problematic point. States in MENA introduced economic reforms in order to cope with the economic crisis, the continuity of which may result in political upheaval. That's why economic liberalization in MENA more or the less viewed as "the state's elites desire to broaden their base of support, especially since the state itself has been unable to resume its traditional role of the engine of growth"⁶⁴. In that respect, economic liberalization processes in some of the MENA countries like Jordan and Tunisia are accompanied by political liberalization.

The ongoing economic liberalization in some of the Middle Eastern states which are thought to be no longer viable in a world of rapid globalization because of their economic structures. Bretton Woods institutions by providing ready-made recipes of the liberal and structural economic adjustment programs were targeting to change the economic systems in the developing world into market economics so that they would be able to live in a world of growing interconnectedness and interdependency. Providing developing countries with economic development policies defined under the Washington Consensus, these institutions targeted integrating these countries to the world economy. This intention mainly derives from the assumption that liberalization is a universal and uniform process that leads to liberal market economies everywhere in the world. However, the structural adjustment processes proposed by the Bretton Woods institutions have come up with different outcomes rather than proper-functioning market economies. Quite new though they may be, these liberalization processes in the Middle East do not promise the emergence of market economies, but rather promise a different kind of integration that Halliday is referring and this may be termed as 'patrimonial capitalism'⁶⁵.

⁶⁴ Barkey, "Introduction", p.6.

⁶⁵ See in Oliver Schlumberger, "Patrimonial Capitalism: Economic Reform and Economic Order in the Arab World", *Unpublished MA Thesis*, (Tübingen: Eberhard Karls Universtaet, Institut für Politikwissenschaft 26.04.2004).

2.4.2.1 The Logic of Economic Reform in MENA

The rationale behind the trend of economic liberalization is somehow ambiguous. In fact, there is not a general tendency that can be recognized as prospects for development. Although the resource-rich, namely oil-rich, rentier states (not all of them) follow the path of economic liberalization, they are not so pressurized to do it quickly or have the luxury to postpone reform since they are able to perpetuate their socio-political systems due to their oil revenues. On the other hand, resource-poor semi-rentier states like Jordan were compelled to initiate economic liberalization followed by a political one in order to sustain the continuity of their regimes. If the so-called ‘unavoidable’ process of globalization is so ‘unavoidable’, then it is impossible to explain this reality in the Middle East.

State in the Middle East is the ‘provider’ both in traditional and populist countries. As the regimes become incapable of sustaining their roles as providers where they are responsible for ensuring economic growth and the distribution of benefits, there appears a crisis of the legitimacy for the regimes. By the 1980s, due to the problematic and unsuccessful ISI policies, excessive borrowing, growing debt, high inflation, high military expenditures, increasing population and decreasing oil revenues, most of the states in the Middle East were hit by economic crisis. States, unable to fulfill their role as providers and the responsibilities undertaken owing to the social contract, had their legitimacy under threat.⁶⁶

2.4.2.2 Political Liberalization

Although the economic liberalization can be regarded as a pushing factor for the process of political liberalization, economic liberalization is not necessarily followed by a political liberalization. On the other hand, contradictory though it may seem, the introduction of political liberalization under conditions of economic

⁶⁶ Emma C. Murphy, “Legitimacy and Economic Reform in the Arab World”, in *Bound to Cooperate-Europe and the Middle East* ed. by Sven Behrendt and Christian-Peter Hanelt, (Gütersloh: Bertelsmann Foundation Publishers, 2000), p.320.

reform can sustain or re-introduce authoritarian forms of rule. In Jordan, the economic process was followed by a political liberalization, but after a while, Hashemite regime adopted more authoritarian political policies due to the re-emergence of political unrest towards the implementation of economic reform programs.⁶⁷

Where there are severe economic crisis, states generally prefer initiating both economic and political liberalization. In this context, political liberalization is introduced to manage the socio-political adverse effects of implementing economic liberalization policies. However, where state has strong resources to cope with economic reform measures, then states manage the political damage caused by the economic failure and avoid political liberalization.⁶⁸

After the collapse of the statist development and the introduction of the limited reforms, the bureaucratic-authoritarian state in MENA confronted a new problem. There was a demand from the commercial bourgeoisie for the representation of their interests in the political-decision making. As the state initiated a limited economic opening, it was obvious that “economic policy-making could no longer be determined solely by bureaucratic or power-holding considerations, but must be determined by the rationale of the market if profits were to be made”⁶⁹. The commercial bourgeoisie was on behalf of political liberalization in order to broaden the support bases of the regime to be included. On the other hand, the bureaucratic bourgeoisie with the fear of a probable loss in their power and privileges were against such an initiative. The single party was also against a political opening which could lead a multiplicity of parties and this would put the monopoly of the single party in jeopardy.⁷⁰ The difficulty and complexity of the process came to the fore in the power struggles within the ruling elites and the regime.⁷¹

⁶⁷ David Pool, “The Links Between Economic and Political Liberalization”, in *Economic and Political Liberalization in the Middle East*, ed. by Tim Niblock and Emma Murphy, (London, New York: British Academic Press, 1993), p.53.

⁶⁸ Harik, “Privatization”, pp.21-22.

⁶⁹ Ehteshami and Murphy, “Transformation”, p. 760.

⁷⁰ Murphy, *Economic and Political*, p.25.

Eventually some of the states in the Middle East moved towards limited political openings after economic ones. In cases of Egypt and Tunisia, gradual liberalizations were witnessed whereas in states like Algeria, political openings sometimes reduced or came to a halt.⁷² In fact, these political openings (like the economic openings) were limited in scope. A tide of political liberalization including Egypt, Algeria, Tunisia, Jordan, Morocco, Kuwait, Lebanon, Syria, Yemen and even Iran would not appear before the late 1980s and the early 1990s. However, one should note that political liberalizations experienced in these countries were a response to the shifting coalitions after the economic reforms with the purpose of broadening the support base of the regime or including the losers of the economic reform process. On the other hand, it may aimed at appeasing the masses who bore the severest burden during economic reforms or pleasing the Western donors or international creditors like IMF and World Bank to which they are heavily dependent on for furthering their economic adjustments. All of these rationales make these changes, in fact, cosmetic.

2.4.2.3 Benefiting from Globalization: Matter of “Capability”

Globalization is influential on states and regions with regard to their locations in their domestic and international political and economic environments. Moreover, the influence of globalization on states varies according to their ability to use globalization process in order to gain advantage for their own politics and to adjust the challenges posed by this with a minimum cost to its autonomy.⁷³

Benefiting from globalization is a matter of ‘capability’ as different levels of capability bring in different levels of benefits. From this point of departure, developed states capitalize on their political and economic structures to take the advantage of globalization whereas developing nations suffer from the challenges

⁷¹ Ehteshami and Murphy, “Transformation”, p. 760.

⁷² For more, see in Murphy, *Economic and Political*, pp. 25-30.

⁷³ Ziba Moshaver, “Global Change, Interdependence and State Autonomy: a View from the MENA Region”, in *Rethinking the State and Global Change: The Political Economy of Transition in the Middle East and North Africa*, ed. by Hassan Hakimian and Ziba Moshaver, Richmond: Curzon Press, 2001, p.253.

posed by the globalization rather than reaping the advantages. Yet, developing nations also benefit from the opportunities proposed by globalization.⁷⁴

At times of economic crisis, developing states particularly benefit from these opportunities by the credits and funds provided by international financial institutions like IMF and World Bank, which ends up with implementing SAPs. This is what we witnessed in Jordan. During the 1989 economic crisis, Jordan made a Standby Agreement implying a SAP. Thereafter, the economic liberalization to cope with economic crisis is accompanied by a political liberalization process. In whatever way, these liberalization processes were initiated for regime survival. This reveals how globalization and the opportunities it provides can be exploited for sustaining socio-economic cohesion which is vital for the legitimacy and continuity of the Hashemite regime.

2.4.2.4 Structural Impediments against Globalization in the Middle East

Interpreting economic liberalization as a mere economic transformation and neglecting its social dimensions is completely misleading and detrimental to the success of the economic reform, too. That was the reason why ‘Washington Consensus’ was so much subject to sharp criticism and questioned by the many especially after the East Asian and Mexican crises. Indigenous dynamics especially for a region like Middle East with authoritarian and semi-authoritarian regimes and rentier economies which are shaped by colonial legacies is of vital importance. Within this framework, especially the notions of ‘state centrality’ and ‘patronage networks’ are key internal barriers to globalization and needs to be explored how Middle East turns out to be a region where everything is ‘political’ before it is ‘economic’.

⁷⁴ Moshaver, “Global Change”, p.253.

2.4.2.4.1 State Centrality

States in the Middle East are far less flexible to ‘change’ that globalization demands. This mainly stems from the centrality of the ‘state’ in society. Harik explains the notion of state and its centrality in the Middle East as ‘patron state’, which is the business entrepreneur and provider at the one and the same time. In a ‘patron state’, there is hegemony of state in the economy due to the nature of state rather than ideology.⁷⁵

Whether resource-rich or resource poor, rentier or semi-rentier all states in the Middle East have the role and the capacity to ‘generate, collect and distribute’ resources. This role as a ‘provider’ is not only appreciated by the society, but also expected to be continued. Indeed, this resulted in hegemonic model of state which dominates political, economic and social realms.⁷⁶ Since neither the state wants to give up its hegemonic role and nor the society wants to live without it, the state in the Middle East initiates political or economic reforms as a survival strategy and “securing financial opportunities for itself and its supporters”.⁷⁷

On the one side of the coin globalization is in need of the political elites to introduce reforms in compliance with its requirements and on the other, these political elites are striving for preserving their own interests and central role. This causes a dilemma which can be seen in the relation between the private sector based on entrepreneurial classes and the political elite since globalization favors the retreat of the state and bureaucracy from economics on the benefit of the private groups whereas political elites are not willing to do so. That is the main reason why states in MENA initiate political liberalization after economic reforms in order to broaden their bases of support by including other actors.⁷⁸

⁷⁵ Harik, “Privatization”, pp.2-3.

⁷⁶ Charles Tripp, “States, Elites and the ‘Management of Change’”, in *Rethinking The State and Global Change: The Political Economy of Transition in the Middle East and North Africa*, ed. by Hassan Hakimian and Ziba Moshaver, Richmond: Curzon Press, 2001, p.221.

⁷⁷ Moshaver, “Global Change”, pp.254-255.

⁷⁸ Ibid, pp.255-256.

It is already underlined that economic liberalization is not have to be followed by political liberalization. In addition to that, what is seen in some of the Middle Eastern countries as political liberalization is not a democratization process, but just an opening-up which still leaves as much power control to the regimes that they had beforehand. Within the liberalization processes in the Middle East, there is not a retreat of state, as required within the notion of liberalization, but rather a reorganization of state due to the re-positioning of the social and economic actors. Indeed, with the introduction of economic liberalization policies, there is supposed to be shift from a ‘developmentalist’ to a ‘managerial’ state, where the state is no more the engine of economic growth, but rather the regulatory agency to continue in the public interest.⁷⁹ Economic liberalization policies implemented in cooperation with IMF and World Bank a retreat of state, but what we see in the Middle East is not a withdrawing state, but a state, redefining its roles.⁸⁰

2.4.2.4.2 Patronage Networks

In MENA, we come across various forms of patrimonialism in which state perpetuates itself as an organization of power by developing strategies for co-opting diverse elites into the reform process. States in the MENA engage in economic liberalization as “part of a continuing, but changing elite strategy of survival and advantage which belies the notion of a crisis of the state”⁸¹. In this respect, liberalization and privatization initiated within the economic reform processes are due to displaying the strength of the state after economic crisis to maintain the hierarchy through the use of patronage. Within this network of patronage, ruling elites view the measures taken as for extending their own power. In addition to that, these are also for maintaining the blurred distinction between the public and private

⁷⁹ Roger Owen, “The Middle Eastern State: Repositioning not Retreat?”, in *Rethinking The State and Global Change: The Political Economy of Transition in the Middle East and North Africa*, ed. by Hassan Hakimian and Ziba Moshaver, Richmond: Curzon Press, 2001, , pp. 233-.237.

⁸⁰ Harik, “Privatization”, p. 21.

⁸¹ Tripp, “States”, p. 222.

sector which appears to be one of the most significant characteristics of especially rentier economies.

As it will be discussed in the following chapters, Jordan is a suitable case that proves that patronage networks constitute a structural impediment against globalization in the Middle East. In Jordan, before the economic crisis, the patronage system was mostly used in economic and political system in order to maintain the hierarchy of the groups, which was vital for the regime. Although the regime tried to keep it during the economic crisis, the stand-by agreement with the IMF distorted this process with policies such as reducing inflation by stabilization through cutting public spending and raising interest rates. This development brought social unrest which resulted in political opening. There were losers and gainers during the process of economic adjustment which led to certain shifts in the coalitions that supported the Hashemite regime. However, although there were changes within the patronage system, what did not change was the system itself that exists for the support of the Hashemite regime.

2.5. Conclusion

Globalization meaning the shrinkage of distances is not experienced in the same way in every part of the world. Middle East and North Africa (MENA) as a developing region in the world is lagging quite behind the globalization process, especially in economic and political terms. There is an ongoing economic liberalization in some of the Middle Eastern states which are thought to be no longer viable in a world of rapid globalization because of their economic structures. However, this liberalization trend in MENA starts with economic liberalization which is a response to severe economic crisis that threatens the regimes in MENA States in order to cope with the economic crisis and sustain the continuity of their regimes, introduced economic liberalization policies in cooperation with IMF and World Bank. Since these economic liberalizations targeting regime survival rather than an intention of full integration with the global world economy turns out to be exploiting the opportunities provided by globalization.

The economic liberalization process, though not always have to be, followed by political liberalization in some countries. However, political liberalization is initiated with the intention of eliminating the adverse effects of implementing economic liberalization policies, mobilizing the supporters of the economic reforms and eliminating the opponents. States that do not have vast resources to wither away these adverse effects, open-up in order to broaden the base of support for the regime and eliminate opposition and potential social unrest by including the losers of the economic reform process.

Within this framework, Jordan will be examined in the preceding chapters in order to prove that economic reform is a matter of regime survival and the opportunities posed by globalization is just capitalized on in compliance with this intention. Besides, particularly the notions of state and the neo-patrimonial social structure in Jordan is not leading a market economy as foreseen by the Washington and Post-Washington Consensuses, but patrimonial capitalism instead. This is to show that the equations envisaged by the neo-liberal development policies and globalization have not given the expected outcomes in every case with the same variables. MENA is a region to falsify the kind of determinism these neo-liberal development policies pose, so is Jordan.

CHAPTER 3

THE HASHEMITE KINGDOM OF JORDAN

In 1989, Jordan went through an economic crisis. In order to cope with this crisis, an economic liberalization process in Jordan started in 1989 in cooperation with financial institutions, namely IMF and World Bank. Concurrently, political liberalization was initiated by the Hashemite regime. Before analyzing this reform process in Jordan, the emergence of Jordanian state, its political and economic structure will be explained in this chapter in order to provide ground for the analysis of political economy of reform in the country. Thus, this chapter will set out the background on Jordanian economy until the 1989 crisis whereas the following chapter will examine the reform process in Jordan after 1989 crisis.

The aim of this chapter is to look at its political, social and economic structure of Jordan in order to find out the implications, if there are any, which enables Jordan to liberalize. In addition to this, the changing relations between the regime and leading social groups -declining role of tribes versus increasing role of Transjordanians, and Palestinians- will be laid out in order to portray the social context that paved the way for both economic and political reforms. This is to show these reforms were not the direct outcome of globalization, but the response of the Hashemite regime not only to the deteriorating economic conditions, but also to the shifting coalitions and building new support base for the regime.

Within the scope of this chapter the emergence of modern Jordanian state, its political and economic structure, the leading social groups and their roles in political and economic life will be described. Furthermore, the economic success story of Jordan in 1970s, which inherently contains the developments that led to the upcoming economic recession resulting in reform and social discontent, will also be explained.

3.1. The Emergence of Modern Jordan



Sharing the same fate with other post-colonial states, the Hashemite Kingdom of Jordan had been founded on artificial boundaries drawn by the European imperial powers. In 1921, the Emirate of Transjordan⁸² under the throne of Amir Abdullah bin al-Hussein (later King Abdullah I, a

member of a 'Hashemite clan'⁸³ and younger brother of Faysal⁸⁴, son of the leader of the Arab revolt, Sherif Hussein ibn Ali) was created by the British government as a British Mandate. Having acquired its independence from the British Mandate in 1946, the Hashemite Kingdom of Jordan acquired its current name in 1949.

Jordan was one of the most artificial states in the Middle East, but eventually a sense of nationhood and national identity had been developed within the Kingdom. Although it was King Abdullah I, who founded Jordan from the British Mandate of Transjordan, it was King Hussein bin Talal who led political development and

⁸² It was geographically equivalent to today's Kingdom of Jordan. "Transjordan" was a word used to refer to the part of Palestine "across the Jordan", precisely the far eastern part of Jordan River. See at <http://en.wikipedia.org/wiki/Transjordan>

⁸³ The Hashemites, or "Bani Hashem," are descendants of the Arab chieftain Quraysh, a descendant of the Prophet Ismail, himself the son of the Prophet Ibrahim (Abraham). The name "**Hashem**" is actually that of Qusayy's grandson, who was the great-grandfather of the Prophet Muhammed. The Hashemites are thus the direct descendants of the Prophet through his daughter Fatima and her husband Ali bin Abi Talib, who was also the Prophet's paternal first cousin and the fourth caliph of Islam. Ali and Fatima had two sons: Al-Hassan and Al-Hussein. The direct descendants of their eldest son, Hassan, are known as "Sharifs" (nobles), while the descendants of Hussein are called "Sayyids" (lords). The royal family of Jordan, the Hashemites, is descended through the Sharifian branch of lineage. (available at http://www.Kinghussein.gov.jo/hash_intro.html)

⁸⁴ King Faysal I was appointed as the King of Iraq.

completed the process of building state institutions of Jordan.⁸⁵ In addition to that, with the 46 years lasting reign of King Hussein, it is easy to talk about continuity and stability, the importance of which reveals itself in the success of the economic and political development of the country.

In the eye of the western powers, Jordan has always had a vital geopolitical and geostrategic importance. Having been neither part of the socialist nor the radical pan-Arabist camps, during the Cold War, Jordan served as a buffer state especially for the socialist states in the Middle East and also as a moderating element in the Middle East Peace Process.⁸⁶ From the outset, Jordan had very close ties with Britain, which lasted until the Second World War during which it was under British Mandate. After Jordan declared its independence in 1946, due to the international conjuncture following the Second World War and the onset of the Cold War, this time Jordan developed closer links with the United States.

Compared to the other states in the Middle East even Iraq, which was the other Hashemite monarchy led by another Hashemite King, Jordan was regarded as a success story throughout the history in the sense of regime continuity since its inception. When stability and continuity is concerned, being a monarchy could be a contributive factor, but not an adequate reason itself. For instance, Iraq was also a monarchy when it was founded. However, Iraqi history was overwhelmed by several coups, counter-coups and political violence, which was not the case for Jordan. Continuity and stability are important notions, precisely vital, for a monarchy where there is a dynasty. It is this continuity and stability throughout the history that strengthened the legitimacy of the regime of Hashemite family and it was this legitimacy of the regime that enabled it to cope with the challenges it faced during hard times.

⁸⁵ Curtis R. Ryan, *Jordan in Transition: From Hussein to Abdullah*, (Boulder, London: Lynne Publishers, 2002), p.5.

⁸⁶ *Ibid*, p.6

Jordan, has a homogenous population composed of 90 percent Sunni Muslims compared to the heterogeneous populations of the many Arab countries in the Middle East. This can be seen as a factor impeding the possibility of disturbance by domestic opposition. However, the Sunni majority does not necessarily mean unity within Jordan. There are Palestinians, Bedouins, East Bankers, each representing divergent interests. In fact, it is these divergent interests that the Hashemite regime succeeded in exploiting for its legitimacy and continuity. Despite its relative homogenous population, these divergent groups enabled the state to found a neo-patrimonial networks to co-opt different interests and different groups.

The efficient building up of the cohesive civilian and military elite, which have vested interests in status quo was an important pillar of the neo-patrimonial system of Jordan. When Abdullah came to Transjordan, what he confronted was a tribal tiny population, without a natural political center and a sophisticated political culture. Eventually he succeeded in transforming the traditionally rebellious Bedouins into the military backbone of the country.⁸⁷ Furthermore, in Jordan the legitimacy of the regime and the power of the King rest upon the cleavages between the highly educated Palestinian population and a largely Bedouin minority that dominates the Jordanian armed forces and key government positions. Within the neo-patrimonial system in Jordan it is the Bedouin minority that seeks for the support of the King for protection to sustain their privileged position. And King provides this protection through the containment of the Palestinian intelligentsia and entrepreneurial bourgeoisie.⁸⁸ In addition to that, sustaining the loyalty of the elites to the regime mainly depends on the distribution of the state benefits. In that respect, tribal leaders often received direct material rewards from the crown or the state. These material rewards included financial support, weapons or infrastructural development such as land, roads, wells, clinics and schools. In return, tribal leaders played a significant role in mediating the allocation and provision of local services in their home areas,

⁸⁷ Asher Susser, "The Jordanian Monarchy: The Hashemite Success Story" in *Middle Eastern Monarchies: The Challenge of Modernity*, ed. by Joseph Kostiner, (Boulder Colo: Middle Eastern Monarchies, 2000), pp.88-89.

⁸⁸ Richards, and Waterbury, *Political Economy*, p.299.

meaning tribal leaders act as intermediaries between the ordinary Jordanians and the state.⁸⁹

Jordan is lying at the heart of the Fertile Crescent between Israel, Iraq, Syria and Saudi Arabia. This strategic location together with its political importance due to the Arab-Israeli conflict has always been a reason for being considered as a buffer state either by the external powers and the Arab States as well⁹⁰, which resulted in acquiring large amounts of foreign aid. During the Cold War being neither in the socialist or the pan-Arabist camps, it was supported by the capitalist Western regimes. Even during the Iran-Iraqi war, despite its refusal of getting involved in the Western alliance, Jordan achieved in exploiting its vitality for Iraq. Iraq was suffering under the blockage of its port in the Gulf and Jordan became the sole transit route for Iraq. As a consequence, a destabilized Jordan would not serve the interest of the external powers because it would badly-affect the regional stability and reversely change the balances in the region. These all prove the importance of Jordan's geographical location as a factor for the continuity of regime in Jordan, especially in economic terms, particularly relieving aid.

3.2 Political System of Jordan

Throughout the history, in contrast to oil monarchies in the Middle East, Jordan, has always been a "constitutional monarchy".⁹¹ Due to its bicameral national assembly, defined under 1952 constitution which is promulgated on 8 January 1952⁹², Jordan has a Senate⁹³ and a Chamber of Deputies⁹⁴. The constitution provides that

⁸⁹ Rex Brynen, "Economic Crisis and Post-Rentier Democratization in the Arab World: The Case of Jordan", *Canadian Journal of Political Science*, Vol.25, No.1 (March 1992), p.79.

⁹⁰ Susser, "The Jordanian Monarchy", p.87.

⁹¹ Brynen, "Economic Crisis", p.76.

⁹² According to the Article 25 of the 1952 Constitution "The Legislative Power shall be vested in the National Assembly and the King. The National Assembly shall consist of a Senate and a Chamber of Deputies."

⁹³ "Senate", in other words, "House of Notables" (regulated under the articles 63-66 in 1952 Constitution) is composed of 55 seats, members of which are appointed by the monarch and serve for four year terms. (For more information see at <https://www.cia.gov/cia/publications/factbook/geos/jo.html>, 09.08.2006).

legislation must be approved by both of the houses, namely, the Senate and the Chamber of Deputies. Provided that the King vetoes any bill, his veto can only be overridden by two-thirds majority of the members of the both houses.⁹⁵ However, it is, for sure, open to debate whether it is enough to find traces or at least prospects for democracy in Jordan deriving from its political system since the power of the monarch is limited just in theory.

In fact, the political system of Jordanian monarchy is institutionalized in its constitution. However, it is this constitution itself that jeopardizes the theoretic appearance of the monarchy as a form of ‘controlled constitutionalism’ or as ‘monarchial absolutism’⁹⁶, because it gives wide range of powers to the King. According to the Jordanian Constitution, the King is the head of the state and immune from any liability and responsibility.⁹⁷ The King is not only the head of the all three branches, legislative, executive and judiciary, but also the supreme commander of land, naval and air forces.⁹⁸ In addition to that, King may dissolve the Chamber of Deputies or the Senate.⁹⁹ At the time of an emergency necessitating the defense of Kingdom when the constitutional order is insufficient to defend the Kingdom, the King by a Royal Decree can declare martial law and ban political freedoms.¹⁰⁰ Throughout the Jordanian history, martial law and banning of political parties was first declared in April 1957 until November 1958, in response to an attempted coup.¹⁰¹ Later on, with the outbreak of 1967 Arab-Israeli war, martial law was re-introduced and remained in force until 1992.¹⁰²

⁹⁴ “Chamber of Deputies” or “House of Representatives” (regulated under the articles 67-75 in 1952 Constitution) is composed of 110 seats, members of which are elected by popular vote on the basis of popular representation by secret ballot and serve for four year terms. (For more information see at <https://www.cia.gov/cia/publications/factbook/geos/jo.html>, 09.08.2006).

⁹⁵ 1952 Constitution, Article 93.

⁹⁶ Fathi, “Jordan”, p.125. quoted by Susser, “The Jordanian Monarchy”, p.96.

⁹⁷ See in 1952 Constitution, Article 30.

⁹⁸ See in 1952 Constitution, Article 32.

⁹⁹ See in 1952 Constitution, Article 34.

¹⁰⁰ See in 1952 Constitution, Article 124-126.

¹⁰¹ Brynen, “Economic Crisis”, p.77.

This picture on political system of Jordan displays the fact that the fate of the continuity of a possible and probable political liberalization is very much in the hands of the monarch. This political liberalization can either be initiated by the King due to his discretion and his men or can just be a respond to a demand from below. The political liberalization of Jordan was indeed an initiative led by the King advised by his men, which meant ‘liberalization from above’, the scope and depth of which is to be defined by the King and implemented by ‘his men’.

Economic readjustment policies launched in 1989, in cooperation with IMF, caused social unrest in the country. This was perceived to pose a threat or a possibility of a threat that can put the Hashemite regime into a legitimacy crisis. Thus the King was enforced to initiate political liberalization. However, this was more an ‘opening’ rather than a ‘full liberalization’ process. On the other hand, when with the adoption of the second IMF adjustment program, masses started rioting again, this time the King responded with limiting the liberalization by dissolving the parliament and imposing restrictions on political rights and press freedoms rather than opening more. This proves that since the King has the all-discretionary power on this process, political liberalization of Jordan was nothing more than a strategy for regime survival.

3.3 Leading Social Groups and Actors in Jordan

Leading social groups, precisely political elites, in Jordan play a very significant role in the continuity of the Hashemite regime. To consolidate his power and sustain the legitimacy and support of the Hashemite regime, King Hussein relied on a patronage system. Since the Jordanian Constitution enables King Hussein to appoint principal government officials, he used this authority as a critical lever. He rewarded those who were loyal to him and the Hashemite regime, neutralized opponents, and removed incompetent elements.¹⁰³ The power structure of the Hashemite regime,

¹⁰² Susser, “The Jordanian Monarchy”, p.96.

¹⁰³ <http://countrystudies.us/jordan/60.htm>

with the King Hussein at the center, was composed of cabinet ministers, members of the royal family, the palace staff, senior army officers, tribal sheikhs, and ranking civil servants. Within this structure, King Hussein assigned many Transjordanians¹⁰⁴ to central posts.

Transjordanians had a significant place in the existing power structure in Jordan. Most of the palace staff and top civil, judicial, and military officials of King Hussein were mostly Transjordanians. Bedouins constituted the most important element of the Jordanian army whereas East Bank Jordanian elite held the key positions in the civilian and military power structure.¹⁰⁵ There was also a Palestinian presence on the periphery of power. However, the Palestinians were excluded to a certain extent from substantive decision-making positions. This caused the alienation of the Palestinian community and served as a potential source of political instability.¹⁰⁶

3.3.1 Shift in Coalitions

Tribal sheiks had a significant role in Jordanian political life, because a great portion of the Jordanian population is composed of tribes. Since the reign of King Abdullah I, tribal sheiks were given economic and political benefits and granted internal autonomy in order to gain loyalty to the regime. During the endeavors for founding a modern nation state, these tribal sheiks played an important role in solving disputes among tribes and settling nomadic people. Naturally, as the tribesmen settled, the importance of these sheikhs began to decrease.

By the late 1970s, regime undertook some measures to diminish the roles of the tribal leaders. First of all, the Council of Tribal Sheiks, created in 1971 in order to serve as

¹⁰⁴ The term “Transjordanians” is used interchangeably with “East Bank Jordanians” meaning “Non-Palestinian Jordanians”. In fact, East Bank Jordanians are not one ethnicity, and comprise a great many groups that came to Jordan in the last 200 years including Bedouins.

¹⁰⁵ Shmel Bar, “The Jordanian Elite-Change and Continuity” in *The Hashemites in The Modern Arab World*, (Frank Cass and Co: London, Oregon, 1995) ed. by Asher Susser and Alyeh Schumuelevitz, p. 221.

¹⁰⁶ See at <http://countrystudies.us/jordan/52.htm>

a channel for dialogue, was removed in 1973. The main functions of this body such as managing the allocation of land and defending tribal elites were overtaken by the Royal Court. Second, the tribal laws granting judicial autonomy to the tribes in 1936 were abolished in 1976. Third, tribes gradually lost the opportunities offered them in government posts. Fourth, tribal influence in the army shrank as the dependence of the Hashemite regime on tribal sheiks declined. Fifth, since Jordanian cabinet became more and more technocratic, the criterion of tribal affiliations faded away.¹⁰⁷

The reason behind this policy of the Hashemite regime lied in the intent to replace the tribes and the army as the military backbone of the regime by a new generation of intellectuals. After the 1970-71 Civil War in Jordan, the fears of the regime brought the need to gain the support of East Bank Jordanians and young Palestinians by widening the base of public support and enfranchising the urban East Bank Jordanians and Palestinians. As a consequence, the traditional role of the tribes as members of a socio-political regime and their status as being the central supporters of the regime declined as they were replaced by urban East Bank Jordanians.¹⁰⁸

On the other hand, since the early 1950s, King Hussein had appointed Palestinians who were supportive of the Hashemite monarchy to certain positions. By the 1970s, he permitted an increasing number of Palestinians from families that are not traditionally aligned with Hashemite family to be co-opted into government service. From 1980s onwards, the distinction between Transjordanians and Palestinians began to be less emphasized, mainly because the Palestinians of the East Bank have been officially accepted as Jordanian citizens. Palestinians continued to hold an important place in society as leading merchants, financiers, professionals, educators, and technocrats.¹⁰⁹

1970s were characterized by economic development plans. In this planned period, it was assumed that the private sector would play an active role in the development effort. Despite its increasing role in economic life, the dependency of private sector

¹⁰⁷ Bar, "The Jordanian Elite", p. 222-223.

¹⁰⁸ Ibid, p. 221.

¹⁰⁹ See at <http://countrystudies.us/jordan/60.htm>

on the state continued. Bearing in mind that the private sector was dominated by Palestinians, this dependency on state created a closer relationship with the regime as well. On the contrary, the declining role of the Bedouins not only caused replacement of their posts and status within the regime by Palestinians, but also caused growing discontent among Bedouins. Moreover, the change that appeared initially in 1970s was solidified in favor of Palestinians with the economic liberalization process that began in 1989. All these changes in the position of the actors in economic and political life brought in disappointment among the ones whose role lost its significance.

3.4 General Characteristics of Jordanian Economy

According to the World Bank ranking economies, the Hashemite Kingdom of Jordan is classified as a medium sized lower-middle income developing country.¹¹⁰ Jordan's economic structure is dominated by trade and service related activities.¹¹¹ As seen in Table 2, trade and services sector constitute more than 60 percent of its GDP and the rest is composed of the real sectors namely, agriculture, industry, mining, electricity and water and construction. The predominance of service sector is an important point distinguishing Jordan from some countries with the similar per capita income. On the one hand, this stemmed from the general lack of raw materials and other sources and the huge share of trade in goods. On the other hand, it is very much due to the central role played by government. Since the state received large amounts of aid, service sector turned out to be one of the most important tools used by the governments to distribute it.¹¹²

¹¹⁰ See in World Bank, World Development Report 1989 (published for the World Bank by Oxford University Press, 1989, 1989) (referenced in Gill Feiler, "Jordan's Economy, 1970-90: The Primacy of Exogenous Factors" in *Jordan in the Middle East 1945-88, Making of a Pivotal State* ed. by Joseph Nevo and Ilan Peppé, (Essex, Oregon: Frank Cass and Co., 1984), p.45.

¹¹¹ Eduard Maciejewski and Ahsan Mansur, "Overview of Macroeconomic Performance and Structural Reforms Since Late 1988" in *Jordan: Strategy of Adjustment and Growth*, ed by Eduard Maciejewski and Ahsan Mansur, Occasional Paper 136, (Washington DC: International Monetary Fund, May 1996), p. 2.

¹¹² Roger Owen and Şevket Pamuk, *A History of Middle East Economies in the Twentieth Century*, (London: I.B. Tauris Publishers, 1998), p. 192.

TABLE 2: The Relative Importance of Economic Sectors (%)

Sector	1980	1985	1990	1995	2000	2002
Real Sectors %	35.9	31.3	36.2	33.6	29.9	31.5
1. Agriculture	7.9	5.5	8.1	4.4	3.4	3.6
2. Industry	12.7	15.2	21.3	19	18.7	19.8
3. Mining	3.8					
4. Electricity and Water	1.6	2.3	2.3	2.5	2.7	2.6
5. Construction	9.9	8.3	4.5	7.7	5.1	5.5
Services Sectors %	64.1	68.7	63.8	66.4	70.1	68.5
1. Trade, Restaurants, and Hotels	14.2 12.1	16.2 14.9	9.3 15.6	10.7 14.8	11.9 17.7	11.5 17.9
2. Transport and Communications	17.7 20	18.4 19.2	19.3 19.6	19.5 21.4	17.3 23.2	16.8 22.3
3. Government Services						
4. Financial, Real Estate, Business and, Other Services						
Gross Domestic Product GDP	100	100	100	100	100	100
GDP at factor cost, Million JDs	1051.4	1782. 5	2321. 5	3879. 7	5158. 7	5720. 2

Source: Adopted from Table 3 in Ibrahim Saif (co-worked with Aymen Khalayleh, Fayez Suyyagh, Mohammed Khasawnah, Radi Atoum), "Understanding the Reform Process: The Case of Jordan", Second Draft, Global Development Network, August 2004, p. 12, which is sourced from Central Bank of Jordan, Monthly Statistical Bulletin, different issues. _____, Annual Statistical Series, (1964-1995), Special Issue, May 1996.

Jordanian state is a ‘big government’ country, meaning the government and public institutions are the largest employer of the workforce.¹¹³ The public sector is primarily engaged in providing basic services like health and education, public utilities like water and electricity and infrastructural support such as transportation, communications and irrigation. The public sector is not engaged in manufacturing. There is a narrow production base in Jordan. Thus, the economy is highly dependent on imports. In addition to that, the foreign exchange earnings are mainly sourced from worker’s remittances and processed mining based exports.¹¹⁴

In Jordan, since the state revenues are dependent on aid, rather than production, the decision-makers are less constrained by the interest of the domestic actors. The extent to which decision-makers are constrained by the domestic actors is the continuity of the regime support and existing network of social coalitions.

In Jordan, the state has a narrow domestic tax base. Domestic tax indeed constituted less than 60 percent of the government revenue (See in Table 2) until the mid eighties.¹¹⁵ The increase in the domestic tax as a government revenue coincides with the implementation of SAP after 1988 economic and financial crisis. The significant increase in domestic taxes intersects with the 1996 adjustment program after the eradication of the detrimental effects of the Gulf War to the Jordanian economy and the relative stability stemming from the authoritarian attitude of the government against the domestic unrest and opposition to its policies in 1996.

The narrow domestic tax base together with the aid’s being the dominant government revenue of the Jordanian state is an important indicator for displaying the state’s discretion on allocating state benefits. Social notables receive direct rewards from the

¹¹³ Ibrahim Saif (co-worked with Aymen Khalayleh, Fayez Suyyagh, Mohammed Khasawnah, Radi Atoum), “Understanding the Reform Process: The Case of Jordan”, Second Draft, Global Development Network, August 2004, p.5.

¹¹⁴ Maciejewski and Mansur , “Overview”, p.2.

¹¹⁵ Saif, “Understanding”, p. 5.

state and in return they mediate the allocation of local services in their areas and constituencies.¹¹⁶

TABLE 3: Sources of Central Government Revenue

Year	Government Expenditures as a percentage of GDP	Government Revenue % of GDP	Domestic Taxes as % of Government Revenue	External Borrowings % of Government revenue *	Grants and Aids % of Government Revenue
1988	47	42.9	57.1	10.2	16.2
1990	42.8	47.7	63.6	16.9	14.0
1993	45.1	45.1	72.4	14.9	8.7
1996	35.9	35.0	85.6	--	14.7
1998	36.4	30.1	88.1	--	11.9
2001	35.3	32.9	88.3	--	11.6

Source: Adopted from Table 1 in Saif (2004), p.6, which is sourced from Government Finance Bulletin, Ministry of Finance (Jordan) 2002.

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

Private sector in Jordan was heavily dependent on state and had a comprador nature. In the pre-reform era, due to the external sources (aid, remittances) available to the state, government did not exert any pressure on the private sector and responded to their demands throughout the time. Until the time of reforms, private sector was not considered as a source of revenue by the government. In fact, the private sector was satisfied with its position, role and endowments. Private sector was able to access funds through personal relationships, which caused an informal relationship between the private and public sectors. This was indeed the blurred relationship between these sectors, which turned out to be one of the most significant characteristics of a rentier

¹¹⁶ Saif, "Understanding", p.6.

economy. The private sector itself was composed of people well connected to the state apparatus.¹¹⁷

It is worth noting that the demographic changes throughout the history in Jordan had considerable impacts on the business community. Jordan absorbed human influxes stemming from regional conflicts, the most important of which is the Palestinians. This not only increased the mobility and the flexibility of the Jordanian business community, but also enriched the potential of the private sector.¹¹⁸

With the development efforts in mid 1970s, government realized the necessity of having a strong private sector. In spite of the endeavors of the government in 1970s through the development plans to have a more stronger private sector with the worker's remittances accruing to the economy, private sector remained dependent on state. State has undertaken initiating basic infrastructure projects and encouraging large-scale productive projects to encourage private sector to engage in. However, these efforts did not result in the expected outcomes since these projects were too big to be supported by the private sector.¹¹⁹

3.5 Jordan as a Rentier Economy

In order to grasp the structure of the Jordanian economy, the notions of rentierism, semi-rentierism, rentier state and rentier economy should be set out. These notions are important in order to comprehend and analyze the political economy of reform in Jordan, because it was mainly this rentier economic structure and the patrimonial relations that have not so far resulted in the expected outcomes of the structural adjustment policies of the international economic institutions no matter how successful the implementations were regarded.

¹¹⁷ Saif, "Understanding", p.6.

¹¹⁸ Zayd J. Sha'sha, "The Role of the Private Sector" in *Politics and The Economy in Jordan* ed by Rodney Wilson (London: Routledge, 1991), p.81.

¹¹⁹ Ibid, p.81.

The rentier state model is generally seen in the oil-exporting economies of the developing world, of which the Middle East is a part. The main characteristic of these oil-exporting countries in the Middle East is their dependence on the export of a single resource, oil. However, it is important to state that rentier economy is not unique to the oil-exporting countries and rent is not only the income accruing from exporting oil. Rent can be in the form of portfolio, external capital, quasi-rents, natural resources and locational rent.

In the case of Jordan, rent is mainly in the form of external capital which accrues to state as aid and quasi-rents which accrues to the private sector in the form of remittances.¹²⁰ In this respect, Jordan has a different economic structure in terms of its heavy reliance on external aid and workers' remittances which caused some allocation mechanisms to occupy a more significant role especially in socio-political realm such as subsidies. By this way, Jordan's economy is generally placed in the rentier economy model.

In a rentier economy, state is heavily dependent on external sources of income where the income has little or no basis in indigenous production and domestic extraction mechanisms like taxation.¹²¹ Within that framework, rent can be broadly defined as "any income not originating from the productive activity of the concerned unit, the flows and dimensions of which are not directly linked to the beneficiary's activity"¹²².

¹²⁰ Warwick Knowles, *Jordan Since 1989: A Study in Political Economy*, (London, New York : I.B. Tauris, 2005), p. 8.

¹²¹ Laurie A. Brand, "Economic and Political Liberalization in a Rentier Economy: The Case of Hashemite Kingdom of Jordan" in *Privatization and Liberalization in the Middle East*, ed. by Iliya Harik and Denis J. Sullivan, (Bloomington and Indianapolis: Indiana University Press, 1992), p.168.

¹²² Michel Chatelus and Y. Schmeil, "Towards a New Political Economy of State Industrialization in the Middle East", *IJMES*, no. 2 ,1984 as cited in *Rentier State* ed. by Beblawi and Luciani, p.53. (quoted by Brand, "Economic and Political Liberalization", p.170.)

It is important to underline the distinction between rentier states and rentier economies. According to Brand,

In rentier states, like Saudi Arabia, Kuwait and Qatar, revenues from oil extraction is quite substantial and directly accrue to the state whereas in rentier economies the rent does not directly accrue to the central government [...] in a rentier economy, the role of the state as recipient and dispenser of rent income is far smaller than in a rentier state¹²³

Brand puts Jordan¹²⁴ in rentier economy due to the five characteristics that can be observed in the Jordanian economy, which are the heavy reliance of Jordanian economy on foreign economic aid and worker remittances, the major disequilibrium in trade balances that reflects itself as a trade deficit in Jordanian economy, the budget deficit, the level of consumption and investment that are well above the countries GDP, and finally the weakness of the indigenous economic productive forces.¹²⁵ These characteristics of a rentier economy are the imbalances that the Jordanian economy suffered from on the eve of the 1989 crisis. However, since these are structural rigidities of Jordanian economy, Jordan still experience these imbalances.

3.5.1. Structural Rigidities of Jordanian Economy

The lack of domestic production together with the dependency on external revenues, either aid or remittances is the fundamental weakness of the Jordanian economy. It is this dependency that makes Jordan vulnerable to the regional and international political conflicts and economic fluctuations. The political developments determine the attitude of its donors towards Jordan. During the Iran-Iraqi war, Jordan reaped the

¹²³ Brand, "Economic and Political Liberalization", p.168.

¹²⁴ Jordan is also defined as a 'semi-rentier state', which is in compliance with the characteristics of the rentier economy. However, describing a state as 'semi-rentier' is generally due to its being a 'non-oil state'. Within this framework, Jordan is also labeled as a "semi-rentier state".

¹²⁵ Brand, "Economic and Political Liberalization, p.169.

benefits of the war both through the aids it received from US and the increasing trade relations with Iraq. However, during the Gulf War, it was terribly affected because of its political stance. Sided with Iraq, Jordan was out of the US coalition and Jordanian economy confronted with devastating developments such as cut in US aid and economic blockages. Besides, in 1980s economic recession in the Middle East not only meant a substantial decrease in the aid, but also in workers' remittances.

As seen in Table 4, there is chronic trade balance in Jordan. Although there is a decrease from 50 percent by 1980 to 30 per cent by 2002, the trade deficit still remains high exerting a significant pressure on the balance of payments.

TABLE 4: Trade Deficit as a Percentage of GDP
JOD(000)

Year	1980	1985	1990	1995	2002
Export	120.1	255.3	612.2	1004.5	1538.1
Import	715.9	1074.4	1725.8	2590.2	3531.4
Trade deficit	-595.8	-819.1	-113.8	-1585.7	-1993.3
Export/Import coverage ratio (%)	16.7	24.3	23	38	43
GDP at current prices	1180.3	2020.2	2668.3	4440.0	6590.8
Trade deficit as (%) of GDP	-50.4	-40.5	-41.7	-35.7	-30.2

Source: adopted from Table 5 in Saif (2004), p. 13, which is sourced from CBJ monthly statistical bulletins, and DOS National Account statistics 1952-1992.

Suffering from a trade deficit, Jordan also suffers from a large budget deficit. There has been a considerable decrease in budget deficit after 1990, following the implementation of adjustment policies, as seen in Table 5. However, after 2000, budget deficit began to rise again.

TABLE 5: Budget Deficit (1980-2000)

Years	1980	1985	1990	1995	2000	2002
Total Domestic Expenditures	563.2	805.7	1120.1	1645.8	2054.1	2289.1
Total Domestic Revenues	226.1	440.8	744	1437.2	1610.1	1752.1
Budget Deficit or Surplus*	(337.1)	(364.9)	(376.1)	(208.6)	(444)	(537)
Budget / GDP	28.6%	18.1%	14.1%	4.4%	7.4%	8.6%
Domestic Revenues/ Expenditures	0.40	0.55	0.66	0.87	0.78	0.77
GDP at Market Prices	1180.3	2020.2	2668.3	4714.8	6002.4	6591
Current Expenditures	336.1	542.5	841.4	1309.5	1718.3	1852.3
Defense and Security	140	235	272.3	385.80	531.2	551.3
Current Exp./Total Exp.	59.7%	67.3%	75.1%	79.6%	83.7%	80.9%
Defense and Security /Total Exp.	24.9%	29.2%	24.3%	23.4%	25.9%	24.1%

* Budget Deficit or Surplus without foreign grants and assistance.

Source: Adopted from Table 7 in Saif (2004), p.14, which is sourced from Ministry of Finance, Monthly Statistical Bulletin, different Issues.(); means deficit.

High level of consumption relative to domestic production is another structural problem of the Jordanian economy. There is an increase in the level of consumption until 1985. However, it began to decline afterwards due to the economic recession in the region and in Jordan. Even during the adjustment period, it continued declining to 88.2 percent in 1995. It is by the year 2000 that it began to increase again. (See at Table 6).

TABLE 6: Total Consumption Relative to GDP

Years	1980	1985	1990	1995	2000	2002
Consumption	1270.5	2326.5	2640.4	4157.2	6277.7	N.A.*
Public	340.2	531.7	663.9	1111.3	1421.6	N.A.
Private	930.3	1794.8	1976.5	3045.9	4856.1	N.A.
GDP at Market Prices (JD Millions)	1180.3	2020.2	2668.3	4714.8	6002.4	6591
Consumption/GDP (Market Prices)/ %	107.6	115.20	99	88.2	104.60	N.A.

Source: Adopted from Table 4 in Saif (2004), p. 13, which is sourced from Central Bank of Jordan, Monthly Statistical Bulletin, different issues.

_____, Annual Statistical Series, (1964-1995), Special Issue, May 1996.

* N.A.: Not Available

TABLE 7: Saving Investment Gap for Selected Years**JOD(000)**

Years	1980	1985	1990	1995	2000	2002
Total Consumption	1270.5	2326.5	2640.4	4157.2	6277.7	N.A
GNP at Market Prices	1213.7	2015.5	2428.8	4503.6	6097.9	6669.1
National Savings						
	-56.8	-311	-211.6	346.4	-179.8	N.A
GFCF*	417.9	384.8	694	1395	1263.2	N.A.
S-I Gap	474.7	695.8	37.3	1048.6	1443	-
S-I Gap / GDP	39.1 %	34.5 %	37.3 %	23.3 %	23.7 %	-
S-I Gap / GFCF	113.6 %	180.8 %	130.5 %	75.2 %	114.2 %	-

Source: Adopted from Table 6 in Saif (2004), p. 14, which is sourced from Central Bank of Jordan, Several Monthly Statistical Bulletins.

* GFCF: Gross Fixed Capital Formation.

High level of consumption together with trade deficit exacerbated Jordanian reliance on external sources to finance its investments. The saving-investment gap was quite high in 1985: 180.8 percent. Afterwards it began to decrease due to the adjustment policies, reaching 75.2 per cent in 1995. Nevertheless, by the 2000, it began to increase, exceeding 100 percent.

3.5.2 Rentier Elites in Jordan

In rentier theory, state can either be used as a single entity or as an area of contestation. When state is a single entity, it is an actor that can destroy or create classes. It can also be an actor that can follow a two-dimensional policy of gaining access to the rent and an expenditure policy to recreate itself. On the other hand, when it is an area of contestation, rentier elite uses state apparatus –political system, bureaucracy or security forces- to maintain its dominance in the society.¹²⁶

Within that framework, rentier elite can be defined as an informal group that occupies the key positions in the organization of political decision-making, which are generally the top positions in bureaucracy and security services. Leading decision-makers and power-brokers in the economic field can also be counted among the rentier elite. As a consequence, in the Middle East rentier elite is a part of the state. In Jordan, membership of rentier elite has been traditionally based around a network of families with close ties to the Hashemite dynasty.¹²⁷

3.6 The Boom Years and the Jordanian Success Story of 1970s

During 1970s until 1980s, Jordan achieved a socio-economic development stemming mainly from the regional economic situation and the domestic political environment. Jordanian economy was in such a good position that the 1973 Arab-Israeli War did little damage to the economy. The increases in the oil prices after the first oil shock of 1973-74 and the second oil shock of 1979-80 had indirect, but strong effects on

¹²⁶ Knowles, *Jordan Since 1989*, p.19.

¹²⁷ Ibid, p.20.

the Jordanian economy. First, due to the increasing oil revenues in the oil-rich Arab states, financial aid coming from these countries reached substantial amounts. Second, the booming Arab economies in the Gulf attracted many millions of foreign workers, including hundreds of thousands of Jordanians.

With the end of the Civil War in 1971, domestic political situation in Jordan entered a phase of relative political stability until 1980s. The main focus of the regime turned from coping with domestic political problems to achieving economic development. Freed from implementing a political survival strategy, the regime was able to implement three economic development plans: one between 1973-75, the other between 1976-80, and the final between 1980-85.¹²⁸ Due to the oil boom, Arab states provided Jordan with substantial aid which enriched the country and enabled the sustenance of these economic plans.

3.6.1 Economic Development Plans¹²⁹

The first plan, the Three Year Development Plan (1973-75) was issued just after the civil war in Jordan in 1971. The rationale behind the plan was to achieve recovery meaning reducing the negative impacts of the economic recession and promoting confidence in Jordanian economy to attract foreign investors.¹³⁰ Revitalizing economic activities by increasing employment, high output growth, reduction of trade deficits and reliance on foreign aid were also targeted. It was also assumed that the private sector would play an active role in the development effort. This assumption was realized through private sector investment acceded the expectations foreseen in the plan. The plan was in general successful since it restored the pre-war growth momentum and the real average growth rate at factor cost reached 5.9 percent.¹³¹

¹²⁸ Knowles, *Jordan Since 1989*, p.55.

¹²⁹ See in Appendix C.

¹³⁰ Knowles, *Jordan Since 1989*, p.57.

¹³¹ Feiler, "Jordan's Economy", p.48.

First, in 1974 Rabat Arab League meeting¹³² and later in 1978 Baghdad Conference¹³³, Arab states agreed on making economic assistance to Jordan. By this way, Jordan was able to overcome its security concerns and invest money¹³⁴ into the productive sector.¹³⁵ State became the engine of growth and economic development by owning all the major projects. In addition to the foreign aid, the remittances sent home to their families by the workers¹³⁶ in neighboring Arab states in Jordan stimulated rising prosperity.¹³⁷

The second plan and the first Five Year Plan (1976-80) rested upon a background of “tight labor markets, rampant land speculation and unprecedented levels of foreign aid caused by the initial effects of the oil boom”.¹³⁸ This background enabled to initiate “long-term goals related to phosphate, fertilizers and potash plant, road networks, sewage, communications and water networks”¹³⁹. In this respect, Jordanian government implemented a large-scale strategy of project investment. Thus successful implementation of this plan was very much dependent on the private sector. During the implementation phase of the plan, it was seen that private sector was successful in investments as targeted in the plan, but on the other hand, their

¹³² Arab oil-producing states promised to provide Jordan with an annual subsidy of \$US 300 million. See at http://philologos.org/bpr/files/Misc_Studies/ms043b.htm

¹³³ At the Baghdad Conference in November 1978, seven countries (Algeria, Iraq, Kuwait, Libya, Qatar, Saudi Arabia and United Arab Emirates) promised to donate US\$1.25 billion annually to Jordan for ten years as a "war chest" to fund its ongoing confrontation with Israel. Some countries failed to fulfill their promises from the beginning or the amount they granted declined due to the total amount of these grants had declined dramatically by 1984 because of the budgetary problems that depressed oil prices caused in petroleum-producing countries. Nonetheless, they remained an important source of total government revenue for Jordan. See at [http://memory.loc.gov/cgi-bin/query/r?frd/cstdy:@field\(DOCID+jo0112\)](http://memory.loc.gov/cgi-bin/query/r?frd/cstdy:@field(DOCID+jo0112)) .

¹³⁴ This Money was mainly the foreign aid, especially originating from Arab aid.

¹³⁵ Knowles, *Jordan Since 1989*, p. 55.

¹³⁶ The large majority of Jordanian workers in the Gulf countries were Palestinians with Jordanian passports. The official Jordanian policy forbids distinguishing between Jordanian citizens of Palestinian origin and other citizens. See *Middle East Economic Digest* (15 March 1996), pp. 7-15.

¹³⁷ See “Jordan: From Prosperity to Crisis” at <http://www.biu.ac.il/SOC/besa/books/kanov/chap4.html>.

¹³⁸ Knowles, *Jordan Since 1989*, p.58.

¹³⁹ Ibid.

investments in productive and infrastructure sectors were not that much satisfactory. However, the level of private sector investment was still significant.

When the civil war broke in Lebanon in 1975, there was an expectation that the center of finance would move from Beirut to Amman. There was an influx of Lebanese business activity to Amman, which could emerge as an alternative financial center.¹⁴⁰ However, soon the businessmen realized that the infrastructure of Amman was insufficient to meet their needs. Seeing this, Jordanian decision makers adopted infrastructure development projects resulting in a blow to the possible development of an independent private sector.¹⁴¹

From 1975 onwards, Jordan achieved a substantial economic stability and growth. Its annual average GDP growth rate at factor cost was 12.1 percent. The regional growing prosperity of Arab oil-producing countries had played an undeniable role in this success. The increase in workers' remittances, official foreign aid and domestic exports provided the ground for enhancing the import capability to meet investment and consumption needs and stimulating domestic investment.¹⁴²

The boom in the neighboring Arab oil states not only meant increased Arab aid and remittances, but also opening of markets for Jordanian products. The boom also caused the emergence of a growing domestic demand for workers in Jordan because of the exodus of hundreds of thousands of Jordanians¹⁴³ to work abroad. That is the reason why Jordan reached full employment in the mid-1970s and became a labor importer.¹⁴⁴ During the second planned period in 1976 Minister of Labor was established in response to the sudden shortfall in supply of labor. During the oil boom era, with the growing demand of the Gulf countries for labor to be employed in

¹⁴⁰ Feiler, "Jordan's Economy", p. 48.

¹⁴¹ Knowles, *Jordan Since 1989*, p.56.

¹⁴² Feiler, "Jordan's Economy, p.48.

¹⁴³ The Jordanians-Palestinians working in the Gulf countries were, on average, more educated and more skilled, and hence better paid, than those coming to the Gulf from other Arab countries. See at <http://www.biu.ac.il/SOC/besa/books/kanov/chap4.html>.

¹⁴⁴ <http://www.biu.ac.il/SOC/besa/books/kanov/chap4.html>.

the infrastructure building projects, Jordanians went abroad for work. This caused a shortage of labor force in Jordan. Then Jordan met its domestic labor need by employing workers, mainly of unskilled manual laborers, from Egypt and from other poorer Arab countries and even from Far East Asia such as Sri Lanka and Philippines.

Since Jordanian economy was a mixed economy, the aim of these economic plans was to maintain this economic structure supported by a strong private sector. State prepared the convenient environment for private sector investment such as initiating basic infrastructure projects and encouraging large-scale productive projects which were too great to be supported by private sector. In order to achieve the aim of promoting a strong private sector, Jordanian government modified the Encouragement of Investment Law and Custom and changed the custom duties to the benefit of local industries. In addition to that, private sector was supported by credits provided by the state, but on the other hand, this increased the dependency of the private sector on state.¹⁴⁵

One of the significant outcomes of this period of plans was the establishment of Free Zones in 1976 and Industrial Estates. This was in compliance with the rationale behind these plans of attracting foreign investment for the development of export industries and, international trade exchanges and transit trade. However, the expectations were not met since the competition in the region restricted the potential benefits and it was not until 1989 that another zone was created after the one in Aqaba in 1973. By the way, the Jordan Industrial Estates Company was established in 1980 to provide an efficient and organized management approach to the growing manufacturing industry. Though, the Free Zone Corporation and Jordan Industrial Estates Company were not successful in expanding the private sector industrial base of economy¹⁴⁶.

¹⁴⁵ Knowles, *Jordan Since 1989*, 60.

¹⁴⁶ *Ibid*, p.61-62.

One of the other significant events for the Jordanian economy was the Iran-Iraq War. During the war, the profits of the private sector in Jordan were increased dramatically since Iraq started importing industrial products from Jordan. Jordan's transit facilities for trade became very important for Iraq because of the closure of Iraq's Gulf ports.¹⁴⁷ The growing economic relations between Iraq and Jordan paved the way for new economic endeavors such as founding of Jordan-Iraq Committee for Economic Coordination. Owing to the intensification of trade between two countries, the exports of Jordan to Iraq increased from JD 28.35 million in 1980 to JD 63.47 million in the following year.¹⁴⁸ The increase in exports to Iraq was a source of benefit for the private sector, but it did not eradicate the dependency of the private sector on the state.

Since the remittances were directly accruing to the private sector, the increase in remittances from JD 15 million in 1973 to JD 381.9 million in 1982,¹⁴⁹ brought the strengthening of private sector. In theory, this would lead to the increase in funds for investment. Yet, this expectation did not come true. Instead, this money was spent on consumption of imported goods and non-productive assets.

Combined with the domestic political stability, increasing economic growth and the further external stimulus of the Iran-Iraq War, Jordan managed to continue its economic success in the first two years of the 1980s. Under such an optimistic atmosphere, a new Five Year Plan (1981-85) was prepared. It was aimed to reduce trade deficit, continue the economic growth, increase reliance on domestic sources and distribute the benefits of economic growth fairly throughout the Kingdom. However, the performance of the plan lagged far behind the expectations mainly because of the negative trends in the economies of the region.¹⁵⁰

Following the failure of the (1981-85) Five Year Plan, a new development plan (1986-1990) was adopted. With this plan, it was aimed to reduce trade deficit,

¹⁴⁷ Feiler, "Jordan's Economy", p.50.

¹⁴⁸ See in Knowles, *Jordan Since 1989*, p.56.

¹⁴⁹ Ibid.

¹⁵⁰ Feiler, "Jordan's Economy", p.51.

rationalize government expenditures, create new employment opportunities, and realize an annual GDP growth rate of around 5 percent. However, especially the unexpected decrease in Arab aid caused an increased budget deficit in Jordan. Eventually the regional economic recession and its impact on Jordanian economy made it difficult for Jordan to implement its development projects and resulted in the postponement of these projects.¹⁵¹

During this planned period, in line with its rentier nature, the Jordanian state, used the expenditures (such as subsidies or employing more people in bureaucracy) for political purposes in which those close to the regime increased their benefits. Besides, the winners of this period turned out to be the employees in bureaucracy as a class dependent on the state. In addition to that, although it was the private sector that was expected to be the engine for industrialization and modern infrastructure, what came to the fore was a weak private sector rather than a strong one. The main reason behind that was the lack investment capital. The investment capital, the capital available from the remittances had been used for consumption or invested in non-productive assets.¹⁵²

All of these developments inside or outside Jordan proved one thing: the dependency of Jordanian economy to its main trade partners, to its Arab donors and the out of region donor community. In fact, it was this dependency that enabled Jordan to become a success story during 1970s by the significant amount of money accruing to the country both in the form of foreign aid and worker's remittances. On the other hand, it was this dependency that resulted in Jordanian economic crisis in mid 1980s.

To sum up, the oil boom era led to policies in Jordan for promoting a strong private sector and attracting foreign investment. However, these policies did not go far beyond creating a private sector heavily dependent on state. The lack of sufficient economic infrastructure particularly for private sector and the dominant ideology of state-led development were the main factors in this dependency. In that respect, the

¹⁵¹ Feiler, "Jordan's Economy", pp. 50-52.

¹⁵² Knowles, *Jordan Since 1989*, p.63.

economic developments during this period completely overlapped with the characteristics of 'induced state rentierism' defined by Knowles and semi-rentier economy model defined by Brand such as dependency on aid, high-level imports creating a chronic balance of trade deficit, high-level of state expenditures causing continual budget deficits, economic sectoral imbalances in favor of services and high-level of consumption in comparison to GDP. In fact, these characteristics of the economy in Jordan at the same time turned out to be the reasons for the economic recession in the mid 1980s.

3.7 Conclusion

The Hashemite regime rests upon a neo-patrimonial system, where divergent interests and groups are co-opted, to sustain its legitimacy and support. Within this system, the King rewards loyalty to him and the Hashemite regime, neutralizes opponents, and removes incompetent elements. Such a system was easy to realize and pursue in a rentier economy which is especially dominated by a large public sector and a private sector dependent on the state.

This patronage networks includes Bedouins as the most important element of the Jordanian army and East Bank Jordanian elites holding key positions in the civilian and military power structure. Within this network, being the intelligentsia and the entrepreneurial bourgeoisie, Palestinians constitute the periphery of the system.

Throughout the time, traditional roles of the tribes as members of socio-political regime and their status as being the central supporters of the regime were replaced by urban East Bank Jordanians. In addition to that, Palestinians role at the periphery of the neo-patrimonial role began to change due to the increasing importance of the private sector for the regime. This was perceived by Transjordanians as a challenge to their positions and status. Finally, all these changes in the position of the actors in economic and political life brought in disappointment among the ones whose role lost its significance, which was exacerbated by the economic crisis in 1989 forcing the Hashemite regime to seek for new methods, particularly re-organizing political and economic elites.

Being a semi-rentier state with heavy reliance on foreign economic aid and worker remittances, chronic trade and budget deficit, and narrow domestic production, Jordanian economy was structurally vulnerable. The susceptibility of the Jordanian economy to exogenous factors, the international and regional economic events, brought economic success and prosperity to Jordan during 1970s. However, this characteristic of Jordanian economy resulted in economic recession in mid 1980s and eventually economic crisis in 1989.

CHAPTER 4

THE SHIFT IN JORDANIAN ECONOMICS AND POLITICS

The aim of this chapter is to deal with economic and political liberalization processes in Jordan. Economic liberalization was initiated in response to the economic crisis of 1989. This crisis was mainly deriving from the regional recession which began in early 1980s due to the decline in oil revenues. Economic liberalization was supported by IMF structural adjustment programs. The implementation of IMF policies resulted in discontent in social realm, so economic liberalization was to be accompanied by political liberalization as well.

The main argument is that both of these processes are aimed at sustaining the continuity of the Hashemite regime rather than an ambition for economic development. In fact, economic development and fully integration to world economy was the ultimate goal of the IMF structural adjustment policies. The adjustment policies were to be achieved in a process which was defined in Washington Consensus as reducing inflation, structural adjustment and export-led growth.

Before going through the shifts and the transformation process experienced both in Jordanian economy and politics and the need of reform in 1989, we need to put forward the economic and the political situation leading to crisis. Within that framework, under the scope of this chapter, first of all, the period of economic recession, its causes and results and the remedies will be put forward. Then what the reflections of the measures taken to overcome the constraints of the economic recession that started in the mid-1980s were in the social realm will be explored. In that context, the outbreak of mass riots and how these riots compelled the Hashemite regime to political liberalization will be described. Following, the reasons for Hashemite regime's choosing political liberalization, which is unaccustomed in the Middle East as a monarchy, instead of repression will be discussed. Then the sustainability of the liberalization process in Jordan will be questioned under the light of the recent economic and political situation in the country.

4.1 Economic Recession

The decline of oil prices in 1982 in international markets terribly hit oil-exporting countries, the repercussions of which can be seen in the decline of oil revenues. According to the statistics, “the combined oil revenues of three principal Gulf oil-exporting countries- Saudi Arabia, Kuwait and United Arab Emirates (UAE)- fell from \$186 billion in 1982 to \$ 57.6 billion in 1985”¹⁵³. In addition to the decreasing oil revenues stemming from the sharp decline in oil prices, Iran- Iraq war caused disruptions in regional trade and finance. Furthermore, the loss of investor confidence in the region because of the Iran-Iraq war resulted in a capital flight especially from the Gulf and closure of the local offices of some international banks.¹⁵⁴ This meant that the developments in early 1980s both hit the oil and non-oil sectors of the countries in the Middle East.

The decline in oil revenues led all the governments in the Arabian Gulf to reduce their spending on infrastructure and other development projects. This resulted in a significant decline in the number of immigrant workers making their living in the Gulf.¹⁵⁵ In return, this hit the economies of states like Jordan, in which one of the main sources of economy is labor remittances of expatriate workers. On the other hand, the richer oil-producing Arab Gulf States cut back their economic assistance to non-oil producing states¹⁵⁶, which put further strains on the economy of the states dependent on foreign aid like Jordan. In the end, the outcome was a persistent recession in the region.

Within this regional recession, by the mid 1980s, the heyday of Jordanian socio-economic development was over. Between the years 1981-87, Jordanian economy

¹⁵³ Quoted from Shireen T. Hunter “The Gulf Economic Crisis and its Social and Political Consequences, Middle East Journal 40 (Autumn) 1986, pp.593-613 in Fred H. Lawson, “Managing Economic Crises: The Role of The State in Bahrain and Kuwait”, Studies in Comparative International Development, Spring 1991, p.43.

¹⁵⁴ Fred H. Lawson, “Managing Economic Crises: The Role of The State in Bahrain and Kuwait”, Studies in Comparative International Development, Spring 1991, pp.43-44.

¹⁵⁵ Ibid, p.44.

¹⁵⁶ Ibid, p.43.

was suffering from a growing deficit. This was mainly stemming from the imbalance between decreasing external grants on the one hand and increasing state expenditures on the other. The external grants used to be equivalent to the one third of the state expenditures and then fell to the one sixth.¹⁵⁷ Especially the expiration of Arab aid pledged in 1978 Baghdad Summit was a great loss for Jordan.¹⁵⁸ In addition to that, US stopped giving aid to the country because of the Jordan's stance in the Arab-Israeli conflict, particularly Jordan's failure to join the Camp David process.¹⁵⁹

Besides the decrease in external grant, the decline in workers' remittances and the rise in unemployment due to the returning expatriate workers from the Gulf, fuelled by the Gulf War¹⁶⁰, was the second trauma for Jordanian economy.¹⁶¹ To be more precise, in 1987, the amount of money accruing to the Jordanian economy through foreign aid and workers' remittances, declined from JD 735 million (US \$2.3 billion) to JD 518 million (US \$1.5 billion).¹⁶²

Al-Shakur, head of the IMF's Middle East Department, in his lecture at the Jordanian Banks Society evaluated the economic recession as follows:

By the mid-eighties, Jordan suffered from the economic recession which afflicted the Middle East. This resulted the shrinkage of external aid and transfers from abroad while exports remained relatively weak due to the low price internationally of Jordan's main exports. This resulted in an economic slowdown which was accompanied by a budget deficit.¹⁶³

¹⁵⁷ Brynen, "Economic Crisis", p.85.

¹⁵⁸ There was a decrease to \$400 million in 1988 from a level of \$1.2 billion in Arab aid. See in Robert Satloff, "Jordan's Great Gamble" in *The Politics of Economic Reform in the Middle East*" ed. by Barkey, *The Politics*, p.131.

¹⁵⁹ Brand, "Economic and Political Liberalization", p. 170.

¹⁶⁰ Brynen, "Economic Crisis", p.85.

¹⁶¹ The remittances from the expatriate workers were nearly cut in half, from \$1.237 billion in 1984 to little more than \$600 million in 1989. See in Satloff, *Op cit*, p.131.

¹⁶² Brynen, "Economic Crisis", p.85.

¹⁶³ "IMF Official 'Optimistic' About Reforms", Amman Domestic Service in Arabic, 1 June 1989, FBIS-NES-89-108 (7 June 1989).

In the light of the economic situation described above, one should note that the kingdom did not respond to the economic recession, which was obvious by the year 1984, with tight fiscal policy, prudent borrowing, and closely managed importing of goods and foodstuffs.¹⁶⁴ Rather, the governments and the prime ministers in 1980s preferred ignoring the obvious structural weaknesses in the Jordanian economy. Furthermore, they hid these structural weaknesses or other economic problems by further borrowing or worsened the economic situation by implementing expansionary policies that could only diminish the Kingdom's finite foreign currency reserves.¹⁶⁵ At the early time of the economic recession, in 1983 and 1984, in order to overcome the problem of the budget deficit, Jordan had to resort to euro-dollar loans.¹⁶⁶ At that stage, it was thought that the crisis was a short-term one mainly stemming from the regional problems and would sooner or later pass, so that was the reason why a strategic decision towards making reform was not made and rather, Jordan tried borrowing.

According to Satloff, Jordan was far from implementing rational and successful economic policies. Government policies of those years did nothing, but worsened the economic situation. Jordan took on billions of commercial debt, signed weapons contracts and continued its commitment in huge development projects, like expanding telephone networks and unifying electric grids with neighboring Arab States, which may be regarded as luxurious for a country in economic constraints.¹⁶⁷

In order to put things right, Jordanian government expanded its expenditure to meet the national needs and tried to compensate the deficit through foreign and domestic borrowing with a relatively high interest rate. However, this eventually led to the consumption of Jordan's foreign currency reserves and increased the deficit in state budget. In that respect, budget deficit reached 25 per cent of the gross national

¹⁶⁴ Satloff, "Jordan's Great Gamble", p.132.

¹⁶⁵ Ibid.

¹⁶⁶ Brand, "Economic and Political Liberalization", p.171.

¹⁶⁷ Satloff, "Jordan's Great Gamble", p.132.

product whereas the deficit in the balance of payments reached 6 per cent of gross national product.¹⁶⁸

Decision-makers hoped that regional economic recession mainly stemming from the declining price of oil and regional political constraints deriving from Palestinian uprising, intifada, would ease eventually. That's the reason why, Jordanians were sure that they would be able to find capital to compensate their commercial debt and they would not have to turn to IMF for assistance.¹⁶⁹ However, neither the regional economic situation got better nor the Jordanian economy succeeded in surviving on its own.

4.2 IMF and the Economic Readjustment Program

Policy makers in Jordan recognized the need for economic reforms by the mid-1980s, but the adoption of an economic liberalization program did not begin until the economic crisis of 1988-89.¹⁷⁰ By the mid-1988 Jordan started implementing economic measures offered by IMF. Through periodic consultation discussions, IMF was monitoring the economic situation in Jordan. However, despite the serious recession that the country was passing through, IMF did not go further than making recommendations like abandoning the gradual response of Jordan to regional recession and adopting policies to overcome structural weaknesses of Jordanian economy. As a result of the perception of the situations "being still manageable" both by the IMF and the kingdom, drastic measures are neither imposed by IMF nor taken by the kingdom itself at this stage.¹⁷¹

¹⁶⁸ "IMF Official 'Optimistic' About Reforms", Amman Domestic Service in Arabic, 1 June 1989, FBIS-NES-89-108 (7 June 1989).

¹⁶⁹ Satloff, "Jordan's Great Gamble", p.134.

¹⁷⁰ Alan Richards, "The Political Economy of Economic Reform in the Middle East: The Challenge to Governance", prepared for *RAND project*, "The Future of Middle East Security", Santa Cruz: University of California, revised draft, 10/26/01, p.30.

¹⁷¹ Satloff, "Jordan's Great Gamble", p.135.

In fact, what is witnessed in Jordan after 1989 was a process of economic liberalization, which referred to the first stage of Washington Consensus, meaning reducing inflation by stabilization through cutting public spending and raising interest rates.¹⁷² However, according to the Washington Consensus, meeting the conditions of this first stage should be accompanied by meeting the conditions of the second and third stages in the less-developed countries to realize economic development in order to achieve integration to the world economy.

In this context, what we have witnessed in Jordan after 1989 was a process of economic liberalization that can be defined as the first stage of Washington Consensus. At this stage the intention was to reduce inflation through cutting public spending and raising interest rates. Having achieved this objective, Jordan is expected to hold out prospects for the following stages of Washington Consensus, which implies structural adjustment and export-led growth. However, the economic liberalization in Jordan targeted overcoming the economic problems, mainly ‘surviving’, rather than aimed at economic development.

4.2.1 1989 Economic Readjustment Program

The medium-range economic readjustment program offered by IMF to Jordan called for adopting monetary, fiscal and investmental policies which at first aimed at achieving balanced growth of the Jordanian economy. First, this balanced growth should be realized through reducing the budget deficit. Then the balance of payments should be improved together with developing Kingdom’s foreign currency reserves. In order to increase the initiatives towards the productive projects and ensure the sustainability of them, right climate for savings and investment should be created. These macroeconomic stabilization efforts should also be accompanied by augmenting the earnings from foreign currency through increased exports, tourist revenues and expatriate remittances.¹⁷³

¹⁷² Thomas, “Globalization”, p.328.

¹⁷³ “Al-Rifa’i Briefs Bankers on IMF Talks”, Amman Domestic Service in Arabic, 10 April 1989, FBIS-NES-89-069 (12 April 1989).

IMF delegation arrived Jordan on 18 March 1989. In order to learn about the various sectors of Jordanian economy, the state budget, the deficit in the budget, and the balance of payments, several sessions were held by the IMF delegation,¹⁷⁴ which was there indeed for periodic consultation discussions. The Finance Minister at the time, Dr. Hanna ‘Awdah, who chaired the Jordanian delegation to the talks with IMF, declared that IMF delegation had regarded the measures taken by the government since mid-1988¹⁷⁵ in order to cope with the financial situation in Jordan as quite good and correct.¹⁷⁶ He also added that during the meetings, no mention was made either of the dinar’s exchange rate, or lifting the government subsidies¹⁷⁷ on basic commodities.¹⁷⁸ These declarations were made concerning the sustenance of social cohesion because any sign in devaluating the dinar or cutting government subsidies would trigger social unrest. That was the main reason why minister ‘Awdah reaffirmed that the government would continue to subsidize those commodities and the dinar would maintain its current rate.¹⁷⁹

In that respect, the Jordanian delegation and the IMF delegation agreed upon an integrated national financial program for the next 5 years aiming to maintain the stability in dinar’s exchange rate at its current value. This policy was approved not

¹⁷⁴ “Cabinet Approves Agreement with IMF on Economy”, Amman Television Service in Arabic, 14 April 1989, FBIS-NES-89-072 (17 April 1989).

¹⁷⁵ Jordan started implementing an austerity plan in late 1988 for freezing government spending and subsidies and imposing several new duties and taxes. These did not remedy the deficit and additional measures were needed such as the price increases in a wide range of goods and cutting subsidies on some goods. (Satloff, “Jordan’s Great Gamble”, p.138)

¹⁷⁶ “Cabinet Approves Agreement with IMF on Economy”, Amman Television Service in Arabic, 14 April 1989, FBIS-NES-89-072 (17 April 1989).

¹⁷⁷ In the Jordanian history, first subsidies were put on wheat in 1960s. In 1974, food subsidies were extended to rice and sugar. Same year, when the Ministry of Supply was created, it took control of the all food subsidies. Then in 1980, milk powder was subsidized and in 1985 frozen chicken. In 1990, first milk powder, then rice and sugar were decided by the government to be rationed, so a system of food coupons, in which only citizens below a certain amount of income threshold benefit could benefits, was introduced. (Lamis Andoni, Jillian Shwedler, “Bread Riots in Jordan”, Middle East Report, No:201, Israel and Palestine: Two States, Bantustons or Binationalism?, October-December 1996, p.41.)

¹⁷⁸ “Finance Minister Briefs Cabinet on IMF Talks”, Amman Television Service in English, 1 April 1989, FBIS-NES-89-062 (1 April 1989).

¹⁷⁹ Ibid.

only by the Jordanian authorities, but also by the IMF. The integrated national financial program also stipulated the necessity of achieving real growth rates in gross national product by 4 percent by the end of the program and depend on indigenous resources in the areas of the general budget and the balance of payments.¹⁸⁰

By implementing this program, it was planned to achieve the objective of creating a right investment climate that could attract foreign capital and use national savings and exports.¹⁸¹ In addition to that controlling consumption, inflation rate, exports, giving private sector a leading role in investment, production and exports and reducing government expenditures were targeted.¹⁸² The implementation of this program would also provide Jordan additional financial revenue of 275 million dinars within 18 months.¹⁸³

In fact, the on-going implementations of austerity measures were carried out in collaboration with the World Bank to support the structural reforms in Jordan. There were areas that IMF and World Bank worked together such as trade, energy, price deregulation and privatization and there were also areas where World Bank took the lead such as trade regime, regulatory and legislative reform for enhancing the investment climate and promoting private sector development.¹⁸⁴

¹⁸⁰ “Continuing Subsidies Cited”, Amman Sawt Al-Sha‘b in Arabic, 15 April 1989, FBIS-NES-89-073 (18 April 1989).

¹⁸¹ Paper Assess Economic Measures, IMF Program: Readjustment ‘Necessary’, Amman Al-Dustur in Arabic, 16 April 1989, FBIS-NES-89-073, 18 April 1989; Cabinet Approves Agreement with IMF on Economy, Amman Television Service in Arabic, 14 April 1989, FBIS-NES-89-072 (17 April 1989); Al-Rifa‘i Briefs Bankers on IMF Talks, Amman Domestic Service in Arabic, 10 April 1989, FBIS-NES-89-069 (12 April 1989).

¹⁸² “Cabinet Approves Agreement with IMF on Economy”, Amman Television Service in Arabic, 14 April 1989, FBIS-NES-89-072 (17 April 1989); “Al-Rifa‘i Briefs Bankers on IMF Talks”, Amman Domestic Service in Arabic, 10 April 1989, FBIS-NES-89-069 (12 April 1989); “Paper Assess Economic Measures, IMF Program: Readjustment ‘Necessary’”, Amman Al-Dustur in Arabic, 16 April 1989, FBIS-NES-89-073 (18 April 1989).

¹⁸³ “Cabinet Approves Agreement with IMF on Economy”, Amman Television Service in Arabic, 14 April 1989, FBIS-NES-89-072 (17 April 1989) and “Continuing Subsidies Cited”, Amman Sawt Al-Sha‘b in Arabic, 15 April 1989, FBIS-NES-89-073, (18 April 1989).

¹⁸⁴ Evaluation Report, IMF Support to Jordan, 1989-2004, (Washington DC: International Monetary Fund, Independent Evaluation Office, 2005), p.15

4.3 1989 Crisis and the Outbreak of Riots

Jordanian government tried to create an atmosphere that the economic readjustment program agreed with IMF was going to be beneficial for Jordan and its people. In that respect, several declarations were made mentioning not only how good IMF policies were for Jordan, but also the necessity of including all the Jordanians into this economic reform process for success.¹⁸⁵ In addition to that, as mentioned before, the government was very careful in ensuring people that government subsidies would not be lifted from certain commodities. However, gradual replacing of food subsidies by direct cash assistance administered by the National Aid Fund (NAF) was adopted in structural reforms addressed by IMF Supported Programs in time.¹⁸⁶ This development triggered social unrest.

The social unrest reached its peak when the Council of Ministers decided to adjust the prices of certain goods and commodities like fuel, alcoholic drinks, cigarettes, natural drinks and carbonated drinks to cope with the budget deficit by increasing the resources of the treasury and controlling expenditure and declared it on April 16, 1989.¹⁸⁷ The price increases ranged from 15 to 50 percent. This is followed by cutting subsidies on bread, sugar, rice and milk.¹⁸⁸ It was the IMF policies that necessitated implementing such austerity measures, and no matter how reluctant the Jordanian government was to implement those, indeed eventually felt compelled to do so to reduce budget deficit and for price deregulation.

As a part of the economic reform packages, Jordanian government had to reduce government spending including cuts in subsidies and increase government revenues

¹⁸⁵ See at “Paper Assess Economic Measures, IMF Program: Readjustment ‘Necessary’”, Amman Al-Dustur in Arabic, 16 April 1989, FBIS-NES-89-073 (18 April 1989); “Al-Dustur Hails Agreement”, Amman Al-Dustur in Arabic, 15 April 1989, FBIS-NES-89-073 (18 April 1989), and “Al-Ray Urges Unity”, Amman Al-Ray in Arabic, 16 April 1989, FBIS-NES-089-074 (19 April 1989).

¹⁸⁶ “Evaluation Report, IMF Support to Jordan, 1989-2004”, (International Monetary Fund, Independent Evaluation Office: Washington DC, 2005), p.16.

¹⁸⁷ “Government Raises Fuel, Other Commodity Prices”, Amman Al-Ray in Arabic, 16 April 1989, FBIS-NES-89-073 (18 April 1989).

¹⁸⁸ Brynen, “Economic Crisis”, p.89.

including tax rises. The importance of the cuts in the subsidies lay in the fact that subsidies were one of the significant components of the Hashemite patronage system to crucial constituencies such as the southern part of the country. In this respect, cutting subsidies meant attacking key bases of the regime support, though indirectly, which put the regime survival in danger.¹⁸⁹

On 18 April 1989, nearly 2000 demonstrators took part in a protest in the city of Ma'an against the high cost of living.¹⁹⁰ Jordanian history has never experienced social disturbances like this one before- in the form of demonstrations including attacks on private and government buildings, throwing stones, firing tires, and breaking windows. The demonstrations started by the taxi drivers in Ma'an.¹⁹¹ Public transport vehicle owners were dissatisfied with the government's action of raising the price of fuel without raising the transportation fees and the increase in the price of a number of commodities.¹⁹² The riots in Ma'an later spread to the towns of Al-Tafilah, Al-Shawbak and Wadi Musa, and to the villages of Al-Husayniyah, Al-Murayghah, Al-Hasa, Al-Jafr¹⁹³ - all in the south of Jordan.

The riots were perceived by most of the observers as surprising not only because of the fact that they were unseen in Jordanian history, but also they were taking place in the southern part of Jordan where most of the population living there were Bedouins who were traditionally strong supporters of the King.¹⁹⁴ However, it was not

¹⁸⁹ Glenn E. Robinson, "Defensive Democratization in Jordan", International Journal of Middle East Studies, Vol.30, no.3 (August 1998), p.391.

¹⁹⁰ See at 2000 "Protest in Ma'an", Paris Radio Monte Carlo in Arabic, 18 April 1989, FBIS-NES-89-074 (19 April 1989) and Further on Protests, Paris AFP in English, 18 April 1989, FBIS-NES-89-074 (19 April 1989).

¹⁹¹ "Protest Resume, Spread 19 April", Paris Radio Monte Carlo in Arabic, 19 April 1989, FBIS-NES-89-074 (19 April 1989).

¹⁹² "Government Vehicles Attacked", Paris Radio Monte Carlo in Arabic, 18 April 1989, FBIS-NES-89-074 (19 April 1989).

¹⁹³ "Protest Resume, Spread 19 April", Paris Radio Monte Carlo in Arabic, 19 April 1989, FBIS-NES-89-074 (19 April 1989).

¹⁹⁴ "AFP Reports New Protests", Paris AFP in English, 19 April 1989, FBIS-NES-89-074 (19 April 1989) and also see at "Demonstrators Affirm Loyalty", Paris Radio Monte Carlo in Arabic, 20 April 1989, FBIS-NES-89-075 (20 April 1989) and "Demonstrators List Demands", Paris Radio Monte Carlo in Arabic, 19 April 1989, FBIS-NES-89-075 (20 April 1989).

surprising in the sense that there was a growing discontent among Bedouins originating from the declining role of the tribes who were the main guards of the Hashemite Regime. In addition that, the economic liberalization process triggered this discontent by shifting focal point of the regime from public to private sector. Indeed, East Bank nationalist circles were displeased with the periodic influx of the Palestinian immigrants, because they feared that Palestinians who dominated the private sector would marginalize the Jordanians employed in the public sector and security services in their own countries. They also suspected that King Hussein might re-organize his power base in favor of Palestinians by avoiding Jordanians.¹⁹⁵

Indeed, these demonstrations and protest did not target the King or the Hashemite family or the monarchial regime. What the demonstrators demanded was the resignation of the Prime minister Ziyad Al-Rifa'i, because it was the government they were blaming for the economic burden that the Jordanian people had to bear. This revealed itself in the slogans of the demonstrators who were shouting in the streets: "Down with Zayd Al-Rifa'i; long live King Husayn"¹⁹⁶. In that respect, it is very important to note that people in Jordan did not question the existence of the monarchy and the royal family and did not think of toppling the regime even at hard times. On the other hand, it was the policies particularly economic ones, adopted by the government that was the cause of disappointment among Jordanians. However, this did not eradicate the fact that Hashemite regime was under the need of strengthening its position and implementing a regime survival strategy. More or the less, there was a bottom-up pressure including political messages about ending corruption and renewing relationships between the Hashemite monarchy and the East-Bank/Bedouin communities. The relationship between the East Bank/Bedouin communities was perceived to be weakening. East Bankers viewed structural adjustment policies as benefiting Palestinians at the expense of East Bankers since these policies promoted a strong private sector and private sector was dominated by

¹⁹⁵ Malik Mufti, "Elite Bargains and the Onset of Liberalization in Jordan", *Comparative Political Studies*, Vol.32, no.1, February 1999, pp.123-124.

¹⁹⁶ "Curfew, Casualties Reported", Jerusalem in Arabic to the Arab World, 19 April 1989, FBIS-NES-89-074 (19 April 1989).

Palestinians. In addition, these policies also envisioned decreasing the size of the public sector which was dominated by East Bankers.¹⁹⁷

Actually, the rationale behind the implementation of regime survival strategy was to appease the masses against any potential shifts in coalitions or probable social unrest stemming from the economic adjustment policies. It was obvious that after economic adjustment policies Jordanian economy will experience certain transformations which will change the outlook of the economy and more importantly result in shifts in coalitions within the regime. This will in the end result in more unrest among the power base of the regime that may put the regime in jeopardy.

TABLE 8: Beneficiaries and Losers of the Economic Reform in Jordan

	Phase I	Phase II
Possible beneficiaries	agricultural exporters exporters of manufactured goods	agricultural exporters exporters of manufactured goods
Potential losers	military, public sector firms construction sector	military, public sector firms construction sector
Neutral or indeterminate	urban populations on low/ fixed incomes	public or private ISI

This table is arranged according to the information in John Waterbury, "The Political Management of Economic Adjustment and Reform" in *Fragile Coalitions: The Politics of Economic Adjustment*, ed. by Joan Nelson, (Transaction Books, Rutgers: New Brunswick, New Jersey, 1989), pp.39-57.

As seen in the Table 8 above, the economic reform process can be outlined as two phases. The first phase, in broadest terms, includes the macro-economic stabilization

¹⁹⁷ Robinson, "Defensive Democratization", p.391-392.

measures such as controlling inflation, reducing budget deficit, cutting government expenditures, especially subsidies.

In this phase, the possible beneficiaries of this phase would be agricultural exporters and the exporters of manufactured goods. The potential losers of the first phase would be the military due to the rise in the cost of armaments, public sector firms because of the reduced investment flows and the construction sector owing to the cut in the public investment. During this phase, devaluation and the reductions in the wages would result in increase in the cost of living. However, urban populations on low or fixed incomes might not feel the negative impacts of these developments due to the higher value of local currency stemming from the workers' remittances, and anti-inflationary effect of reduced government spending.¹⁹⁸

The second phase, at large, includes structural changes such as reducing the role of government in the economy, privatization, liberalization of trade and investment. The target is to sustain a moderate rate of growth, avoid stagflation, encourage private sector investments, a shift toward export markets, create jobs new jobs particularly in non-agricultural sectors in order to absorb returning migrant workers. During this phase, the beneficiaries would again be the agricultural exporters and the exporters of the manufactured goods because of the stimulating policies for exports, particularly agricultural exports. The losers of this phase again would be the military, public sector firms and the construction sector since the measures taken in the first phase that negatively affects these groups would continue. The public or private import-substituting industries would feel the impact of rising costs of domestic inputs and increasing wages of the workers, but they could compensate these costs by further borrowing or deregulation of prices.¹⁹⁹

¹⁹⁸ John Waterbury, "The Political Management of Economic Adjustment and Reform" in *Fragile Coalitions: The Politics of Economic Adjustment*, ed. by Joan Nelson, (Transaction Books, Rutgers: New Brunswick, New Jersey, 1989), pp.50-52.

¹⁹⁹ Ibid, pp.50-52.

4.3.1 Reaction of the Jordanian Government and the Hashemite Family to the Riots

The government's quick reaction to the anti-government demonstrations was to take control of the towns by the Jordanian Army. Protestors were arrested and curfews were imposed.²⁰⁰ At the same time the government tried to ensure stability and security by making calls for dialogue. These calls were made by the notable figures of the Hashemite Family. Within that framework, Prince Hasan claimed that the eruption of the protests was not a coincidence since King Hussein was out of the country. Then he added that with the IMF reforms causing popular discontent, "the situation is ripe for exploitation"²⁰¹. Moreover, he stated that he wanted to have a 'constructive dialogue' with demonstrators, so he could understand and study their grievances and "so they can realize that they are being exploited"²⁰².

Meanwhile, in accordance with the demands of the protestors, on 24 April 1989, Zayd Al-Rifa'i offered the resignation of his government, which was already reshuffled five times since its inception in 1985.²⁰³ All popular circles expressed satisfaction with this resignation.²⁰⁴ More or the less, life started turning normal in the cities in southern Jordan where the demonstrations and disturbances took place.²⁰⁵ Three days after the resignation of Zayd Al-Rifa'i, on 27 April 1989, King

²⁰⁰ See at "Army Deployed in Ma'a", Paris AFP in English, 20 April 1989, FBIS-NES-89-076 (21 April 1989) and "Situation Described 20 Apr", Paris Radio Monte Carlo in Arabic, 20 April 1989, FBIS-NES-89-076 (21 April 1989).

²⁰¹ Quoted at "Protests at Amman University", Paris AFP in English, 19 April, 1989, FBIS-NES-89-075 (20 April 1989).

²⁰² Quoted at "Protests at Amman University", Paris AFP in English, 19 April, 1989, FBIS-NES-89-075 (20 April 1989) and also see at "Demonstrators List Demands", Paris Radio Monte Carlo in Arabic, 19 April 1989, FBIS-NES-89-075 (20 April 1989).

²⁰³ "Al-Rifa'i Said to Tender Government Resignation", Paris Radio Monte Carlo in Arabic, 24 April 1989, FBIS-NES-89-077 (24 April 1989).

²⁰⁴ "'Satisfaction' With Government Resignation Noted", Paris Radio Monte Carlo in Arabic, 25 April 1989, FBIS-NES-89-079 (26 April 1989).

²⁰⁵ "Life Return to 'Normal' in Ma'an", Al-Salt, Paris Radio Monte Carlo in Arabic, 24 April 1989, FBIS-NES-89-078 (25 April 1989), "AFP: Zayd ibn Shakir Appointed Prime Minister", Paris AFP in English, 27 April 1989, FBIS-NES-89-080 (27 April 1989).

Hussein appointed Marshal Zayd ibn Shakir, who was the head of the royal household, as the prime minister.²⁰⁶

In addition to that, Jordanian government took steps to restore confidence in dinar and King Hussein asked for an emergency aid from Saudi Arabia and the other Gulf states throughout the spring and summer, which was vital for the short-term stability of dinar.²⁰⁷

4.3.2 Political Liberalization

Above all, the riskiest and the most uncertain aspect of the Kingdom's response to the riots was its strategic decision to make internal reform, in other words, political liberalization.²⁰⁸ In fact, what lay behind this strategic decision was the aim to preempt more severe threats to the ruling order²⁰⁹. Salim Masa'deh, interior minister, after 1989 riots, said "It was not that popular pressure for democracy was so great. Rather, I think the King wanted to preempt events"²¹⁰. Instead of leaving a room for any potential society driven reform, Jordanian state chose preserving (even sometimes re-organizing, but in line with its interests) the basic power structure in Jordan.

Initiating an open-up had certain risks for the ruling elite. No matter how limited and top-down a liberalization process it is, there is always a risk that it may lead to a demand for more democracy with a snowballing effect. According to Robinson, rentier states can more easily resist these kind of demands if the fiscal crisis is

²⁰⁶ "AFP Details Biography", Paris AFP in English, 27 April 1989, FBIS-NES-89-080 (27 April 1989).

²⁰⁷ Satloff, "Jordan's Great Gamble", p.135.

²⁰⁸ Ibid, p.141.

²⁰⁹ Robinson, "Defensive Democratization", p.389.

²¹⁰ Quoted in Mufti, "Elite Bargains", p.104.

limited in time and scope. Although one of the most significant characteristics of rentier states is the ‘societal depolitization’, this does not mean that conditions where the society demands for more inclusion in politics will never appear. Especially during economic crisis, when the government is compelled to extract greater resources from the society such as by taxation to overcome its budget deficits, this may result in demands for political participation from the society.²¹¹

In Jordan, we have not come across such a snowballing effect. Robinson explains it with the benefits acquired by the business elite. It was the private sector dominated by the Palestinian community that has benefited the most from the IMF structural adjustment in Jordan. Actually there was a mutually beneficial relationship between the rentier state and its business communities in Jordan. On the other hand, state was providing a kind of protection especially against East-Bank dominated public sector.²¹²

Within Jordan’s democratization program, no matter how deep or authentic it has been, full parliamentary elections were held in 1989 (first elections since 1960s) with additional elections in 1993 and 1997, martial law was lifted, restrictions on media were loosened, election laws were changed, political parties were legalized and a new National Charter was adopted.²¹³ Although the sincerity and the scope of these reforms maybe questioned, one can never deny that the Jordanian political liberalization compared with other Arab states, has gone further.

4.4 Why Liberalization?

Jordan, at the first sight, did not seem a likely candidate for political liberalization where there was a regime based on an unelected King and his appointed officials since the traditional character of a monarchy does not make it easy to create modern

²¹¹ Robinson, “Defensive Democratization”, p.390.

²¹² Ibid.

²¹³ Ryan, *Jordan*, p.16.

channels and institutions of political participation²¹⁴ such as parliament of representatives and elections. The most important characteristic of the Jordanian political liberalization was that the King played the central role in transition, which made it a top-down process and there was a near total absence of mass politics.²¹⁵

Ryan regards the political liberalization in Jordan as ‘defensive’ in nature and a “political opening based on a political-economic calculus for regime survival”.²¹⁶ Glenn also calls this liberalization process as ‘defensive democratization’. What is called ‘defensive democratization’ or ‘political liberalization’ is indeed a state strategy of initiating political reform even in the absence of a bottom-up social pressure. The rationale behind this strategy is to pre-empt anticipated social pressure for a political opening during economic crisis, particularly fiscal crisis of state.²¹⁷

Mufti describes the political liberalization in Jordan as a ‘safety valve’. The economic downturn in 1980 in Jordan necessitated more political freedom, not because there was a demand from the Jordanian people, but because the inevitable austerity measures would cause social discontent. Hence political liberalization was to serve as a ‘safety valve’ for the maintenance of the Hashemite regime’s legitimacy.²¹⁸

However, it should be noted that this rationale for political liberalization was not unique for Jordan. Middle Eastern regimes, in general, release social pressures in order to remain in power.²¹⁹ Kamrava asserts that most of the liberalization programs in the Middle East are simply ‘safety valves’ for continued governance. There is not a pattern of mass social movements demanding radical change across the region. Rather regime elites use political liberalization to offer entrenched authoritarianism

²¹⁴ Huntington, quoted in Mufti, “Elite Bargains”, p.102.

²¹⁵ Mufti, “Elite Bargains”, p.102.

²¹⁶ Ryan, *Jordan*, p.16.

²¹⁷ Robinson, “Defensive Democratization”, p.389.

²¹⁸ Mufti, “Elite Bargains”, pp.103-104.

²¹⁹ Robinson, “Defensive Democratization”, p.18.

as more acceptable and pleasing on the one hand and less coercive.²²⁰ In the light of these arguments, the reasons for introducing political liberalization could be explained according to two approaches: political maturity and crisis of rentierism.

4.4.1 Establishment Explanation: Political Maturity

This explanation is constructed on the assumption that Jordanian politics inherently carry the notions of pluralism and tolerance²²¹ which are necessary for liberalization. This does not mean that these values had not been overshadowed by some political turmoil in 1950s, 1960s and 1970s. However, it is asserted that Jordan had managed to succeed in creating an atmosphere of open-mindedness and frankness which is unprecedented in the region. There were certainly exceptions to that. In the mid-1950s and early 1970s, the Hashemite regime used oppression to ensure political stability. Yet the regime remained tolerant and avoided using organized terror even during hard times. The King preferred co-opting opposition rather than eliminating them. The King, instead of eliminating the political opponents, preferred co-opting them.²²²

During the civil war in the early 1970s which stemmed from the tensions between Palestinians and East Bank Jordanians, Hashemite regime used repression as a tool for political stability. After political stability was ensured, there was still a need of suspending the Jordanian Parliament. When King Hussein declared disengagement from West Bank in 1988, the tensions on the Palestinian issue loosened, but the special circumstances necessitating the suspension of the parliamentary elections were still ongoing. Nevertheless, it was not until November 1989 that it was high

²²⁰ Mehran Kamrava, "The Middle East and the Question of Democracy", paper presented at the annual meeting of the International Studies Association, Chicago, 2001, p.2, quoted by Ryan, *Jordan*, p.18.

²²¹ Rex Brynen, "The Politics of Monarchial Liberalism: Jordan" in *Political Liberalization and Democratization in Arab World* ed. by Bahgat Korany, Rex Brynen, and Paul Noble, (Boulder, London: Lynne Rienner Publishers, 1998), p.80.

²²² Ibid.

time to renew parliamentary elections. It was no more possible to carry on with the 1967 parliament and the political situation was ripe enough for liberalization. Actually, this explanation, asserting that Jordanian political liberalization was stemming from the political maturity does not pay attention or does not find any cause-effect relationship with the riots outburst in April 1989. Questionable though this assumption is what is acceptable is the continuity of the regime in Jordan which has never been disturbed by military coups that is seen in other countries in the Middle East like Egypt, Syria, Algeria, etc. It is this political continuity and stability that enabled regime to achieve a degree of socio-economic development especially during the boom and bust years.

4.4.2 Political Economy Explanation: Crisis of Rentierism

Another explanation about Jordan's liberalization rests upon the economic factors. According to Kamrava, it is the strains in the rentier economics that made some Middle Eastern states to decide on starting liberalization processes.²²³ Declines in rent revenues have affected non-oil exporting economies in the Middle East like Egypt, Syria, Tunisia, Jordan and Morocco almost in the same way. However, one should note that each state, due to their different structural characteristics, responded to economic crises and recessions in a different way.

When the liberalization processes are concerned each state started and experienced different rates of liberalization. For instance, compared to Egypt, Syria and Tunisia, which are also non-oil exporting states, their structural limitations have compelled Jordan and Morocco to engage in a liberalization process and go further in that. It is somewhat controversial since they are monarchies that Jordan and Morocco have gone a great deal in liberalization and hold strong prospects for further liberalization and democracy. Kamrava differentiates Jordan and Morocco from other monarchies, particularly oil monarchies in the Middle East, in the sense that they are 'civic myth' monarchies. They rely on a propagated civic and political myth, which helps to

²²³ Mehran Kamrava, "Non-Democratic States and Political Liberalization in the Middle East: A Structural Analysis", *Third World Quarterly*, Vol 19, No 1, 1998, p.63.

disguise their economic deficiencies and helps them to maintain their regimes. The civic myth monarchies are more prone to liberalization whereas oil monarchies, due to their vast oil reserves and the societal structure built on the distribution of wealth coming from these rich oil reserves, succeeded in standing the pressures of liberalization.²²⁴

In Jordan, the Hashemite Kingdom, with the exception of 1970-71, has not relied on coercive means or repression to safeguard the regime. In fact, this was because the kingdom did not have the necessary formation characteristics to repress opposition since the central motif of Jordanian politics is rentierism rather than repression.²²⁵ This means that the regime through a system of neo-patrimonialism, which is financed externally, ties elites or social groups to itself.

In order to highlight the relationship between monarchies and liberalization, it is important to note the role of monarchs. Richards and Waterbury assert that monarchs are the arbiters among factions, the existence of which are to the benefit of the ruler to perpetuate its power. Since the monarch place himself above these contending forces or factions, this makes it easy for the monarchs to initiate liberalization processes such as allowing elections.²²⁶ On the other hand, although oil monarchies (Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, UAE) and civic myth monarchies (Jordan, Morocco); are all monarchies and almost have the same power sources, what makes them differ from each other is the state formation processes. The state formation in oil monarchies through the evolution of three power sources, which are a corporate family, civil service and the mukhaberat and the armed forces and those three power sources also appear in what she calls ‘civic myth monarchies’, but for sure with different characteristics. It is this different formation and the structure of the state that appear as dynamics compelling these monarchies to liberalize. First, in civic myth monarchies, royal family does not rely on a traditional authority as it is in oil monarchies, but on an ‘imagined’ tradition, which is indeed the re-interpretation

²²⁴ Kamrava, “Non-Democratic States”, pp.63-66.

²²⁵ Brynen, “The Politics of Monarchial Liberalism”, p.78.

²²⁶ Richards and Waterbury, *Political Economy*, pp.298-299.

of history by the state, and are in fact sometimes in sharp contrast with the realities of modernity. Second, the civil service is for the employment of middle classes rather than acting as an agent as it is in the case of oil monarchies. Besides, in civic monarchies, civil service provides the convenience for the penetration of the mukhaberat into opposition groups. Third, compared to the oil monarchies, the personal control of the royal family over the armed forces is not extensive and complete. This is not only the case with the mukhaberat and the armed forces, but also with other institutions since the size of royal family is comparatively small. In fact, owing to its small size, the royal family has to rely on loyalists, professional technocrats and even Palestinians to staff its key state institutions like ministry of foreign affairs, defence ministry and prime ministry.²²⁷

Within that framework, it is not wrong to say that these monarchies are more vulnerable to the challenges from within and without. Confronting the challenges, either within or without, the state responds either by trying to stop or liberalizing.²²⁸ In Jordan, the foundations of the monarchy have been threatened several times in the history: by the widespread demonstrations in 1955, by attempted coups in 1956 and 1968, the overthrow of the King Faisal, the cousin of King Hussein in Iraq in 1958, the Black September civil war in 1970; the tensions with the PLO throughout the 1970s, the extensive bread riots in the late 1980s, pan-Arabism in the late 1950s, the loss of West Bank in 1967, the emergence of modern Palestinian nationalist movement in the 1970 civil war.

Within the global political and economic context of the 1990s, the collapse of communism, spreading of democracy and free market economy, civic myth monarchies of the Middle East felt themselves compelled to liberalize no matter how limited or controlled it was because they did not have the necessary institutional capabilities to continually resort to repression.²²⁹ However, no doubt, the

²²⁷ Kamrava, "Non-Democratic States", pp. 76-81.

²²⁸ Ibid, p.76.

²²⁹ Ibid, p.77.

liberalization in Jordan is significant, worth paying attention and gives hope compared to the other states, precisely non-democratic states, in the Middle East.

4.5 Decision to Hold Elections

Despite being given wide range of powers, the Hashemite King was not alone in giving decisions. King Hussein indeed had an advisory body that he gathered when he required consultation especially at times of crises. Jordan Prime Minister Zaid bin Shaker, Chief of the General Directorate Tariq ‘Alaeddin, Deputy Prime Minister and Foreign Minister Marwan Qasim, Deputy Prime Minister and Interior Minister Salim Masa’deh, Minister of State for Prime Ministry Affairs Ibrahim ‘Izzeddin, Chief of the Royal Court Dhuqan Hindawi, and Palace Advisor ‘Adnan Abu ‘Odeh were the individuals that constitute the advisory body of the King Hussein. After the 1989 riots, these were again the men with whom King Hussein discussed the scope and pace of the liberalization.²³⁰

There were “for” and “against” liberalists among these individuals. Tariq ‘Alaeddin and Marwan Qasim were opposed to holding elections. They claimed that the riots broke out because of government mismanagement. In this sense, prosecuting corrupt officials in the government and instituting short-term economic reforms would satisfy the masses sparked by anger. Their main argument was that free elections will create a radical parliament dominated by Palestinians and this would eventually block major policy objectives of the regime. On the other hand, Salim Masa’deh and Ibrahim Izzeddin, who believe that economic reforms should be followed by a political liberalization for success, were in favor of holding elections as soon as possible. Zaid bin Shaker, Dhuqan Hindawi, ‘Adnan Abu ‘Odeh were the mediating figures. Eventually, King Hussein decided in favor of political liberalization and declared a royal decree for holding elections.²³¹ This was going to be a limited, top-

²³⁰ Mufti, “Elite Bargains”, p.105.

²³¹ Ibid, p.106.

down political opening in order to preempt social unrest and co-opt with elements of opposition.

4.6. 1989 Elections

In 1989 elections, approximately 650 candidates competed for 80 seats²³² in the Chamber of Deputies. However, in these elections political parties still remained banned under law, as they had been for more than 30 years. Political parties overcame this constraint by running candidates as independents.²³³ The results of the elections displayed that Islamists including Muslim Brotherhood, the best organized and most tolerated opposition group in Jordan, won 25 seats in the parliament. This meant that supporters of the Islamic current would constitute one third of the deputies.²³⁴

The majority of the parliament (44 seats) was composed of members of the political opposition, either religious right or the secular left.²³⁵ However, no women were represented in the parliament although they had the right to be elected.²³⁶

After the elections, nobody was expecting the prime minister to be appointed from opposition, but there was an expectation that the prime minister would be at least from the new generation leadership. However, the King appointed Mudar Badran as the prime minister and Badran replaced Sharif Zayd Ibn Shakir, the caretaker prime

²³² 80 seats are distributed as follows: 68 seats for Muslim Arabs, 9 for Christians, 2 for Circassians, 1 to be contested between Circassians or Chechens.

²³³ Kamrava, "Non-Democratic States", p.21.

²³⁴ "Islamists Win 25 Seats in Parliamentary Voting", Paris Radio Monte Carlo in Arabic, 9 November 1989, FBIS-NES-89-216 (9 November 1989).

²³⁵ Islamists won 32 seats in the parliament. 20 of these belonged to the candidates associated with Islamists and 12 were indeed independent Islamists. 35 seats went to tribal representatives and centrists and 13 to the leftists. Since the political parties were banned, it was the previously organized groups like Muslim Brotherhood and tribal groups that benefited the most. (Robinson, Opcit, p.392)

²³⁶ A Circassian candidate from Amman's third district, well-known advocate of women rights, Tujan Faysal was about to win a victory, but since she became the target of an Islamist campaign, her candidacy failed. (Ryan, *Jordan in Transition: From Hussein to Abdullah*, p.22).

minister. In fact, Badran was a veteran politician who had served as the head of dreaded General Intelligence Directorate or *Mukhabarat*, and was regarded as a Hashemite regime insider. This was disappointing for the opposition. With Badran's coming to power, a series of initiatives which could be regarded as tangible results of the political liberalization process were carried out such as freeing forty nine political prisoners, loosening government oversight of the press, reducing the role of the *Mukhabarat* in political life and returning thousands of passports that had been confiscated from dissidents. These were to a considerable extent was pleasing even for his critics.²³⁷

To sum up, 1989 elections was not a liberalization process carrying all of the qualifications of a democratization process. However, neglecting the shift in the state-society relations towards a greater participation of the citizens would not be fair.

4.7 Gulf War

However, the process following the elections was not peaceful. Nine months later, on August 2, 1990, Iraq's invasion of Kuwait hit Jordan terribly. King Hussein refused to join the US-led coalition against Iraq. By this way, the King gained great support within Jordan and even from the opposition, which was historically opposed to western political influence in Jordan.²³⁸

No matter how popular was King Hussein in the USA and in the West as well, the Gulf Crisis appears to have altered American-Jordanian relations very quickly and dramatically. After Iraq invaded Kuwait on 2 August 1990, King Hussein's first response was to mediate the confrontation and eventually reach an "Arab solution," in order to preempt any foreign intervention in the region, prevent the destruction of Iraq's economy and military capabilities, and save Kuwait from devastation. What he

²³⁷ Ryan, *Jordan*, pp.22-23.

²³⁸ Andoni and Shcwedler, "Bread Riots", p.41.

achieved was regarded as a breakthrough. He received from President Saddam Hussein a promise to withdraw from Kuwait in two days and even to attend a mini-summit of Arab leaders in Jeddah to find a permanent solution to the Iraqi-Kuwaiti conflict.²³⁹ However, despite these initiatives, the US forces intervened and Kuwait was released from Iraqi invasion at the end of February in 1991.

On 6 February 1991, when King Hussein appealed for a cease-fire in the war against Iraq, he also declared that the allied effort is 'against all Arabs and Muslims and not against Iraq alone' and is intended to assert 'foreign hegemony' in the Middle East.²⁴⁰ The American response was swift and threatening at the same time. First, President George Bush ordered a 'review' of the relatively meager American aid package to Jordan (\$20 million in military assistance and \$35 million in economic assistance) during 1991.²⁴¹ Second, James Baker III, Secretary of State, voiced the American administration's alarm and unhappiness with Jordan's stand.

In the end, the result of such stance for Jordan was a cut in foreign aid and suffering from the sanctions enforced against Iraq. Politically and economically, Jordan was worn out striving to stay in defense between Iraq (its greatest trading partner)²⁴² and the US (its greatest donor) allies. Jordan was in a severe position during the Gulf Crisis. Even remaining in defense cost Jordan international recrimination and retribution and a lot of money.²⁴³

The Kingdom not only lost its largest trading partner, Iraq, but also confronted a split with its financial donor, Saudi Arabia. Besides that, there was a great fall in the Kingdom's greatest export market, the Gulf and an unexpected flood of refugees,

²³⁹ Jamil E. Jreisat and Hanna Y. Freij, "Jordan, The United States, and The Gulf Crisis", *Arab Studies Quarterly*, Winter/Spring 91, Vol. 13, Issue 1/2.

²⁴⁰ *New York Times*, 7 February 1991, quoted in Jamil E. Jreisat, Hanna Y. Freij, "Jordan, The United States, and The Gulf Crisis", *Arab Studies Quarterly*, Winter/Spring 91, Vol. 13, Issue 1/2.

²⁴¹ *New York Times*, 8 February 1991, quoted in Jreisat and Freij, "Jordan".

²⁴² See the historical evolution of Jordanian- Iraqi relations in Curtis Ryan, "Between Iraq and a Hard Place: Jordanian-Iraqi Relations", *Middle East Report*, No.215, Summer 2000, pp.40-42.

²⁴³ Ryan, *Jordan*, p.23.

which was a vast burden for the kingdom.²⁴⁴ According to the World Bank, the estimated total loss to the Jordanian economy in the twelve months following the outbreak of war was at least US\$ 1.200 million and according to the Minister of Finance Jardaneh as high as US\$2.144 million.²⁴⁵

First of all, 300.00 workers and their families were forced to leave Saudi Arabia and Kuwait. This not only resulted in a decrease in the flow of remittances, but also increased government spending. Then, the flood of short-term refugees, particularly from Asian countries passed through the kingdom, cost a great deal to Jordan. The closure of Iraqi market due to the imposition of sanctions also had severe impacts on the Jordanian economy so did the increase in the cost of imported oil. In addition, the loss of economic relations with Gulf States hit the Jordanian economy with the loss of an export and labor market and the loss of the Arab aid. The blockage for the Aqaba port under UN sanctions against Iraq, caused great damage on the Jordanian economy as well.²⁴⁶ Finally, the increasing demand for goods and services lead to the rise of inflation rates and made products scarcer.²⁴⁷ As one can see from the picture displayed, Gulf War was a great blow for the Jordanian economy, which was trying to recover from its own crisis.²⁴⁸

In terms of the national readjustment plan, it could be easily put forward that although the Jordanian government was clearly committed to meeting the conditions of the agreement with the IMF, the Gulf crisis destroyed the original timetable of reforms. Consequently, 1990s went by the decelerating economic growth despite the foreign aid and IMF policies. These were of course not only stemming from the regional environment that was designated by the Gulf War, but also from the fragility of the Jordanian economy (its relatively large public sector, a small private sector

²⁴⁴ Satloff, "Jordan's Great Gamble", pp.147-148.

²⁴⁵ Knowles, *Jordan Since 1989*, p. 81

²⁴⁶ Andoni and Shewedler, "Bread Riots", p.41.

²⁴⁷ Hisham H. Ahmed and Mary W. Williams-Ahmed, "The Impact of the Gulf Crisis on Jordan's Economic Infra-Structure: A Study of the Responses of 207 Displaced Palestinian and Jordanian Workers", *Arab Studies Quarterly*, 02713519, Fall93, Vol. 15, Issue 4.

²⁴⁸ See detailed analysis in Knowles, *Jordan Since 1989*, pp.80-81.

with a small, but growing industrial component, chronic trade imbalances, a heavy foreign debt burden, in addition to its possession of a rapidly growing population and few natural resources).²⁴⁹

4.8 National Charter

When the Gulf War was over, Jordan survived from what Ryan regarded as the ‘trauma’, and went on with the political reforms. 1989 elections, was the indication for the newly starting era: political liberalization. Elections were followed by the legal amendments for providing the ‘quasi-constitutional basis for democratization process’.²⁵⁰ Parliamentary elections, restoration of multi-party politics and a freer press were the proof of it, but the adoption of the National Charter in 1992 was the stamp of the Hashemite regime on the liberalization process.²⁵¹

The National Charter contained democratic rights, intellectual pluralism, tolerance and equality, precisely equality before the law of men and women. It also claimed private property rights which were a major pillar of elite power. However, “it remained a document without formal legal standing”²⁵². The terms for political participation and opposition were set within the National Charter. Although the importance of these steps should not be underestimated, one should be careful about the limits of this ‘democracy’. For instance, opposition is tolerated, but only the loyal one. Political participation is encouraged, but only for the exchange for the continuity of the monarchy and the Hashemite regime.²⁵³

²⁴⁹ Richards, “The Political Economy”, p.27.

²⁵⁰ Knowles, *Jordan Since 1989*, p.80.

²⁵¹ Ryan, *Jordan in Transition: From Hussein to Abdullah* , p.24.

²⁵² Robinson, “Defensive Democratization”, p.394.

²⁵³ Ryan, *Jordan*, p.24

4.9 One Step Forward, Two Steps Back? 1993 Elections

By the year 1993, new elections were held in Jordan. Before the elections, a new electoral law giving one person, one vote was issued in 1992.²⁵⁴ This new law replaced the previous one that allowed each voter to have as many votes as there were representatives in his or her district.²⁵⁵ In addition to that, more than 20 political parties were legalized. 1993 elections were important in the sense that these were the first national elections in which political parties were allowed to campaign legally and relatively freely since 1956 elections, which were the last before parties were banned in 1957. For the 1993 elections, 536 candidates competed for 80 seats in the parliament.²⁵⁶

In fact, compared to the 1989 elections, the outcome of these elections displayed a loss in the power of the religious right and also the secular left.²⁵⁷ On the other hand, it was an overwhelming victory for non-ideological tribal representatives and centrist forces. Leftists/Arab nationalists together with the Islamic Action Front (IAF) won only thirty-one seats in the parliament. Seven leftist/nationalist candidates won in the 1993 elections compared with 13 in the 1989 elections. The IAF was able to win 16 seats (although it fielded 36 candidates), while centrist parties won eight seats. What came as a big surprise was the election of the first woman candidate to parliament

²⁵⁴ The change in the electoral law allowed only one vote for each voter, regardless of the number of seats designated for his/her district. For instance, Amman's second district the number of votes designated was three. In that respect, a voter would vote only for one candidate under the new law. The three candidates who received the highest votes in that district were to be seated in parliament. Because of this new situation, the nature of campaigning and tactics was also changed. See in Abla M. Abawi, "1993 Elections in Jordan", *Arab Studies Quarterly (ASQ)*, Summer 1994, http://findarticles.com/p/articles/mi_m2501/is_n3_v16/ai_17041234.

²⁵⁵ In the 1989 elections, each voter could vote for as many as there were electoral seats in the electoral district. These districts ranged in size, so they were represented in the parliament with two to nine seats. This meant that each voter in Jordan had between two to nine votes to distribute among those candidates in that district. By this way, "each voter could satisfy both familial and ideological impulses" since they generally give their first vote for a clan member and second vote to a candidate in compliance with their ideology. See in Robinson, "Defensive Democratization", p.397.

²⁵⁶ Abawi, "1993 Elections".

²⁵⁷ Ryan, *Jordan*, p.28.

Tujan Faysal. She was able to enter into a male-dominated parliament without tribal backing, financial clout, or party endorsement.²⁵⁸

It was of question whether the parliament born out of the elections represented the Jordanian society or not. Although the government very much insisted that the elections were free and fair, the measures taken before the elections were about to jeopardize the freeness and fairness of the elections. The fragmentation of the election districts, the new election law, the number of contenders for seats in various districts outweighing the number of registered voters, etc. Especially the ‘one person one vote’ electoral law very much subjected to criticism. It was seen as favoring tribalism at the expense of urbanism.

While the 1989 elections led to a relative strengthening of civil society organizations and to weakening tribal and blood bonds, the 1993 one-person, one-vote formula led to the re-emergence of old values that played a major role in this year’s elections. This, observers say, meant that Jordan will enter the 21st century with a 13th century tool, the 13th parliament.²⁵⁹

Thus, the elections were not meant to effect real political change. Although the ‘one person one vote’ was a reasonable step towards political liberalization, the change in the electoral system in Jordan was for one purpose: to ensure a manageable parliament with limited powers for the regime. The real winner in these elections was neither tribalism nor regionalism but rather the Hashemite regime.²⁶⁰

However, during the process starting with 1993 elections, which meant a deepened process of liberalization with a lifted martial law in 1991, legalized political parties in 1992, institutionalized electoral process, there were disturbing trends, one of which was the Oslo Peace Treaty between Israel and Palestinians renewing the ethnic tensions between Transjordanians and Palestinians within Jordan.²⁶¹

²⁵⁸ Amawi, “1993 Elections”.

²⁵⁹ Yasser Abu Hilaleh, “When Tribalism Takes over Urbanism”, *Jordan Times*, 6 November 1997, quoted in Ryan, “Jordan in Transition: From Hussein to Abdullah”, p.38.

²⁶⁰ Amawi, “1993 Elections”.

²⁶¹ Ryan, *Jordan*, p.28.

In October 1994, Jordan completed its bilateral negotiations and signed a peace treaty with Israel. When it came to the ratification of the treaty in the parliament, opposition including religious right, secular left and pan-Arabists was mobilized against, but eventually the peace treaty was ratified on November 6, 1994. The treaty passed with 54 votes against 23 in the parliament. This fuelled the antagonism between the government and the opposition. Although King Hussein appointed a reformer, Abd-al Karim al-Kabariti, as a prime minister in 1996, the façade of democracy in Jordan fell under the shadow of the Mukhabarat with an expanding role.²⁶²

4.10 Back to Square One: Second IMF Adjustment Program and 1996 Bread Riots

In August 1996, Jordan started implementing the second economic adjustment program²⁶³ in cooperation with IMF. Although the economic constraints, especially stemming from the regional dynamics faded away and the domestic economic indicators were not as bad as the ones in 1989, the implementation of the second economic adjustment program increased the fears in the public in terms of increasing prices. On the other hand, being aware that dissatisfaction of the opposition (mainly from the electoral law and 1994 Peace Accords with Israel), Jordanian government felt the necessity to ease potential tensions within the society. In that respect, Prime Minister Al-Kabariti declared that government would not shift subsidies given to Jordanian citizens and explained the mechanism for that²⁶⁴ in order to ensure that the coming changes in the economy would be compensated for the citizens.²⁶⁵ However,

²⁶² Ryan, *Jordan*, pp.28-29.

²⁶³ The programs for tackling with Jordan's major macroeconomic challenges were supported by IMF under three Stand-By Arrangements (SBAs), which were approved in 1989, 1996 and 2002 and three Extended Fund Facility (EFF) arrangements, which were approved in 1994, 1996 and 1999. See in Evaluation Report, IMF Support to Jordan, 1989-2004.

²⁶⁴ See at "News Conference by Jordanian Prime Minister Abd al-Karim al-Kabariti, Amman Radio Jordan Network, 11 July 1996, FBIS-NES-96-135.

²⁶⁵ Ryan, *Jordan*, p.55.

Jordanian government lifted the subsidies on wheat on August 13, 1996.²⁶⁶ With the doubling of the bread prices, what came out was kind of a *déjà vu*: new demonstrations with slogans similar to the ones in the 1989 demonstrations: “Long live the King, down with Kabariti!”²⁶⁷ The demonstrations started this time first in Karak on 16 August 1996 including more than 25 000 people. Soon the demonstrations turned into riots that lasted two days and spread to the other towns such as al-Tafilah, Mazar and Ma’an.²⁶⁸

However, this time the picture differed from the one in 1989 regarding the way how the government and the King responded to the riots. First response was repression. Jordanian army occupied Karak and enforced a strict curfew. King supported the prime minister instead of resigning him, as he did in the 1989 riots and in addition to that, King declared that the bread subsidies of the previous years had been a mistake. Following, the government and the monarchy in alliance shifted the focus of the situation by blaming ‘outside agitators’ in the riots. The Jordanian Arab Socialist Ba’th Party (JASBP) was accused of having ideological affinity with Iraqi Ba’th Parties the blame was put on the party for having strong political connections with Baghdad and engaging in the bread riots. JASBP denied such connection and insisted that they had neither part nor a role in the riots.²⁶⁹

Nevertheless, Jordanian government and the king was keen on asserting that it had evidence that Iraq was directly involved in initiating the bread riots with the purpose of disrupting the process of democratization in Jordan.²⁷⁰ Jordan was so determined in its claim that Jordanian Foreign Ministry denied the accreditation of the first

²⁶⁶ Andoni and Scwedler, “Bread Riots”, pp.40-41.

²⁶⁷ Quoted in Ibid, p.41.

²⁶⁸ Ibid.

²⁶⁹ Ryan, *Jordan*, pp.59-61.

²⁷⁰ Ibid, p.40.

secretary to the Iraqi embassy²⁷¹ on 24 August 1996 and he was told to leave Jordan within 3 days.²⁷²

Although the main focus was the secular leftist parties, all the opposition parties including Islamists got their share from the accusations about bread riots. The government accused the parties of breaking political party law by having and maintaining foreign ties. The political parties called for the resignation of the government. Eventually, the King dissolved the parliament.²⁷³ As a consequence, the 1996 riots did not bring further liberalization or democratization. In contrast, the result was restrictions and limitations on political and press freedoms.²⁷⁴

4.11 1997 Elections

In the wake of November 1997 elections, Jordanian liberalization have already gone through changes harming the process such as imposing new restrictions on the press and other political rights (such as public assembly, freedom of speech, press and publication). In fact, these were the measures taken by the Jordanian government in order to curb the dissident provoked by the opposition. The opposition had not been satisfied with the electoral law of ‘one person one vote’. The change made in the electoral law in 1992 had been perceived as a maneuver for undermining the Muslim Brotherhood. Despite the boycotts by the opposition parties, 1997 elections took place on November 4, 1997.²⁷⁵

²⁷¹ Khaled Rashis Musleh.

²⁷² Andoni, Shcwedler, “Bread Riots”, p.40.

²⁷³ Ryan, *Jordan*, p.63.

²⁷⁴ Lamis Andoni, “Report From Jordan: King Abdallah: In His Father’s Footsteps?”, *Journal of Palestine Studies*, Vol. XXIX, No. 3, (Spring 2000) , p.79.

²⁷⁵ Ryan, *Jordan*, p.30.

The outcome of these elections was a parliament lacking ideological diversity compared to the previous ones. Experiencing the sharpest decline, Islamists won no seats in the parliament whereas leftists won only six seats. So the number of traditional and conservative members in the parliament jumped from a majority of 51 in 1993 to 68 in 1997.²⁷⁶

The changes Jordan went through since 1989 compared to its Arab neighbors are considerable, and worth paying attention with legal political parties, regularly held elections and lifted martial law. Nevertheless the path of liberalization experiences in Jordan was not a smooth one with one step forward, two steps back. Considering restricted press and political rights, boycotts before the 1997 elections, the representativeness of the 1997-2000 parliament, the absence of woman in the parliament, unheard voice of opposition, political liberalization turned out to be a questionable notion in Jordan.

4.12 King Abdullah II Ascending Throne: Continuing Liberalization?

Abdullah ascended the throne a year after his father's death in early 1999. The young monarch was the defender of liberalization of the Jordanian economy for the integration to the world economy and pro-US policies without criticism in the Jordanian foreign policy. This is not only reflected in his stance free from the constraints of the pan-Arab nationalism and the Arab-Israeli conflict,²⁷⁷ but also his placing economic development on the top of his agenda.²⁷⁸ He was keen on eliminating any constraint that can impede Jordan's incorporation to the global economy such as eliminating tribal influences. In addition to breaking up of the tribal bureaucracy, he did not fear or at least did not seem to fear that this would result in losing support among Arabs and Jordanians.

²⁷⁶ Ryan, *Jordan*, p.37.

²⁷⁷ Andoni, Report From Jordan, p.80.

²⁷⁸ Curtis Ryan, "Jordan: Reform Retreats Amid Jordan's Political Storms", *Middle East Report Online*, 10 June 2005, <http://www.merip.org>

Abdullah's efforts focused on modernizing Jordanian economy. Within that framework he believed in the need to have a free-market economy, making Jordan a regional trade center and a leader in an American-led Arab coalition.²⁷⁹ In fact, regional conjuncture including the relations with the other Arab states served for the interest of Abdullah's policies since the relations with the Gulf states and even with Syria were restored.²⁸⁰

4.12.1 Top of Abdullah's Agenda: Economy

When King Abdullah II ascended the throne, Jordanian economy was stagnant for almost two years. The unemployment rate was between 25 to 27 percent, one third of the Jordanian population was living below the poverty line and foreign debt was over \$7 billion .²⁸¹ Being committed to economic liberalization more than his father,²⁸², Abdullah made great efforts to achieve economic development by attracting foreign investment and manufacturing more goods for export.²⁸³ In that respect, Abdullah did not refrain from engaging in bilateral trade and partnerships even with Israel and also he initiated the establishment of Qualified Industrial Zones (QIZs) in Jordan, which can be regarded as one of the most significant strategies of Jordan in cooperation with USA and Israel.²⁸⁴ King Abdullah has displayed "a determined effort to change the role of government from a major player in the economy into a facilitator of competitive markets and provider of an attractive investment environment"²⁸⁵.

Jordan's entry into the World Trade Organization in 2000 and the Free Trade Agreement with the United States that took effect in 2001, and also joining to the

²⁷⁹ Andoni, "Report From Jordan", pp. 80-83.

²⁸⁰ See in Ryan, *Jordan*, pp.110-114 and also Andoni, "Report From Jordan", pp.82-84.

²⁸¹ Andoni, "Report From Jordan", p.85.

²⁸² Ryan, *Jordan*, p.111.

²⁸³ Ryan, "Jordan: Reform Retreats".

²⁸⁴ Andoni, "Report From Jordan", pp.84-85.

²⁸⁵ Progressive Jordan, 24 July 2005, www.abraaj.com

European Free Trade Association (EFTA) in 2001 can be regarded as the most apparent achievement of Abdullah's foreign policy and the proof of his intensive efforts to integrate Jordan to global economy.²⁸⁶

Furthermore, Abdullah was also keen on pushing Jordan to become a regional center for information technology and communications.²⁸⁷ He even tried to persuade the director of Microsoft, Bill Gates, at a meeting in Geneva "to consider investing in an advanced infrastructure to boost Jordan's plan to become a regional internet city"²⁸⁸. Today Jordan has full internet access to internet as opposed to some of its neighbors.²⁸⁹

Finally, Jordan, with its Memorandum of Understanding with the IMF of July 4, 2000 lays out the intent for the next phase of economic reform, adopted as a response to the declaration of growth in the late 1990s. This program emphasizes privatization, tariff reduction and other policy changes to meet WTO membership requirements. However, despite the indigenous difficulties stemming from Jordan's economic characteristics (mentioned above), exogenous events hardened the implementation of these reforms since they undermined confidence and deterred foreign investment. These events are the collapse of the Israeli-Palestinian peace talks, the Al-Aqsa Intifada, the threat of regional war after 9/11.²⁹⁰

4.12.2 Political Liberalization

To begin with, Abdullah's efforts on deregulation and liberalization of economy were not accompanied by such reform in political realm. This mainly stemmed from the fact that democratization process in Jordan was quite new, having been initiated

²⁸⁶ Ryan, "Jordan: Reform Retreats".

²⁸⁷ Ryan, *Jordan*, p.117.

²⁸⁸ Andoni, "Report From Jordan", p.86.

²⁸⁹ Ryan, *Jordan*, p.117.

²⁹⁰ Richards, "The Political Economy", p. 31.

only ten years ago and with certain deficiencies. Censorship for the Arab and foreign press were already lifted, but the government still had the right to use penal codes to punish journalists.²⁹¹ However, according to Ryan the emphasis of Abdullah that much on economic liberalization was because of halting the progress of political liberalization. Regime's giving priority to economic liberalization can be seen in top ministries occupied by the business people and technocrats fond of neoliberal economics.²⁹²

King Abdullah dissolved the Parliament in June 2001, several months before the scheduled elections. Then a new electoral law raised the number of seats in the Lower House from 80 to 104 and lowered the voting age from 19 to 18. Since then the elections have been repeatedly postponed by the king. His reason for that was the turmoil in the Palestinian territories.²⁹³ When eventually the fourth round of national parliamentary elections were held in 2003 since 1989 with two years' delay, there were six seats reserved for women in the parliament that was arranged by a royal decree supplementing the electoral law. Although this was a significant attempt in terms of liberalization, there were also initiatives that can be regarded as the indicators of deliberalization. According to Kamrava, as the regime reconstructs itself and its institutions in order to contain popular pressures, the liberalization may not end with sincere democratization.²⁹⁴ Modern Middle East has witnessed several examples of shifts from liberalization to deliberalization such as in Lebanon, Morocco, and even Iran. In that sense Jordan also experienced some deliberalizations especially after mid-1990s.²⁹⁵

Opposition in Jordan containing Islamists and leftist were dissatisfied with the stalling democratization and continuing priority of economic reform over the political. Although opposition in Jordan never targeted the Hashemite state or the

²⁹¹ Andoni, "Report From Jordan", p.86.

²⁹² Ryan, "Jordan: Reform Retreats".

²⁹³ Lola Keilani, "Jordan Islamists Change Tactic", *Al-Ahram Weekly Online*, 1-7 May 2003 (Issue no: 636), available at <http://weekly.ahram.org.eg/2003/636/re6.htm>

²⁹⁴ Kamrava, "The Middle East", quoted in Ryan, *Jordan*, p.18.

²⁹⁵ Ryan, *Jordan*, p.19.

regime, the elements of regime base is of crucial importance for the Hashemite Kingdom. Fearing that opposition may include conservative elements of the regime base such as Transjordanian and Bedouin society, and eventually the political base of the regime could be eroded, in early June 2005, King Abdullah issued a new order, setting aside shares of privatized companies to be offered at reduced prices to past and present members of the security forces: members of the public security department, the civil defense forces, the armed forces and the mukhabarat, including retirees.²⁹⁶ The policy of making these people profit from privatization might have helped the monarchy achieve three goals simultaneously: allocating direct benefits to the domestic security apparatus, allowing the economic reform process to continue and finally -and most importantly- undercutting much of the Transjordanian opposition to privatization and economic reform, as well as the current slate of neoliberal ministers.²⁹⁷

Together with the opinion polls, these all indicate that there is an increasing lack of confidence in and growing opposition to government. Within that framework, no one can guarantee that Jordan will not confront any other socio-political crisis like the ones in 1989 or in 1996 since government policies towards liberalization is just for regime survival.

4.13 Conclusion

Due to the economic recession followed by a crisis in Jordan in 1989, there appeared a need for economic reform. This brought Jordan to adopt IMF policies in the context of economic liberalization. Although it was considered that the IMF policies were the remedy for economic problems in the country, yet they resulted in social discontent. In fact, with the implementation of these policies, the social and economic cohesion could not be created.

²⁹⁶ Ryan, "Jordan: Reform Retreats"

²⁹⁷ Ibid.

Jordan started implementing an austerity plan for cutting subsidies on some goods and imposing several new duties and taxes and price increases in a wide range of goods, which were the ostensible reasons for the riots. The riots were not surprising since there was a growing discontent among Bedouins originating from the declining role of the tribes who were the main guards of the Hashemite Regime.

The socio-political crisis that came to the fore following the riots was not targeting the regime change, but caused to the resignation of the prime minister. This quick response was not to curb the economic reforms, but to appease masses through temporary political changes. On the other hand, soon, these were followed by a political liberalization process initiated by the Hashemite regime. 1989 elections can be regarded as the benchmark for the Jordanian political life since it was the starting point for the new and liberalized legal atmosphere. However, neither 1989 elections, nor 1993 elections, despite their significance in the name of democratization, was in fact, political tactics of the Hashemite regime to perpetuate itself as a legitimate and supported regime. Thus the real winner in the political liberalization was neither tribalism nor regionalism but rather the regime.

To sum up, what was experienced in economic and political liberalization processes in Jordan could not be characterized as the impact of the unavoidable process of globalization which is always thought to spread free-market economies and democracy all over the world. When the political liberalization in Jordan is concerned, this process was nothing more than the appeasing or satisfying masses through their integration to the political life.

CHAPTER 5

CONCLUSION

There is no universally appropriate or applicable formula for the transformation from a centrally-planned or state-managed economy to one in which market is supreme. This means that every transformation case has its own story emanating from its history, culture and political system. However, although it is difficult to make generalizations in the Middle East, analysis of political economy of reform in a country like Jordan may help us to reach some general conclusions about the rationale of reform in the region. From this point of view, Jordan, which is regarded as one of the most successful liberalizers in the Middle East, is an appropriate case study to see the extent that liberalization policies imposed by the international financial institutions reached in the region.

The reform process in Jordan was fundamentally shaped by the characteristics of a rentier economy. The decline of Jordan's traditional sources of state revenues, namely foreign aid or workers' remittances, endangered the patrimonial state-society relations, which was one of the primary characteristics of a semi-rentier state. The neo-liberal development policies defined in the Washington Consensus were assumed to bring the collapse of this system by changing the role of the state from a 'distributive' to a 'productive' state. However, what happened in Jordan was not the collapse of this system. In compliance with the regime's survival strategy, the 'social contract' between the state and the coalition groups continued. Although the actors and the rules of the patronage network changed, the neo-patrimonial system perpetuated.

The economic liberalization processes in Jordan, in fact, was a response to the domestic economic crisis combined with the external debt pressure. The economic crisis in the country also put the ruling power of the Hashemite regime in crisis since the state was no more able to continue its role of allocating resources in return for political support. This led to a legitimacy crisis of the regime. Since the Hashemite regime was no more able to cope with this crisis through its own resources, it had to

turn to IMF and World Bank in order to overcome the economic stagnation and its debt problems. This brought in the implementation of Structural Adjustment Programs (SAPs) proposed by the IMF and World Bank in return for the credit provided by these institutions and which addressed the root causes of the economic stagnation in the country. Although the economic reforms brought a relative macroeconomic stability, it did not bring about the market initiatives that promote production in the country. The structural adjustment policies of IMF for Jordan intended a downsizing state. With the implementation of these policies, state tried to reduce its activities and its size. This was expected to lead to the emergence of a strong private sector that would replace the state in the sectors that it retreated. However, the private sector in Jordan was reluctant to act in this way. Hence, the private sector remained weak and dependent on the rent granted by the state and it did not ask for a role of independency. Furthermore, private sector investment has declined during the adjustment period. Increasing the role of private sector as an independent autonomous institution in the economy turned out to be difficult like downsizing the public sector and bureaucracy. Thus, what appeared was a private sector very much dependent on the state, delineating a blurred relationship between the private and public sector, which was one of the natural outcomes of a rentier economy.

During an economic reform process, the first phase of reform constitutes the most difficult phase. The imposition of macroeconomic stabilization and structural adjustment policies create popular discontent among the society since these policies place unequal burden upon the shoulders of the masses. However, as time passes, people become more used to reforms so that the reforms could be more easily implemented in the following phases. Yet the unsuccessful results weaken the public support for further reform. In Jordan, it was the first phase of stabilization that the Hashemite regime initiated a political liberalization process as a response to social discontent. In fact, the political liberalization was a political survival strategy of the Hashemite monarchy to appease masses or the losers that provide support to the regime by integrating them into the political process.

Although the second phase of reforms did not seem to be as difficult as the first phase at first sight, it was also problematic for many MENA states since it envisioned the retreat of state from the economic sphere. These structural reforms necessitate withdrawing of state from its role as a provider. These policies include the abolishing of guaranteed employment by the state and the subsidies, reduction of welfare provisions and public sector salaries and reforming tax system by broadening the tax base. Following the implementation of structural adjustment policies in Jordan, the statistics²⁹⁸ and the economic indicators displayed that what has been counted as the economic imbalances in Jordanian economy as trade and budget deficits, high level of consumption and saving investment gap have still been continuing as the problems of the Jordanian economy. This is mainly because of the fact that structural changes have not taken place in Jordanian economy. On the other hand, since these economic imbalances are at the same time the structural characteristics of a rentier economy, it seems that the only way to overcome these economic imbalances is to totally transform the structure of the Jordanian economy, which has been the ultimate goal of the structural adjustment policies proposed by the IMF and World Bank.

Jordan initiated political liberalization just after the implementation of initial economic reforms under its SAP. The economic survival strategy of initiating economic reforms resulted in economic and social costs alienating the losers of the economic process. Ordinary Jordanians bore the burden of these economic and social costs together with certain groups that had supported the regime. The growing discontent among these people led the Hashemite regime to initiate political liberalization as a political survival strategy. With this democratic bargain, the Hashemite regime introduced a new social contract among the state and society at large and the regime and its coalitions at particular. Over the analysis of political economy of reform, this thesis concludes that the economic and political liberalizations are indeed regime survival strategies in Jordan.

²⁹⁸ See Tables in Chapter 2.

To see the picture more clearly, one should note that the reform process in Jordan was not participatory. Civil society and other non-governmental organizations (NGOs) played very limited roles during the economic and political liberalization in Jordan. It was a top-down process, which in many cases turned out to be exclusive to the rentier elite. In Jordan, the state which is the magnitude of powers, together with the rentier economic structure, created an understanding that economic interest could generally be best pursued through personal access by being a member of the political elite or extended family, a part of a network of tribal leaders or a part of the patron-client linkages. The reform process re-shaped these accesses by shifting coalitions. The tribal leaders lost their influence in the distribution of economic rents and their dominance in the military, but they were integrated to the political system especially after the change in the electoral law. It is asserted particularly in 1993 elections in Jordan that the new 'one person one vote' system favored tribalism at the expense of urbanism. Although this can be open to debate, it was obvious that the urban East Bankers were to fill the place emptied by the tribal leaders. In addition, with the reform process, due to the increasing importance of private sector for the state, Palestinians were no more the periphery for the neo-patrimonial network. Political clientelism shaped the government policies significantly even during the reform process. The Hashemite regime pleased the public and the losers of the economic reforms through political liberalization.

Oil poor traditional monarchies or 'civic myth monarchies' like Jordan is viewed as more prone to achieve economic liberalization and transition to market economies more easily since they rely on a propagated civic and political myth and the royal family derives its right to rule from Islamic ancestry, which helps them to maintain their regimes. Although those factors are important components of the legitimacy of the Hashemite regime, these factors alone did not help the regime to survive during economic stagnation and shifting coalitions that support the regime. In the case of Jordan, the relative success of the economic liberalization and the relatively smooth transition to political liberalization are to an important extent due to the sophisticated political management of these processes by the King.

It has been regarded crucial for most of the Middle Eastern states to make domestic reforms and adopt outward-oriented policies to meet the present and future challenges of globalization, what is to be done at first is to weigh both the risks and the opportunities that globalization offers. In addition, one should never forget that globalization may require investing in and upgrading the 'quality' of states in MENA rather than aiming to erode them as the neo-liberal perspective puts forward. On the other hand, although economic liberalization arises from the failure of the state to successfully determine production and allocate resources, it is, indeed the 'state' that is to initiate the process, especially if the state's role as the engine of growth for so long in the region is considered. Hence, it is useful to re-think 'state' due to what it corresponds in the region rather than what it corresponds in globalization at large.

As a consequence, although the growing economic interdependence in the world economy under globalization offers opportunities for the developing countries, simultaneously it also poses serious problems for them as well. Washington Consensus policies, during the first phase of reforms for macroeconomic stabilization may turn out to be successful as in the case of Jordan. However, since the structural reforms necessitate the 'redefinition' of state in most of the developing world, these neo-liberal policies could be questioned. Within that framework, the emergence of Post-Washington Consensus in the late 1990s was not a coincidence. With the Post-Washington Consensus, it has begun to be considered if state could have a positive role in promoting economic growth.

In conclusion, it is possible to say that as analyzed in this thesis over the case of Jordan, what is seen as economic and political liberalization in many Middle Eastern countries are delineated by the Washington Consensus policies, but the reality is that they have been initiated for the sake of regime survival. Although these processes brought 'change', overall genuine transformation of economy and politics did not occur. This not only puts the future of the economic and political liberalization processes in question, but also challenges the route of developments that globalization has foreseen for the developing world in question.

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<http://www.biu.ac.il/SOC/besa/books/kanov/chap4.html>

http://www.Kinghussein.gov.jo/hash_intro.html

APPENDICES

APPENDIX A : Development Plans in Jordan (1964-2003)

The Plan	Balance of Trade BOT	Budget Deficit	GDP Annual increase	Unemployment and Poverty	Other Objectives
1964-1970 ⁽²⁹⁹⁾	Reducing its deficit	Reducing its reliance on Foreign Assistant	7.3 % at Fixed Prices		Pursuing political stability
1973-1975 ⁽³⁰⁰⁾	Supporting BOP and reducing the BOT Deficit*	Increase the Budget reliance an domestic resources	8 % at Fixed Prices	Increasing it by 70 thousand jobs	Pursuing economic prosperity After fuel prices increase
1976-1980 ⁽³⁰¹⁾	Reducing the BOT Deficit	Increase the Budget reliance an domestic resources	11.9 % at market Prices		Economic sectoral restructuring
1981-1985 ⁽³⁰²⁾	Reducing the BOT Deficit	Increase the Budget reliance an domestic resources	11 % at market Prices	Developing the Work Force	Growth fair distribution
1986-1990 ⁽³⁰³⁾	Reducing the BOT Deficit	Increase the domestic resources and rationalizing government expenditures	5.1 % at market Prices	Increasing it by 97 thousand jobs	Reducing inflation and Stabilizing The JD and motivating domestic savings
1993-1997 ⁽³⁰⁴⁾	Achieve current account balance of the BOP	Reducing the budget Deficit in relation to GDP by 3 %	6 % at market Prices	Reducing Unemployment to 9.6 % And reducing poverty in the short run.	Reducing foreign Debt to a level not to exceed 100 % of the GDP.
1999-2003 ⁽³⁰⁵⁾	Achieve surplus in the BOP equal to JD 254 m. at the end of 2003. BOT deficit will have to decrease from 27.4 % in 1998 to 22.7% in 2003 relative to GDP	Reducing the budget deficit to GDP to be 1.3 % before gifts.	4.5 % annual increase in GDP on the average.	Decreasing Absolute Poverty by a rate of 1.5 % annually to reach at less than 15 % of the Population, and decreasing the unemployment to less than 10 % at the end of the plan.	Reserving JD stabilization; Reducing foreign debt to 75 % of the GDP by the end of the plan; Following up privatization implementation programs; reserving a suitable domestic saving to be at least 12 % relative to GDP; Restructuring investment to be 79 % for the private sector and 21 % to public sector.

⁽²⁹⁹⁾ The Jordan Development Board: The Seven-Year Program for Economic Development of Jordan 1964-1970, Amman.

⁽³⁰⁰⁾ The National Council for Planning, The Three-Year Plan 1973-1975, Amman.

⁽³⁰¹⁾ The National Council for Planning, The Five-Year Plan 1976-1980, Amman.

⁽³⁰²⁾ The National Council for Planning, The Five -Year Plan 1981-1985, Amman.

⁽³⁰³⁾ Ministry of Planning, The Socio-Economic Plan 1986-1990, Amman.

Appendix A (continued)

*** BOP denotes for Balance of Payment.**

**** BOT denotes for Balance of Trade.**

(3) This plan, in addition to above, aimed at Stabilizing the level of prices, reducing the Money Supply at the hands of the public and, contracting on foreign loans to finance the development projects and requesting more gifts from abroad.

(4) This plan, in addition to above, aimed at restructuring the economic sectors relative to GDP in favor of productive sectors, reducing the gaps between regions and supplies the resident's main needs, activating the participation of Arab economic development and, developing the Banking sector and stabilizing the Money Supply.

(5) By this plan, Unemployment was increased drastically. And, in addition to the above objectives, the plan aimed at reducing the General Consumption levels relative to GDP, and sustaining the Arab common work, fairly distributing the development benefits and, focusing on stabilizing the Jordanian Dinar after its deterioration after the failed monetary policies.

(6) This plan, in addition to above, aimed at reducing public consumption to 88.1 %of the GDP, stabilizing prices levels to around 4-5 % annually, solving the structural imbalances and, introducing the Sales Tax instead of the Consumption Tax and, enforcing the reserves to cover at least three months of imports.

⁽³⁰⁴⁾ Ministry of Planning, The Socio-Economic Plan 1993-1997, Amman.

⁽³⁰⁵⁾ Ministry of Planning, The Socio-Economic Plan 1999-2003, Amman.

APPENDIX B: Two Stages of Economic Liberalization

	Stage I	Stage II
Priorities	<ul style="list-style-type: none"> • Reduce inflation • Restore growth 	<ul style="list-style-type: none"> • Improve social conditions • Increase international competitiveness • Maintain macroeconomic stability
Reform Strategy	<ul style="list-style-type: none"> • Change macroeconomic rules • Reduce size and scope of the state • Dismantle institutions of protectionism and statism 	<ul style="list-style-type: none"> • Create and rehabilitate institutions • Boost competitiveness of the private sector • Reform production, financing, and delivery of health care, education, and other public services • Create "economic institutions of capitalism" • Build new "international economic insertion"
Typical Instruments	<ul style="list-style-type: none"> • Drastic budget cuts and tax reform • Price liberalization • Trade and foreign investment liberalization • Private sector deregulation • Creation of social "emergency funds" bypassing social ministries • "Easier" privatizations 	<ul style="list-style-type: none"> • Reform of labor legislation and practices • Civil service reform • Restructuring of government, especially social ministries • Overhaul of administration of justice • Upgrade of regulatory capacities • Improvement of tax collection capabilities • Sectoral conversion and restructuring • "Complex" privatizations • Building of export promotion capacities • Restructuring relations between states and federal government
I. Principal Actors	<ul style="list-style-type: none"> • Presidency • Economic cabinet • Central Banks • World Bank and IMF • Private financial groups and foreign portfolio investment 	<ul style="list-style-type: none"> • Presidency and cabinet • Congress • Public bureaucracy • Judiciary • Unions • Political parties • Media • State and local governments • Private sector
Public Impact of Reforms	<ul style="list-style-type: none"> • Immediate • High visibility 	<ul style="list-style-type: none"> • Medium and long term • Low public visibility
Administrative Complexity of Reforms	<ul style="list-style-type: none"> • Moderate to low 	<ul style="list-style-type: none"> • Very high
Nature of Political Costs	<ul style="list-style-type: none"> • "Temporary corrections" widely distributed among population 	<ul style="list-style-type: none"> • Permanent elimination of special advantages for specific groups
Main Governmental Challenge	<ul style="list-style-type: none"> • Macroeconomic management by insulated technocratic elites 	<ul style="list-style-type: none"> • Institutional development highly dependent on midlevel public sector management
<p>Source: Moises Naim: Latin America's Road to the Market: From Macroeconomic Shocks to Institutional Therapy (San Francisco; ICEG, 1994), available at http://www.imf.org/external/pubs/ft/seminar/1999/reforms/Naim.HTM</p>		

APPENDIX C: IMF-Supported SBAs and EFFs of Jordan

Objectives and Strategies	Macroeconomic Policies	Structural reforms and Social policies
<p>1989 SBA*</p> <p>Broad objectives Increase the rate of economic growth while maintaining relative price stability, and substantially reduce the budget and balance of payments deficits.</p> <p>Key targets/projections</p> <p>(1) Steady recovery from negative economic growth in 1988 to 4 percent in 1992 and beyond. (2) Reduce inflation rate from 14 percent in 1989 to less than 7 percent by 1993. (3) Eliminate the external current account deficit (including official transfers) by 1993; from 6 percent of GDP in 1988.</p> <p>Strategies</p> <p>(1) Boost investment incentives. (2) Eliminate government dissaving to raise domestic savings. (3) Seek rescheduling of external debt-service obligations in order not to constrain imports unduly.</p>	<p>Measures to reduce the government budget deficit included (1) increases in petroleum product prices; (2) increases in tax rates on cigarettes, and new taxes (royalties) on phosphate and potash; and (3) reduction in subsidies (on food items and for domestic production).</p> <p>Measures to contain monetary expansion included reduction in government borrowing from domestic banking system.</p> <p>Exchange rate to be managed flexibly with a view to maintaining the real effective exchange rate at a competitive level.</p>	<p>Structural reforms</p> <p>Specific policies for trade liberalization and tariff reform to be discussed with a forthcoming World Bank mission.</p> <p>Social policies</p> <p>Protect the poor through continued subsidies on basic food items, but improve targeting.</p>
<p>1992 SBA</p> <p>Broad objectives Restore and sustain economic growth in a noninflationary environment, generate employment and achieve budgetary and balance of payments viability.</p> <p>Key targets/projections</p> <p>(1) Increase real GDP growth rate to 4 percent by 1997 (from a negative average rate during 1989-91). (2) Reduce inflation from 10 percent in 1991 to below 5 percent in 1997. (3) Reduce the external current account deficit (excluding official transfers) from 24 percent of GDP to near balance by 1998.</p> <p>Strategy</p> <p>Gradually increase domestic savings and investment and improve the efficiency of investment.</p>	<p>Reduce budget deficit excluding grants from about 18 percent of GDP in 1991 to 5 percent in 1998 (8 percentage point reduction in current expenditure, 4 percentage point increase in revenue).</p> <p>Pursue a tight credit policy to contain liquidity expansion to a level consistent with the inflation target.</p> <p>Maintain flexible exchange rate policy (to help achieve an expansion of exports and contain import demand).</p>	<p>Structural reforms</p> <p>(1) Tariff reform, including lowering of maximum rate. (2) Rationalize petroleum pricing. (3) Introduce GST by 11/1/93. (4) Strengthen banking supervision.</p> <p>Social policies</p> <p>(1) Continue targeted subsidies of selected food items. (2) Salary increase in 1992 to partially offset the effect of subsidy removals and price increases.</p>

Appendix C (continued)

Objectives and Strategies	Macroeconomic Policies	Structural reforms and Social policies
<p>1994 EFF**</p> <p>Broad objectives</p> <p>Sustain economic growth in a noninflationary <i>environment</i>, enhance job opportunities, and improve living standards.</p> <p>Key targets/projections</p> <p>(1) Real growth of 6 percent a year on average during 1994-98 (estimated growth for 1993 was 5.8 percent). (2) Hold inflation at 4-5 percent (was 5.1 percent in 1993). (3) Eliminate exceptional financing by end-1 1997. (4) Maintain a comfortable level of foreign exchange reserves.</p> <p>Strategy</p> <p>Increase domestic savings to sustain investment levels needed to meet growth objectives.</p>	<p>Reduce fiscal deficit excluding grants, from 6.4 percent of GDP in 1993 to 2.5 percent in 1998. Specific measures included (1) reduce noninterest current outlays---e.g., reduce subsidies by a combination of price adjustments and better targeting of benefits; and (2) contain public sector wage bill and military and security outlays.</p> <p>Maintain flexible exchange rate policy.</p> <p>Accept obligations under IMF Article VIII (i.e., abolish restrictions on external current account transactions).</p>	<p>Structural reforms</p> <p>(1) Reorient tax system from importbased to broader domestic consumption-based system (including the introduction of GST by May 1994). (2) Switch to indirect monetary control.</p> <p>Social policies</p> <p>Improve the targeting of food subsidies (TA requested from the IMF to help improve social safety net system).</p>
<p>1996 EFF</p> <p>Broad objectives</p> <p>Improve living standards, expand employment opportunities, and lower the debt and debt-service burden.</p> <p>Key targets/projections</p> <p>(1) Annual growth rates of 6.5 percent during 1996-98 (slight increase over average 6.1 percent during 1993-95). (2) Inflation rates projected to go from 3.1 percent in 1995 to 2.5 percent in 1998. (3) Narrow the external current account deficit including grants, from 4.6 percent in 1995 to 2.8 percent in 1998. (4) Build up gross official reserves to the equivalent of about 3 months of imports (from 1.6 months at end-1995).</p> <p>Strategies</p> <p>(1) Maintain high investment ratio (34 percent of GDP), but also allow for an increase in real per capita consumption (reversing some of the sharp decline during 1994-95). (2) Further fiscal consolidation; needed to reduce external debt burden and increase fiscal flexibility. (3) Accelerate structural reforms to improve environment for private-sector-led and outward oriented growth.</p>	<p>Overall budget deficit excluding grants targeted to decline from 4.8 percent of GDP in 1995 to 2.5 percent by 1998, notwithstanding losses in revenue associated with some envisaged structural reforms. Noninterest current outlays to be reduced.</p> <p>Monetary policy: active interest rate policy to be used to maintain attractiveness of Jordanian dinar-denominated assets.</p> <p>Exchange rate policy: maintain nominal stability of the Jordanian dinar vis-i-vis the U.S. dollar (to bolster confidence in the Jordanian dinar).</p>	<p>Structural reforms</p> <p>(1) Enhance revenue elasticity and efficiency of the tax system (e.g., through amendments to GST and income tax laws). (2) Public pension system reform. (3) Strengthen banking supervision and prudential regulations. (4) Promote development of secondary financial markets. (5) Trade reforms (e.g., lower the maximum tariff rate and number of tariff bands). (6) Reform of public enterprises, including privatization.</p> <p>Social policies</p> <p>Extend the coverage of the National Aid Fund's income support program. while curtailing untargeted subsidies.</p>

Appendix C (continued)

Objectives and Strategies	Macroeconomic Policies	Structural reforms and Social policies
<p>1999 EFF</p> <p>Broad objectives</p> <p>Steadily raise economic growth, maintain low inflation, and strengthen the international reserves position.</p> <p>Key targets/projections</p> <p>(1) Raise growth from 2.2 percent in 1998 to 3.5 percent by 2001. (2) Maintain low inflation; in the range of 2-3 percent (was 0.5 percent in 1998). (3) External current account deficit excluding grants to go from 4.8 percent of GDP in 1998 to 5.3 percent in 2001. (4) Increase foreign exchange reserves from \$1.2 billion at end-1998 to \$1.7 billion in 2001.</p> <p>Strategies</p> <p>(1) Fiscal consolidation: but balance the need for sustainable fiscal policy and structural improvement in public finances, while avoiding undue recessionary effects from rapid contraction. (2) Wide-ranging structural reforms.</p>	<p>Reduce the budget deficit excluding grants, from 10 percent of GDP in 1998 to 4 percent in 2001; mainly through expenditure retrenchment.</p> <p>The exchange rate peg will continue to serve as a nominal anchor.</p> <p>The monetary program of the CBJ is designed to build up foreign exchange reserves while maintaining low inflation.</p>	<p>Structural reforms</p> <p>(1) Create fiscal monitoring unit in the Ministry of Finance. (2) Tax reform (geared mainly to improving the business environment). (3) Draft VAT law. (4) Further tariff reform. (5) Power sector reforms (regulation and privatization). (6) New banking law.</p> <p>Social policies</p> <p>Continue to protect the more vulnerable social groups and promote employment generation, in particular through the Social Productivity Program.</p>
<p>2002 SBA</p> <p>Broad objectives</p> <p>Raise economic growth and living standards</p> <p>Key targets/projections</p> <p>(1) Real GDP growth of 5^{1/2} percent on a sustainable basis from 2005 (estimated at about 4 percent in 2000 and 2001). (2) Continued moderate inflation (about 2 percent). (3) A modest deficit in the external current account including transfers (from near balance in 2001 to 1.4 percent in 2004). (4) Reduction in external debt/GDP ratio to about 52 percent by 2007 (from about 80 percent in 2001). (5) Maintenance of external official reserves at levels averaging about 25 percent of broad money during 2002-07 (steady decline from about 30 percent in 2001 to 20 percent in 2007).</p> <p>Strategies</p> <p>(1) Deepen structural reforms. (2) Fiscal consolidation.</p>	<p>Reduce the overall fiscal deficit to less than 3 percent of GDP by 2007 (from targeted 4.1 percent in 2002); grants are projected to decline.</p> <p>A major portion of privatization proceeds to be used for debt reduction.</p> <p>Monetary policy to continue to support price stability and the exchange rate peg. Reserves and monetary stability will be protected through an active interest rate policy.</p>	<p>Structural reforms</p> <p>(1) Pension reform (2) Further tax reform and strengthening of tax administration. (3) Implement single treasury account system. (4) Privatization and legislative reforms.</p> <p>Social policies</p> <p>Provision is made for increases in income transfer programs (administered by the National Aid Fund), and in spending for health and education under the Program for Social and Economic Transformation.</p>

Source: Adopted from ANNEX 4: Objectives, Strategies and Policies in Jordan's IMF- Supported Programs in "Jordan: Strategy of Adjustment and Growth" ed. by Eduard Maciejewski and Ahsan Mansur, *Occasional Paper 136*, (Washington DC: International Monetary Fund, May 1996), which is sourced from "IMF program documents".

*SBA: Stand-by Agreement
**EFF: Extended Fund Facility