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THESIS

POLITICAL AND INSTITUTIONAL ROOTS OF JORDAN'S ECONOMIC UNDERPERFORMANCE

by

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December 2023

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**POLITICAL AND INSTITUTIONAL ROOTS OF JORDAN'S ECONOMIC
UNDERPERFORMANCE**

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ABSTRACT

This research delves into Jordan's multifaceted economic challenges, highlighting the complex political and institutional factors contributing to its current predicament. The first chapter introduces the research and reviews the literature that attempts to answer a question fundamentally related to the study's subject: Why are some countries more successful economically than others? The second chapter outlines Jordan's most critical economic challenges: high unemployment, poverty, a trade deficit, and an ineffective tax system. The third chapter explores the impact of historical political choices on Jordanian economic growth and shows how the focus on political and security stability during state-building led to the nature of public institutions that did not promote sustainable economic growth. The last chapter concludes this thesis and proposes a set of comprehensive reforms addressing the economic crisis's political and institutional roots. It emphasizes that the economic challenges that Jordan is facing stem mainly from political and institutional roots. Therefore, the path to revitalizing Jordan's economy and ensuring long-term stability lies in a comprehensive approach encompassing institutional, economic, and political reforms.

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LIST OF ACRONYMS AND ABBREVIATIONS

COVID-19	Coronavirus Disease
GDP	Gross Domestic Product
GID	General Intelligence Department
ILO	International Labor Organization
JGID	Jordanian General Intelligence Department
MENA	Middle East/North Africa
RJA	Royal Jordanian Airlines
VAT	Value Added Tax

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I. INTRODUCTION

A. MAJOR RESEARCH QUESTIONS

Traditionally, western states associated the security of Jordan with the Arab–Israel conflict, the threat to the Hashemite monarchy from Arab nationalism, or the rise of religious extremism and terrorism. However, Jordanians’ sense of insecurity largely stems from poor economic performance, including lack of jobs, stagnating wages, and rapidly rising living costs. These economic grievances undermine Jordanians’ faith in the government and its institutions and may ultimately unleash mass protests that target the stability of the ruling monarchy. Therefore, to address the security of Jordan adequately and comprehensively, we need to begin with its economic foundations. Many Jordanian officials attribute the current economic difficulties to external regional challenges that have swept the Middle East and the world over the past two decades.¹ On the other hand, the Jordanian public believes that the current economic situation in Jordan results from failed government economic policies and rampant corruption.²

What are the roots of Jordan’s economic underperformance? What are its main economic challenges? What are the political and institutional factors that have contributed to economic stagnation? What political, institutional, and economic reforms are needed to get Jordan out of its economic crisis? This research thesis aims to explore the underlying causes of Jordan’s economic underperformance and provide recommendations that could help the country adjust its economic trajectory and safeguard its national security.

¹ Woodrow Wilson Center, “Jordan’s Economic Outlook: Challenges and Opportunities,” Video, 1:01:52, YouTube, April 19, 2022, <https://www.youtube.com/watch?v=9L6i-rWGk28>.

² Joshua Krasna, “Jordan: Another Peak in a Multi-Year Crisis,” Foreign Policy Research Institute, March 28, 2023, 2–5, <https://www.fpri.org/article/2023/03/jordan-another-peak-in-a-multi-year-cycle-of-domestic-and-external-challenges/>.

B. SIGNIFICANCE OF THE RESEARCH QUESTIONS

Jordan's economic challenges pose a significant threat to its national security. The economy plays a vital role in the broader security agenda.³ Failure to address these challenges adequately may lead to political instability in Jordan, which could have severe consequences. Such chaos would not only threaten Jordan but also jeopardize the interests of Western allies and the United States in the Middle East. The repeated protests against the Jordanian government and democratic backsliding are some of the warning signs that indicate the severity of the situation.

There has been an upsurge in protests against the challenging economic conditions in Jordan. These protests are primarily peaceful demonstrations that focus on economic demands, such as higher wages, lower fuel and commodity prices, and more employment opportunities. However, some of these protests have resulted in clashes between citizens and security personnel, which have damaged Jordan's democratic reputation, public properties, and tourism. In 2011, Jordan experienced a significant wave of protests during the Arab Spring, and since then, there have been sporadic protests triggered by rising prices.⁴ In December 2022, the city of Ma'an witnessed violent protests that led to the deaths of several officers.⁵ This incident highlights the concern that if severe economic challenges persist, they could potentially escalate into violent outbreaks.

The continuing deteriorating economic situation has harmed the democratic process in Jordan. The general feeling among Jordanians is that the elected parliaments are unable to improve their economic conditions. The percentage of Jordanians who believe that matters are primarily headed in a negative direction increased from 24% in 2020 to 40% in

³ Mark Neocleous, "From Social to National Security: On the Fabrication of Economic Order," *Security Dialogue* 37, no. 3 (September 1, 2006): 381, <https://doi.org/10.1177/0967010606069061>.

⁴ Curtis Ryan, "Youth, Activism, and Protest: Jordan's Movement Against Israeli Gas," *Project on Middle East Political Science* (blog), November 13, 2019, <https://pomeps.org/youth-activism-and-protest-jordans-movement-against-israeli-gas>.

⁵ Curtis Ryan, "The Deeper Context to Political Unrest and Protests in Jordan," Arab Center Washington, DC, December 21, 2022, <https://arabcenterdc.org/resource/the-deeper-context-to-political-unrest-and-protests-in-jordan/>.

2020.⁶ Additionally, the percentage of public participation in parliamentary elections has declined since 1989, with the turnout rate in the 1989 election reaching 69%.⁷ However, just 29.9% of eligible voters participated in the most recent parliamentary election, which was held in November 2020.⁸ Furthermore, Jordan's slow political transition towards democracy and economic difficulties may lead to an increased risk of violence. Nations with weak democracies, like Jordan, may face higher risks of armed conflict due to the challenges of adapting to democratic practices.⁹ This democratic backsliding may lead to the state and protesting citizens alike resorting to violence, which may threaten Jordan's political stability, social order, and security.

Additionally, this thesis highlights the need for Western allies to support Jordan during its crisis. Jordan's political and security stability is crucial for the United States and other North Atlantic Treaty Organization (NATO) countries. Jordan is a vital strategic ally for the United States, particularly in combatting extremism and terrorism, working towards peace in the Middle East, settling the Israeli–Palestinian conflict, and hosting refugees from neighboring states. Any unrest or collapse of political and security stability in Jordan would have dire consequences, including the potential expansion of the Islamic State or Iranian militias into Jordanian territory, attacks on American and Western interests, and undermining the progress made in the Arab–Israeli peace process over many years.

C. LITERATURE REVIEW AND HYPOTHESES

The issue of economic underdevelopment is a complex problem that has been the subject of intense debate among scholars. This complexity is due to the fact that economic

⁶ International Republican Institute, "State of Democracy in Jordan Public Opinion Survey: Residents of Jordan," International Republican Institute, March 27, 2022, <https://www.iri.org>.

⁷ Manjari Singh, "Parliamentary Election in Jordan, 2016," *Contemporary Review of the Middle East* 4, no. 3 (September 2017): 301, <https://doi.org/10.1177/2347798917711296>.

⁸ Fida Nasrallah, *What Pandemic? Parliamentary Elections in Jordan at Any Price* (Stockholm: International Institute for Democracy and Electoral Assistance, 2021), 11.

⁹ Håvard Hegre, "Toward a Democratic Civil Peace? Democracy, Political Change, and Civil War, 1816–1992," *American Political Science Review* 95, no. 1 (March 2001): 34, <https://doi.org/10.1017/S0003055401000119>.

development is influenced by multiple variables, including historical, social, cultural, political, and geographical factors.

Therefore, scholars have developed different hypotheses about countries' economic performance. The institutional hypothesis suggests that countries with strong and effective institutions will experience higher economic growth and development levels than those with weak and corrupt institutions.¹⁰ Also, the literature presents two other hypotheses: the geographic hypothesis and the cultural hypothesis. While the geographic hypothesis holds that countries that enjoy favorable geographic conditions, such as access to resources and markets, will witness higher economic growth and development than those that experience unfavorable conditions, the cultural hypothesis holds that societies with cultural values that promote economic growth and entrepreneurship will experience higher levels of economic development than those that do not encourage such activities.¹¹

1. Institutional Approach

Proponents of the institutional theory argue that poverty is primarily the result of institutional shortcomings. Therefore, they call for political and economic reforms to strengthen inclusive institutions such as democracy, property rights, equal opportunity, and investments in education and infrastructure. They also advocate legal reforms, such as corporate governance, oversight, transparency, and enforcement of property rights, which are indispensable to achieving these goals.¹² However, institutionalists also recognize that creating inclusive institutions is challenging because of the resistance of elites, the legacy

¹⁰ Liam Brunt, "Which Institutions Matter for Economic Growth?" Center for Economic Policy Research (CEPR), September 25, 2007, <https://cepr.org/voxeu/columns/which-institutions-matter-economic-growth>.

¹¹ Hardus Louw, "Institutions, Geography and Culture: The 'BIG THREE' of Economic Growth and Development," LinkedIn, September 10, 2015, <https://www.linkedin.com/pulse/institutions-geography-culture-big-three-economic-growth-hardus-louw>.

¹² Daron Acemoglu and James A. Robinson, *Why Nations Fail: The Origins of Power, Prosperity, and Poverty* (London: Profile Books, 2012), 40–43, <https://www.proquest.com/docview/1114287527/5B21A8C6BE744BD0PQ/2>.

of extractive institutions, and the difficulty of fostering cooperation among diverse social groups.¹³

Institutional thought focuses on explaining the impact of policies and institutions on economic growth. Institutional theorists see institutional variables as playing a critical role in a nation's economic success or underperformance. North defines institutions as the formal and informal rules and structures that shape human behavior, playing an essential role in determining economic performance and outcomes.¹⁴

a. Inclusive Institutions

Inclusive institutions encourage innovation and investment and achieve economic growth. Acemoglu and Robinson argue that economic growth is related to the quality of state institutions. Inclusive political and economic institutions lead to economic success, while extractive institutions lead to economic underperformance.¹⁵ Inclusive institutions are those that allow for political and economic freedoms; public participation in economic and political decision-making; the protection of property rights; limitations on elites, politicians, and other powerful groups; and equal opportunities for most of society.¹⁶

Inclusive institutions ensure enforcement effectiveness and reduce transaction costs. North argues that an adequate institutional framework provides for contract enforcement and the rule of law, which increases investment security and encourages further investment.¹⁷ North also argues that effective institutions play a critical role in shaping economic performance and outcomes by reducing transaction and production costs per exchange, thus making potential gains from trade more achievable.

¹³ Federal Communications Commission, "Douglas North – Effect of Institutions on Market Performance at FCC," Video, 1:10: 34, YouTube, January 26, 2010, <https://www.youtube.com/watch?v=A2xhmlpUKd8>.

¹⁴ Douglass C. North, "Institutions, Transactions Costs and Economic Growth," *Economic Inquiry* 25, no. 3 (July 1, 1987): 428.

¹⁵ Acemoglu and Robinson, *Why Nations Fail*, 73–82.

¹⁶ Daron Acemoglu, "Root Causes: A Historical Approach to Assessing the Role of Institutions in Economic Development," *Finance & Development* 40, no. 2 (June 2003): 27–28.

¹⁷ North, "Institutions, Transactions Costs and Economic Growth," 427.

An efficient bureaucracy governs inclusive institutions. In his article “Democracy and the Quality of the State,” Fukuyama defines an effective bureaucracy as capable of performing its tasks transparently, impartially, and professionally; implementing policies effectively; and adapting to changing circumstances.¹⁸ Fukuyama stresses the importance of merit-based recruitment and promotion within an effective bureaucracy and the clear lines of authority, adequate resources, and a culture of public service. An effective bureaucracy is accountable to the political leadership and responsive to the needs of the citizens.

b. Colonial Legacy

In countries with colonial histories, the colonial experience altered the nature of institutions. The historical evolution of political and economic institutions during the colonial period impacted countries’ capacity to foster a market economy favorable to increasing production. North claims that path dependence, which includes a country’s colonial history, played a part in the underperformance or success of the economic expansion.¹⁹ Imperialists and predatory institutions have pillaged countries with abundant natural resources. Acemoglu demonstrates that the wave of European colonialism that began in the sixteenth century, which was motivated by the plundering of rich regions, led to the establishment of predatory institutions to serve the avarice of colonial governments and local agents. In sparsely populated colonies with a climate suitable for Europeans (such as North America, Australia, and New Zealand), colonial countries established European standards, liberalism, free markets, and strong institutions that established clear property rights and paved the way for rapid economic development.²⁰ Anderson believes that many

¹⁸ Francis Fukuyama, “Democracy and the Quality of the State,” *Journal of Democracy* 24, no. 4 (2013): 15, <https://doi.org/10.1353/jod.2013.0074>.

¹⁹ Paul Pierson, “Increasing Returns, Path Dependence, and the Study of Politics,” *American Political Science Review* 94, no. 2 (2000): 256, <https://doi.org/10.2307/2586011>.

²⁰ Acemoglu, “Root Causes: A Historical Approach to Assessing the Role of Institutions in Economic Development,” 28.

postcolonial countries' adoption of predatory colonial-era institutions has resulted in persistent problems with corruption and limited social and economic progress.²¹

c. *Foreign Aid and Institutional Growth*

Undirected foreign aid based on the agendas of political alliances encouraged corruption, harmed institutional growth, and created a culture of dependency. William Easterly argues that foreign aid has often failed to create the conditions for sustainable development, instead perpetuating the cycle of poverty in many developing countries. He says that aid is often wasted on ineffective projects and that it has encouraged corruption and undermined local institutions.²² Moyo argues that the use of aid has contributed to a culture of dependency and the financing of corrupt regimes that do not encourage the creation of local institutions and enterprises, thus perpetuating the cycle of poverty.²³ Sachs asserts that foreign aid, in many instances, does not directly invest in essential infrastructure such as health, education, roads, ports, and energy, thereby delivering a short economic boost without addressing the core causes of poverty.²⁴

d. *Political Instability and Economic Growth*

Political instability hinders economic growth. Collier and Gunning argue that political instability devastates business, discourages foreign investment, and creates a general sense of uncertainty that makes it difficult for people to plan for the future.²⁵ Moreover, some scholars believe that political conflicts can arise as a result of openness to international trade and the demands of globalized institutions. Rogowski argues that exposure to international trade and the institutions of globalization can create a political

²¹ Benedict Anderson, *Imagined Communities: Reflections on the Origin and Spread of Nationalism* (United Kingdom: Routledge, 2008), 184–85.

²² William Easterly, “The White Man’s Burden,” *The Lancet* 367 (June 2006): 109–14, [https://doi.org/10.1016/S0140-6736\(06\)68925-3](https://doi.org/10.1016/S0140-6736(06)68925-3).

²³ Dambisa Moyo, *Dead Aid: Why Aid Is Not Working and How There Is a Better Way for Africa* (Macmillan, 2009), 49.

²⁴ Jeffrey D. Sachs, *The End of Poverty: Economic Possibilities for Our Time* (United Kingdom: Penguin, 2006), 339–40.

²⁵ Paul Collier, *The Bottom Billion: Why the Poorest Countries Are Failing and What Can Be Done About It* (United Kingdom: Oxford University Press, 2007), 35.

dispute between those who see that their interests require economic openness to the world and those who can benefit from this openness, such as the conflict between skilled and unskilled labor or between residents of rural areas and residents of urban areas. Political divisions can lead to conflicting trade orientations, decreased trade openness, and increased trade restrictions.²⁶

2. Geographical Approach

While supporters of the geographical approach agree with institutionalists that institutions play a role in economic underdevelopment, they argue that geography, natural resources, climate, and ethnic heterogeneity are the main causes of poverty.²⁷ Hence, they focus more on investment and foreign aid to boost economic growth. While the institutional approach emphasizes the role of colonialism in shaping political and economic institutions, the geographical approach downplays the impact of colonialism on institutional quality.²⁸

Diamond argues that climate, topography, and natural resources are critical to prosperity and that the tropics are doomed to poverty because of their higher disease burden and poor soil quality.²⁹ Likewise, Sachs claims that developing countries are poor because their location and climate make them hot, uncultivable, endemic, and often landlocked.³⁰ Alesina and La Ferrara suggest that ethnic diversity can impact a country's economic performance, especially when its political stability is challenged. Countries with high ethnic diversity but low political stability and confidence tend to have poor economic performance. However, a stable and fair political system in a diverse country can create high levels of trust, leading to economic success. Conversely, an unstable and biased

²⁶ Ronald Rogowski, "Political Cleavages and Changing Exposure to Trade," *American Political Science Review* 81, no. 4 (1987): 1123–25, <https://doi.org/10.2307/1962581>.

²⁷ Sachs, *The End of Poverty*, 83–105.

²⁸ Jared M. Diamond, *Guns, Germs, and Steel: The Fates of Human Societies* (New York: Norton, 1999), 18–40.

²⁹ Diamond, 78.

³⁰ Sachs, *The End of Poverty*, 105.

political system can lead to low confidence and negatively impact economic performance.³¹

3. Cultural Approach

The cultural hypothesis posits that weak economic performance is primarily attributed to cultural factors such as beliefs, values, work ethics, and social norms.³² According to Clarke, cultural factors play a significant role in determining economic growth. Societies with cultures that value hard working thrift, a commitment to education, and small family sizes tend to be more economically successful. He suggests that values are passed down through generations and can impact economic outcomes. Religious beliefs and practices can sometimes hinder economic growth, particularly if they prioritize otherworldly concerns about material prosperity or lead to conflicts and instability.³³ Smelser and Lipsett also emphasize the importance of a strong work ethic, high education, and a willingness to innovate and take risks in achieving economic success. They suggest that social and cultural factors, such as a robust civil society, high trust, and adherence to the law, are essential in creating democratic institutions and promoting economic growth.³⁴

Adherence to religious traditions and beliefs plays a significant role in economic expansion. Landes argues that Europe's dynamic and profit-seeking culture fostered technological innovation, boosted productivity and physical capital, and allowed for change and modernization without hindrance from tradition, which led to economic growth. In contrast, the static cultures of many African, Asian, and Latin American countries prevented them from embracing change and innovation due to dictatorial

³¹ Alberto Alesina and Eliana La Ferrara, "Ethnic Diversity and Economic Performance," *Journal of Economic Literature* 43, no. 3 (September 2005): 2–29, <https://doi.org/10.1257/002205105774431243>.

³² Walt Whitman Rostow, *The Stages of Economic Growth: A Non-Communist Manifesto* (Cambridge University Press, 1990), 4–7.

³³ Gregory Clark, *A Farewell to Alms: A Brief Economic History of the World*, The Princeton Economic History of the Western World (Princeton: Princeton University Press, 2007), 243–44.

³⁴ Neil J. Smelser and Seymour Martin Lipset, *Social Structure and Mobility in Economic Development* (United Kingdom: Transaction Publishers, 1966), 320–87.

leadership and strong adherence to religious traditions.³⁵ Furthermore, social capital leads to higher economic growth.³⁶ According to Fukuyama, cultural values can shape social capital's development, and values such as corruption and mistrust can undermine it.

4. Critique of Existing Approaches

Despite these differences, all approaches recognize the critical role of human capital in economic growth and poverty reduction. Institutionalists, geographers, and cultural theorists may have different perspectives on the root causes of poverty and underdevelopment, but they agree that inclusive investments in human capital are crucial for promoting economic growth and poverty reduction.

The geographical and cultural approaches have serious weaknesses, however. Both approaches do not give real weight to the impact of the factors created by the colonial powers and the ruling elites on economic growth. Moreover, the two approaches fail to explain many real-world cases that reflect the essence of these two theories. On the one hand, the geographic approach fails to provide a comprehensive explanation for the phenomenon of some countries achieving rapid economic growth despite unfavorable geographic conditions. Critics argue that countries such as Singapore and Malaysia have achieved remarkable economic success despite being located in tropical regions, while some countries with abundant natural resources have failed to do so.³⁷ On the other hand, the cultural approach fails to explain why some countries that were once economically advanced are now struggling. The institutionalist perspective rejects the cultural approach by emphasizing that social values are not independent factors but are often the products of institutions.³⁸ According to Landes, institutions that support positive social values like hard work, education, and creativity are more likely to generate a climate that is favorable

³⁵ David S. Landes, *The Wealth and Poverty of Nations: Why Some Are so Rich and Some so Poor*, 1st ed. (New York: W.W. Norton, 1998), 200–201.

³⁶ Francis Fukuyama, "Social Capital, Civil Society and Development," *Third World Quarterly* 22, no. 1 (2001): 7–19.

³⁷ Acemoglu and Robinson, *Why Nations Fail*, 49–55.

³⁸ Acemoglu and Robinson, 57.

to the rise and prosperity of the middle class, which is crucial to economic progress.³⁹ Furthermore, and in contrast to the cultural hypothesis, institutionalists believe that linking economic failure to cultural and religious values is a false link.⁴⁰ Both institutional and modernization theorists contend that all societies and cultures have the capacity to develop and change. According to Rostow, traditional cultures can move through five stages of economic progress before becoming modern societies, which are characterized by industrialization, urbanization, and high levels of consumption. These criticisms suggest that economic performance is influenced by a complex array of factors, including both formal and informal institutions, historical legacies, and the unique social and cultural context of each country.⁴¹

Although the institutional approach provides an explanation and economic solutions to deal with the poor economic performance of countries, some critics believe that the institutional approach ignores the complexities of the local context. The institutional approach to explaining economic growth tends to prioritize formal institutions such as laws and regulations while overlooking the importance of informal institutions like social standards and cultural values.⁴² Despite this critique, the institutional approach provides a more comprehensive understanding of the factors that contribute to poor economic performance, linking it to internal and external issues such as corrupt elites, extractive institutions, ineffective bureaucracy, tax policies, dual economics, untargeted foreign aid, political instability, and colonial legacies. Therefore, this thesis uses the institutional hypothesis to explore why Jordan's economy is not doing as well as it could be and make suggestions for how to fix these problems.

³⁹ Landes, *The Wealth and Poverty of Nations*, 18–21.

⁴⁰ Acemoglu and Robinson, *Why Nations Fail*, 57–63.

⁴¹ Acemoglu and Robinson, 56–63.

⁴² Julio Faundez, “Douglass North’s Theory of Institutions: Lessons for Law and Development,” *Hague Journal on the Rule of Law* 8, no. 2 (October 1, 2016): 373–419, <https://doi.org/10.1007/s40803-016-0028-8>.

D. RESEARCH DESIGN

To achieve the research objective of identifying and understanding the political and institutional factors contributing to Jordan's weak economic performance, a qualitative research method is used. This involves analyzing textual data from various sources, including policy documents, official economic statistics, public opinion surveys, and reports from the IMF. The research design also includes a critical analysis of the data to draw conclusions and recommendations on how to enhance the quality of institutions and promote economic growth and development in Jordan.

The qualitative, comprehensive descriptive-analytical approach adopted in this thesis moves in two directions simultaneously. The first direction focuses on understanding the structure and problems of the Jordanian economy by exploring a range of sources, including newer and older studies and articles written in both Arabic and English. The second direction applies the institutional approach to the Jordanian case, examining the impact of political development stages and events on the quality of political and economic institutions, foreign aid's effect on institutional quality, sluggish public administration, elite resistance to reform, corruption, nepotism, and excess bureaucracy.

E. THESIS OVERVIEW AND CHAPTER OUTLINE

Beyond this introductory chapter, which delved into prominent approaches to the predicament of economic underdevelopment, the second chapter provides an overview of Jordan's most pressing economic challenges, including high unemployment rates, public debt, trade deficits, poverty rates, stagnant wages, and flat taxes.

The third chapter deals with the political and institutional factors that played a significant role in the poor performance of the Jordanian economy. It specifically addresses the historical circumstances surrounding the establishment of the Jordanian state and the subsequent stages of its political development. It highlights how these factors have a lasting impact on the country's institutions and economic performance. Furthermore, the chapter explores how prioritizing political and security stability has shaped the nature of Jordan's economic institutions and discusses the harmful effects of the country's heavy dependence on foreign aid. It also deals with the economic consequences of the government's rentier

policies, the government's broad participation in the economy, and the influence of the elites on the economic reality in the country. Lastly, this chapter addresses the harmful effects of deficiencies in Jordan's public sector institutions, which have led to administrative inefficiency. These shortcomings include corruption, nepotism, and bureaucratic hurdles that currently impede the country's economic development.

The concluding chapter proposes a series of institutional, economic, and political reforms to resolve the economic crisis in Jordan while also considering the importance of maintaining national security and political stability.

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II. JORDAN'S KEY ECONOMIC CHALLENGES

The Jordanian economy is characterized by its small size, limited production, and vulnerability to external fluctuations. It is considered one of the most modest economies in the Middle East, estimated at \$45.371 billion.⁴³ The economy heavily relies on the services sector and some extractive industries, leading to a small volume of Jordanian exports compared to the significant volume of imported commodities. Moreover, the lack of natural resources, especially energy and water, further hinders economic productivity. Consequently, Jordan faces challenges in finding internal financing sources, making it heavily reliant on foreign funding. However, this excessive dependence on external support makes the economy vulnerable to international and regional crises.

Over time, the Jordanian economy has experienced economic distortions and structural imbalances, influenced by the limited availability of resources and the small market size. As a result, the services and local trade sectors have become the largest contributors to the gross domestic product (see Figure 1). Despite receiving foreign financial flows for extended periods, the funds' impact on economic development has been limited due to their allocation primarily in the services sector. In fact, the services sector remains the dominant sector in the Jordanian economy.⁴⁴ On the other hand, agriculture, the most important productive sector, makes the smallest contribution among all economic sectors, which is considered a serious distortion in the Jordanian economic structure.

⁴³ “Jordan-Market Overview,” International Trade Administration, December 14, 2022, <https://www.trade.gov/country-commercial-guides/jordan-market-overview>.

⁴⁴ Myriam Ababsa and Chantal Demilecamps, “The Structure of the Economy,” in *Atlas of Jordan: History, Territories and Society*, ed. Myriam Ababsa (Beyrouth: Presses de l’Ifpo, 2014), 303–13, <http://books.openedition.org>.

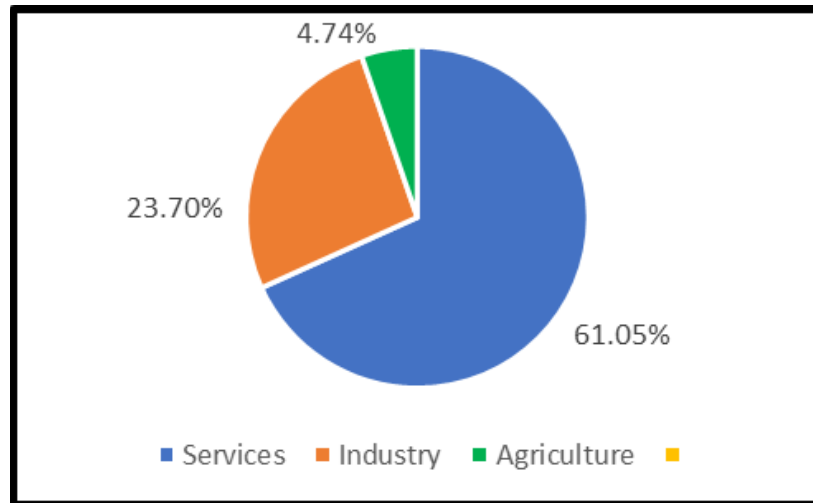


Figure 1. Distribution of Gross Domestic Product across Economic Sectors, Jordan 2021.⁴⁵

In the late 1980s, Jordan experienced an economic crisis, leading to a significant slowdown. The growth rate plummeted from 9.9% in 1980 to a mere 1.2% in 1989. This period also witnessed a worrying increase in unemployment rates, which rose from 4.8% to a staggering 18.8%. Moreover, poverty rates surged from a mere 3% to 14.4% across the population.⁴⁶ Alongside these challenges, there were a concerning escalation in external debt rates, a chronic deficit in the budget, and a worsening of the imbalances in the trade scale.

In 1989, Jordan embarked on a new era of political and economic liberalization. The government abolished the restrictions of martial law, restored parliamentary elections, allowed the formation of political parties, and provided space for civil society organizations.⁴⁷ Jordan made efforts to join the World Trade Organization and the U.S. Free Trade Agreement, leading to the liberalization of the financial system and capital markets and the privatization of the public sector. The country shifted to a free market

⁴⁵ Adapted from “Jordan – GDP Distribution across Economic Sectors 2021,” Statista, accessed December 24, 2022, <https://www.statista.com>.

⁴⁶ Paul Rivlin, *Arab Economies in the Twenty-First Century* (United Kingdom: Cambridge University Press, 2009), 159–67.

⁴⁷ Sean L. Yom, “Jordan: Ten More Years of Autocracy,” *Journal of Democracy* 20, no. 4 (2009): 151–66, <https://doi.org/10.1353/jod.0.0125>.

economy, reducing government interference in economic activity, with the hope that these reforms would address the economic crises.⁴⁸ Unfortunately, the economic reforms did not yield the desired improvement.

Following the reforms, the Jordanian economy faced significant pressure. The Gulf states, dissatisfied with Jordan's position during Iraq's invasion of Kuwait in 1991, reduced grants to Jordan as it did not participate with its armed forces in the liberation operations.⁴⁹ Additionally, since 2008, economic growth in Jordan has slowed dramatically. In 2020, the economy contracted by 1.6% due to the coronavirus disease (COVID-19) pandemic, exacerbating economic vulnerability.⁵⁰ Furthermore, the crisis of the Syrian civil war in 2011 brought thousands of Syrian refugees seeking refuge in Jordan, further adding to the economic challenges.

Jordan is currently facing significant economic challenges. High unemployment rates, growing public debt, trade deficits, poverty, stagnant wages, and a flawed tax system are among the most pressing challenges. Jordan suffers from high unemployment rates, especially with the inability of the public and limited private sectors to generate sufficient job opportunities to absorb the number of young job seekers. The steadily rising public debt and the resulting service benefits remain a severe fiscal challenge for the government. Debt build-up can reduce the government's ability to meet its domestic and foreign financial obligations. In addition, Jordan faces continuous trade imbalances as the value of imports has exceeded the value of exports. This could pressure the country's foreign exchange reserves and affect its economic stability. Also, poverty rates are constantly rising, representing a significant challenge in Jordan. Stagnant wages have made the situation worse for decades, with the Jordanian workforce struggling to keep up with the rising cost of living. As for the tax system in Jordan, it placed more of the tax burden on

⁴⁸ Pete W. Moore, *Doing Business in the Middle East: Politics and Economic Crisis in Jordan and Kuwait*, Cambridge Middle East Studies Series No. 20 (Cambridge University Press, 2004), 10.

⁴⁹ Ziad Swaidan and Mihai Nica, "The 1991 Gulf War and Jordan's Economy," *Middle East Review of International Affairs* 6, no. 2 (2002): 75.

⁵⁰ "Jordan-Market Overview."

sectors and individuals. The next sections explain the reality of these economic challenges in more detail.

A. HIGH UNEMPLOYMENT

High unemployment is the most serious economic challenge in Jordan. The rapid growth of the young and educated workforce in Jordan has outpaced job creation, leading to a high unemployment rate. The capacity of the Jordanian economy to generate job opportunities is limited. The majority of Jordanians hold the view that working in the public sector is the best way to make a living, but neither the public nor private sectors have enough jobs for everyone to work.⁵¹ Businesses in the country encounter various obstacles, including a challenging regulatory environment, soaring production costs, and limited access to capital and supportive services for fostering innovation and expansion. In this ever-globalizing economy, Jordanians require enhanced resources and opportunities to thrive and prosper.

The World Bank data in Figure 2 shows that in the fourth quarter of 2021, Jordan experienced a steadily rising unemployment rate of 23.3%, with women's labor force participation at one of the world's lowest rates, only 14%, and youth unemployment nearing 50%.⁵² Also, unemployment among Jordanian women is much worse than unemployment among men. Men make up the majority of the workforce, while women make up only about one-seventh of the total workforce.⁵³

⁵¹ International Monetary Fund Middle East and Central Asia Department, "Jordan: Third Review under the Extended Arrangement under the Extended Fund Facility and Request for Modification of Performance Criteria-Press Release; Staff Report; and Statement by the Executive Director for Jordan" (Washington, D.C.: International Monetary Fund, 2022), 6, <https://www.elibrary.imf.org/view/journals/002/2022/004/002.2022.issue-004-en.xml>.

⁵² International Monetary Fund Middle East and Central Asia Department, 5.

⁵³ "Resources and Power," Britannica, accessed July 23, 2023, <https://www.britannica.com/place/Jordan/Resources-and-power>.

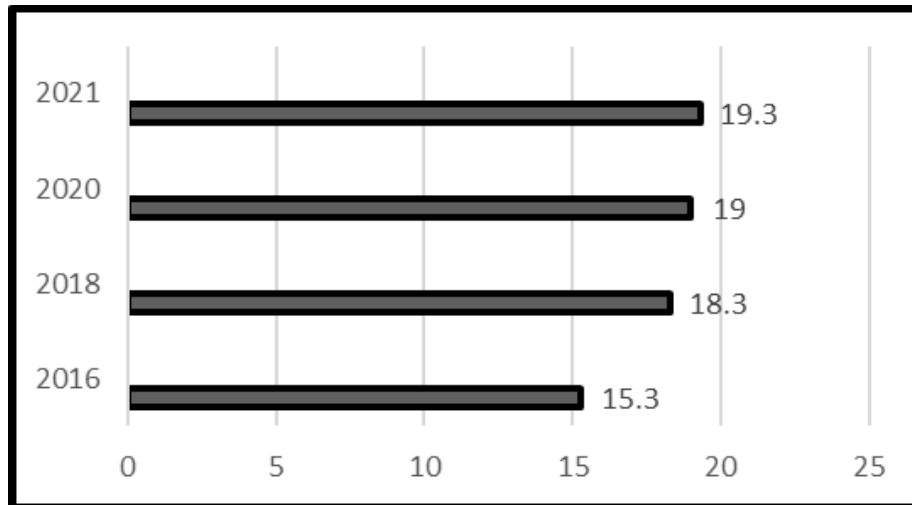


Figure 2. Unemployment Rates in Jordan.⁵⁴

B. HIGH DEBT

The second issue that has hampered Jordan's economy is the high rate of public debt, which is greater than the country's annual GDP. This high rate of public debt is straining Jordan's annual budget because of the high interest incurred. At the end of 2021, the external debt-to-GDP ratio was 92.91%.⁵⁵ Likewise, the percentage of Jordan's total internal and external debt reached 114.7% of its GDP.⁵⁶ Furthermore, Figure 3 shows that the value of the total Jordanian public debt is constantly increasing.

⁵⁴ Adapted from "Data Bank: World Development Indicators," World Bank, accessed October 26, 2023, <https://databank.worldbank.org>.

⁵⁵ "Jordan Economic Indicators," The Global Economy, accessed March 25, 2023, <https://www.theglobaleconomy.com/Jordan/>.

⁵⁶ International Monetary Fund Middle East and Central Asia Department, "IMF Staff Country Reports Volume 2022 Issue 004," 25.

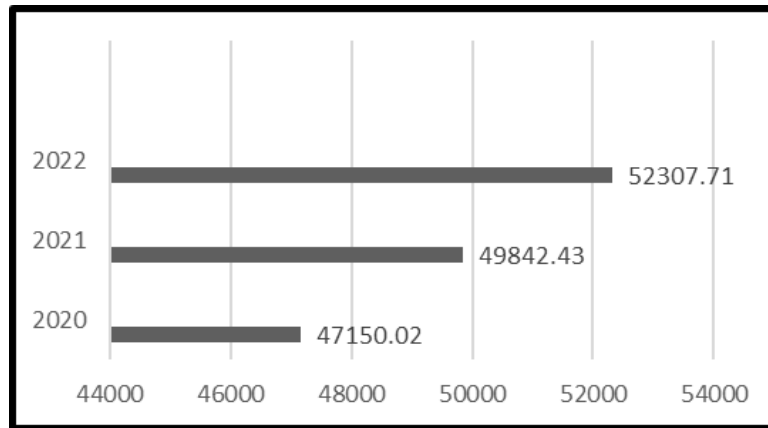


Figure 3. Jordan's Total Public Debt (in Million U.S. Dollars).⁵⁷

C. TRADE BALANCE DEFICIT

The trade balance deficit presents a significant economic challenge for the people of Jordan in their everyday lives. Jordan's heavy reliance on imports to fulfill its citizens' requirements has resulted in a substantial trade deficit. This deficit is further compounded by specific limitations within the Jordanian business sector, including a lack of innovation, effective marketing strategies, and willingness to undertake risks.⁵⁸ The trade deficit in Jordan is noteworthy, characterized by a considerable gap between imports and exports. Jordan brings in various goods worldwide, while its exports remain relatively limited. According to the World Bank, Jordan imports 3,693 types of commodities from 146 countries, compared to 2,050 commodities that it exports.⁵⁹

Unfortunately, the trade imbalance is amplified by Jordan's status as a net importer of food and energy, which significantly contributes to the trade deficit. Jordan imports up to 95% of its food needs. Imported foodstuffs include sugar, rice, milk powder, tea, coffee,

⁵⁷ Adapted from "Archived Main Economic Indicators," Central Bank of Jordan, accessed December 16, 2022, <https://www.cbj.gov.jo/Pages/viewpage.aspx?pageID=282>.

⁵⁸ Barry Satloff, *From Abdullah to Hussein: Jordan in Transition* (United Kingdom: Oxford University Press, 1994), 3.

⁵⁹ "Jordan Trade Balance, Exports and Imports by Country and Region 2020," World Bank, accessed October 21, 2022, <https://wits.worldbank.org/CountryProfile/en/Country/JOR/Year/2020/TradeFlow/EXPIMP>.

corn, and vegetable oils (other than olive oil). Jordan also imports the majority of its fish, cheese, pasta, meat, wheat, and barley.⁶⁰ The total value of Jordan's exports and imports in 2020 was \$7,943 million and \$17,007 million, respectively. In 2021, Jordan imported \$23.34 billion worth of goods and services, while it exported \$13.85 billion.⁶¹ Moreover, Jordan relies heavily on imported fossil energy. Only 2% of the nation's needs are met by Jordan's tiny, non-commercial oil and gas production. Between 2005 and 2017, Jordan imported 98.7% of its primary energy supply.⁶² Jordan's heavy reliance on imported energy has had a significant financial impact. In 2018, the country spent a considerable amount, equivalent to 20% of its GDP, on energy imports. Recently released foreign trade data shows an increase in the value of crude oil and its derivatives imported by Jordan, amounting to approximately 8% of the country's GDP by the end of August 2022.⁶³ The rise in oil prices increased the country's trade deficit. The trade deficit increased to \$11.46 billion at the end of 2022, up from \$8.62 billion the previous year, while the country's oil bill increased by 67.5% to \$3.75 billion.⁶⁴ Figure 4 shows Jordan's trade balance as a percentage of GDP.

⁶⁰ Orestes Vasquez and Mohamed Khraishy, *Market Overview and Guide to Jordanian Market Requirements*, GAIN Report No. JO15023 (Washington, D.C.: USDA Foreign Agricultural Service, 2015), 7, https://apps.fas.usda.gov/newgainapi/api/report/downloadreportbyfilename?filename=Exporter%20Guide_Amman_Jordan_12-29-2015.pdf.

⁶¹ "Jordan-Market Overview."

⁶² Leen Hayek, "Investigating Renewable Energy Potentials in Jordan" (master's thesis, Smith College, 2020), 3, <http://www.science.smith.edu/~jcardell/StudentProjects/LHayek%20Research%20Thesis>.

⁶³ "Foreign Trade," Department of Statistics, accessed December 31, 2022, <http://dosweb.dos.gov.jo/?s=foreign+trade>.

⁶⁴ "National Exports," Department of Statistics, accessed December 16, 2022, <http://dosweb.dos.gov.jo>.

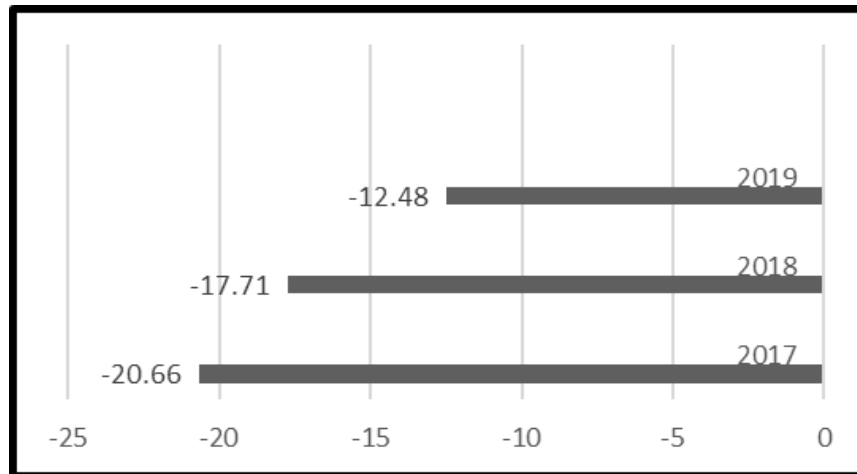


Figure 4. Jordan Trade Balance as Percent of GDP.⁶⁵

Jordan's heavy dependence on imported commodities drains its foreign exchange reserves and makes it vulnerable to imported inflation. The inclination of the trade balance in favor of imports is constantly depleting the central bank's dollar reserves. The decline in cash reserves to unsafe levels may affect the exchange rate of the dinar and shake confidence in the ability of the Jordanian economy in general. Likewise, importing most of the needs of Jordanians makes the Jordanian market highly vulnerable to external fluctuations in the prices of imported goods, commonly referred to as "imported inflation."⁶⁶

D. HIGH POVERTY

The poverty rate in Jordan has increased due to continuous increases in the cost of goods and services coupled with stagnant wages. Over the past five years, many Jordanian families have fallen from the middle class to the ranks of the poor. According to a recent special report by the World Bank, the average monthly income in Jordan is a mere \$367,

⁶⁵ "Jordan: Trade Balance, Percent of GDP," The Global Economy, accessed December 16, 2022, https://www.theglobaleconomy.com/Jordan/Trade_balance/.

⁶⁶ Mohammad Alawin and Mohammad Oqaily, "Current Account Balance, Inflation, Industry and Sustainable Development in Jordan," *Revista Galega de Economía: Interdisciplinary Publication of the Faculty of Economic and Business Sciences* 26, no. 3 (2017): 1.

translating to an annual per capita income of just \$4,405.80.⁶⁷ Shockingly, the Jordanian Department of Statistics revealed that in 2022, 24.1% of Jordanians were living below the poverty line.⁶⁸ The correlation between inflation and poverty rates is clear, with the poverty rate rising in tandem with inflation. For instance, in 2019, when inflation stood at 0.8%, the poverty rate was 15.7%. However, when inflation reached 4.4% in 2022, the poverty rate surged to 24.1%.⁶⁹

E. STAGNANT WAGES

In recent years, many workers in Jordan have experienced stagnant wages or even a decline in real wages. The strong competition between many job seekers for a limited number of positions is one of the key reasons wages have not risen for a long time. Moreover, since the significant arrival of Syrian refugees post-2011, there has been a widening disparity between the number of individuals seeking employment and the available job opportunities, resulting in the entrenched issue of low wages offered by businesses to their employees.⁷⁰

In addition, many workers in Jordan work in low-skilled, low-paying jobs, contributing to stagnant wages. Many workers in Jordan are still struggling to make ends meet. According to the International Labor Organization (ILO), although data on the percentage of poor working people is not available, the majority of the poor in Jordan work, indicating low productivity.⁷¹ Ironically, the salaries of workers in the private sector are lower than those of their counterparts in the public sector. When comparing individuals

⁶⁷ “GDP per Capita (Current US\$) – , Jordan,” World Bank, accessed October 20, 2022, <https://data.worldbank.org/indicator/NY.GDP.PCAP.CD?end=2021&locations=EC%22-JO&start=2021&view=bar>.

⁶⁸ “Poverty Statistics,” Department of Statistics, accessed December 18, 2022, <http://dosweb.dos.gov.jo>.

⁶⁹ “Jordan Inflation Rate – February 2023 Data,” Trading Economics, accessed March 25, 2023, <https://tradingeconomics.com/jordan/inflation-cpi>.

⁷⁰ Lorenza Errighi and Jörn Griesse, “The Syrian Refugee Crisis: Labour Market Implications in Jordan and Lebanon,” n.d., 12.

⁷¹ “The Jordan Decent Work Country Program (2018-2022),” International Labour Organization, December 27, 2018, http://www.ilo.org/beirut/country/WCMS_656566/lang--en/index.html.

with similar education levels, ages, and genders, those in the public sector receive on average 21% more salary than those in the private sector do.⁷²

Stagnant low wages are likely to be a significant cause of poverty. Salary rates in Jordan have not kept pace with inflation, contributing to stagnant real wages for many workers in the country. According to the World Bank, Jordan has experienced a relatively high inflation rate in recent years, averaging around 2–3% annually, while many workers in the country have seen modest or no salary increases, leading to a reduction in the purchasing power of their wages.⁷³

F. DEFECTIVE TAX SYSTEM

Since 2018, the Jordanian government has been implementing a flat tax system. Before the introduction of the flat tax system, Jordan had a progressive income tax system with multiple tax categories and rates based on income levels. Revised income tax law (34) of 2018, which went into effect on January 1, 2019, introduced a flat income tax rate for individuals and companies starting at 5% and going up to 25%.⁷⁴ The government claims that the flat tax system came as part of a tax reform program aimed at simplifying the tax system, increasing government revenues, and reducing the budget deficit and that the flat tax system is more transparent, easier to administer, and encourages compliance by reducing opportunities for tax evasion. But some reject the government's claim and believe that the government changed the progressive system to a fixed one under the pressure of some high-income elites who believed that the progressive tax system did not do justice to them because they were subject to a higher tax rate than low-income earners.⁷⁵

⁷² Hernan Winkler and Alvaro Gonzalez, "Jobs Diagnostic-Jordan" (The World Bank, 2019), 24, <https://documents1.worldbank.org/curated/en/681161574097516931/pdf/Jobs-Diagnostic-Jordan.pdf>.

⁷³ "The World Bank in Botswana: Overview," World Bank, accessed March 5, 2023, <https://www.worldbank.org/en/country/botswana/overview>.

⁷⁴ "Income and Sales," Jordanian Ministry of Finance, Income and Sales Tax Department, accessed March 24, 2023, <https://istd.gov.jo/AR/Pages/2022>.

⁷⁵ Hussein Al-Banna, "Analysis of the Impact of the Tax Law and Its Repercussions on Jordan," Ammon News, December 29, 2018, <https://www.ammonnews.net/article/424452>.

The flat tax system in Jordan needs to improve. The regressive flat tax system places more burden on low-income people than it does on high-income earners, exacerbating poverty and income inequality in the country. Moreover, the flat tax system discourages foreign investment, which may reduce capital flow into the country. The flat tax rate may also be more burdensome for small businesses with lower profit margins, as they may need help paying the tax while continuing operations. Another criticism of Jordan's slashed tax system is that it does not consider the principle of ability to pay, which is a fundamental principle of taxation.⁷⁶ Also, high tax rates have created a large hidden economy in Jordan. Thus, tax evasion in Jordan is estimated at \$1.4 billion.⁷⁷

On the other hand, in 2019, the Jordanian government imposed a 16% sales tax. Sales tax is applied to most goods and services in the country, which is another regressive tax that hurts the poorest sectors the most. The introduction of the sales tax was part of a broader tax reform program aimed at increasing government revenue and reducing the budget deficit. However, Jordan's current taxation system reduces government revenues. The ratio of tax revenue to GDP in Jordan has been relatively low, despite the introduction of a unified tax system in 2018. The ratio of total tax revenue to GDP was 15.81% in 2020, which is below the average for middle-income countries in the region.⁷⁸

The sales tax has been criticized for being regressive and possibly increasing the cost of living for low-income earners. Like the fixed-income tax system, the fixed-sales tax system places a greater burden on low-income earners than on high-income earners. Low-income people typically spend a substantial percentage of their income on essential goods and services that are subject to sales tax.⁷⁹ Therefore, the sales tax has increased the cost of living for low-income people and exacerbated poverty and income inequality.

⁷⁶ Al-Banna.

⁷⁷ Alaa Albahar, "Jordan Fights Tax Evasion to Increase Revenue," Alaraby Aljaded, accessed December 8, 2022, <https://www.alaraby.co.uk/>.

⁷⁸ "Jordan: Tax Revenue," The Global Economy, accessed March 24, 2023, https://www.theglobaleconomy.com/Jordan/Tax_revenue/.

⁷⁹ Ahmad Alshirah, Ali Magablih, and Moh'd Alsqour, "The Effect of Tax Rate on Sales Tax Compliance among Jordanian Public Shareholding Corporations," *Accounting* 7, no. 4 (2021): 1–4.

Moreover, the imposition of high taxes in Jordan has led to the emergence of a substantial underground economy. This shadow market is causing significant financial losses to the state treasury, with estimates of tax evasion reaching \$1.4 billion or more, as reported by specialized agencies.⁸⁰ The International Monetary Fund and the World Bank have expressed concerns over the proper implementation of macroeconomic policies by Jordanian leaders. The government's strategies to reduce the deficit, such as raising the tax rate and cutting spending, are being put into effect, but their effectiveness is being questioned. It is worth noting that higher taxes can contribute to higher poverty rates, which, in turn, can lead to increased economic practices in the informal sector.⁸¹

Despite the high tax burden on citizens, spending on public goods and services in Jordan is relatively low. About half of the government's revenues are derived from taxes, which mostly come from indirect taxes, which still far exceed direct taxes.⁸² Among the countries in the Middle East/North Africa (MENA) region, Jordan has the highest value added tax (VAT) yield.⁸³ Spending on goods and services represented only 5.1% of total public spending.⁸⁴ This indicates that there is a mismatch between the level of tax revenue collected and the amount of public goods and services produced by the government.

G. CONCLUSION

Jordan's economic problems have not only economic repercussions but also political repercussions. Specifically, like many countries in the developing world, Jordan has a youth bulge (many people under 30) who need education, jobs, housing, and economic opportunity. In general, a high proportion of frustrated young people who do not have opportunities can pose many risks and challenges to the country's stability.

⁸⁰ Albahar, "Jordan Fights Tax Evasion to Increase Revenue."

⁸¹ Mohammed Abu Alfoul, Friedrich Schneider, and Abeer Alabdulraheem, "The Hidden Economy in Jordan," *Cogent Economics and Finance*, 2–4, accessed December 9, 2022, <http://www.tandfonline.com/doi/epdf/10.1080/23322039.2022.2031434?needAccess=true&role=button>.

⁸² Britannica, "Resources and Power."

⁸³ Andrew Jewell, Mario Mansour, Pritha Mitra, and Carlo Sdravovich, *Fair Taxation in the Middle East and Northern Africa*, IMF Staff Discussion Note 15/16 (Washington, D.C.: International Monetary Fund, September 2015), 13, <https://www.imf.org/external/pubs/ft/sdn/2015/sdn1516.pdf>.

⁸⁴ "The Jordanian New Tax Law," Jordan Strategy Forum, 2018, 5–6, <https://www.jsf.org>.

Frustration and resentment caused by the government's inability to address unemployment can lead to civil unrest and protests among unemployed youth and may even exacerbate political tensions and threaten the political and social stability of Jordan. Fitch Solutions expects that the risk of social unrest in Jordan will rise as a result of higher inflation and elevated unemployment.⁸⁵

Official estimates indicate that Jordan will reach what is known as the peak of population opportunity in 2040, when the proportion of citizens who can work will reach 67.7% of the population. The success of benefiting from the youth bulge to achieve economic growth depends on the existence of appropriate economic institutions and policies. Unfortunately, Jordan's economic institutions suffer from serious deficiencies.

It is impossible to achieve sustainable stability in light of Jordan's continuing economic challenges. In 2019, a criminal report issued by the Jordanian Public Security Directorate indicated that crime rates in Jordan increased in 2018 by 9.33% compared to 2017. According to the report, most crime perpetrators belong to the unemployed category within the age group of 18–27 years.⁸⁶ The inability of individuals to secure their basic needs due to stagnant income and the widening gap between the segments of Jordanian society and their division into a minority of the wealthy and a majority of the poor prompted some to seek to earn money illegally. For example, the capital, Amman, has recently witnessed a series of armed robbery incidents that did not previously occur in Jordan. Jordan has also seen a rise in drug trafficking and abuse in recent years.⁸⁷

Furthermore, demonstrations, protest movements, and strikes against high prices, taxes, and unemployment increased in various cities throughout the country. Jordan witnessed a large wave of protests in 2011, coinciding with the events of the Arab Spring.

⁸⁵ "Jordan Market Analysis," Fitch Solutions, accessed October 28, 2022, <https://www.fitchsolutions.com/topic/jordan>.

⁸⁶ Hadeel Al Rawabdeh, "High Crime Rates in Jordan, Is It Due to Deficiencies in Legislation or the Economic Situation?" accessed December 9, 2022, <https://www.aljazeera.net/politics/2019/7/27/>.

⁸⁷ Ali Younes, "Armed Robbery in Broad Daylight, a Phenomenon That Haunts Jordanians," accessed December 9, 2022, <https://www.aljazeera.net/news/reportsandinterviews/2018/4/17/>.

Several of these protests witnessed clashes between citizens and security forces, raising fears of continuing severe economic difficulties that would lead to bloody violence.

The economic difficulties faced by Jordan were not inevitable. The challenges highlighted in this chapter could have been averted with the presence of efficient institutions. The upcoming chapter elaborates on the deficiencies within the Jordanian institutions that adopted economic policies, ultimately leading to the aforementioned economic challenges.

III. POLITICAL AND INSTITUTIONAL FACTORS CONTRIBUTING TO JORDAN'S ECONOMIC UNDERPERFORMANCE

A significant debate revolves around the factors contributing to the challenging economic situation in Jordan. Some Jordanian officials attribute this to external events beyond the government's control, such as regional and international instability and the ongoing COVID-19 pandemic.⁸⁸ However, the majority of Jordanians (85%) believe that insufficient government economic policies are the primary reason.⁸⁹ Additionally, as proponents of the geographical approach would argue, Jordan's economic problems stem from a lack of natural resources, particularly oil.⁹⁰ While these factors undoubtedly contribute to Jordan's economic weakness, they do not make them inevitable. The success of countries like Singapore and certain European nations that have thrived without abundant natural resources belies these arguments. Moreover, Jordan possesses valuable resources such as oil shale, phosphates, potash, Dead Sea salts, and uranium. Similarly, cultural interpretations suggesting that Arab social and cultural characteristics, including an aversion to manual labor, a patriarchal "man on top" mentality, and social hierarchy, are unconvincing in Jordan's case.⁹¹ It is worth noting that the large number of Jordanians working abroad in various fields is a testament to their qualifications and strong work ethic.

This thesis asserts that the weak performance of the Jordanian economy is influenced by both internal and external political factors, as well as institutional factors dating back to the establishment of the state. While regional and global instability play a

⁸⁸ Bloomberg Markets and Finance, "Jordanian Prime Minister Says They Live in a 'Tough Neighborhood,'" Video, 0: 08: 17, YouTube, January 22, 2020, <https://www.youtube.com/watch?v=MCNy-G8s38E>.

⁸⁹ Center for Strategic Studies at the University of Jordan, "An Opinion Poll," Almamlaka TV, accessed October 15, 2022, <https://www.almamlakatv.com/news/103812>.

⁹⁰ Mohammad Ahid and Ayuba Augustine, "The Impact of Global Financial Crisis on Jordan," *International Journal of Business and Management* 7, no. 16 (August 16, 2012): 80, <https://doi.org/10.5539/ijbm.v7n16p80>.

⁹¹ Mahmoud Al-Faleh, "Cultural Influences on Arab Management Development: A Case Study of Jordan," *Journal of Management Development* 6, no. 3 (March 1, 1987): 23–24, <https://doi.org/10.1108/eb051643>.

role, the management of political and economic institutions by the Jordanian state is a key factor in poor economic performance. This chapter adopts an institutional approach to explore the political and institutional factors contributing to the lackluster economic performance in Jordan. It analyzes various factors, including the impact of the political and security contexts on the nature of the economy and institutions in Jordan, the negative effects of ineffective public institutions on the Jordanian economy, and the impact of economic policies in the current economic crisis. The aim is to provide a comprehensive understanding of these factors and their influence on Jordan's economic performance.

A. POLITICAL ROOTS OF JORDAN'S ECONOMIC CRISIS: FROM FOUNDING TO PRESENT

The historical political context has profoundly shaped the nature of Jordanian institutions and their economy since their establishment and through subsequent political phases. The challenging political conditions and internal as well as external security challenges that accompanied Jordan during its formation and independence phases compelled the political system to prioritize political stability over institutional and economic development. In order to consolidate power and achieve stability, the state strengthened its control over political and economic institutions. The ruling regime formed alliances with influential figures who held political, social, and economic power in society, resulting in a political system closely intertwined with the economy. Consequently, institutions often serve the interests of political and security agendas rather than promoting sustainable economic growth. The persistence of this select class, driven by personal interests and nepotism, has hindered meaningful reform and restricted the nation's economic potential.

Furthermore, security concerns, ongoing armed conflicts, and regional instability have had lasting, dire consequences on Jordanian institutions and the economy. The series of wars with Israel and the persistent regional unrest have indeed significantly affected the Jordanian economy, resulting in increased reliance on foreign aid and necessitating greater state intervention in economic activities. Moreover, these conflicts have been used as justifications for imposing martial law, leading to the emergence of undemocratic state

institutions characterized by the dominance of authoritarian administrations focused on addressing security issues.

1. Political Institutions and Economic Impacts

In the course of the Ottoman and British rule, economic development was not a priority. Under Ottoman and British rule, the Jordan region experienced limited economic development. Jordan, historically a part of Greater Syria (the Levant), was governed by the Ottoman Empire for many centuries, followed by the British Mandate from 1921 until it achieved independence in 1946. The Ottomans prioritized reinforcing their tax collection system rather than implementing substantial initiatives to stimulate local economic growth. Various taxes were collected on behalf of the Ottoman government by official inspectors (*mufettishin*), tribal elders (*sheikhs*), and village leaders (*mukhtars*).⁹² Similarly, under the British Mandate, the British did not prioritize economic growth in Transjordan. Their main concern was maintaining security for their own benefit. Limited investments, such as the electricity company (Rotenberg) in 1927 and the potash company in the Dead Sea, were established through concessions granted to British entities.⁹³ Additionally, the British focused on strengthening military power, specifically the Arab Legion, and provided support to influential Bedouin tribal sheikhs.⁹⁴

Following its independence in 1946, the newly formed country of Jordan placed a higher emphasis on ensuring political stability than focusing on democratic institution-building or developing an effective market economy. Despite the constitution's emphasis on democratic principles, the nation's apprehensions regarding potential political threats led to a tightening of the state's control over institutions and economic development. Notably, the government directed its efforts towards strengthening the military

⁹² Bernard Lewis, "Ottoman Land Tenure and Taxation in Syria," *Islamic Study*, no. 50 (1979): 116–24, <https://doi.org/10.2307/1595560>.

⁹³ Timothy J. Piro, *The Political Economy of Market Reform in Jordan* (United Kingdom: Rowman & Littlefield, 1998), 24.

⁹⁴ Yoav Alon, "The Tribal System in the Face of the State-Formation Process: Mandatory Transjordan, 1921–46," *International Journal of Middle East Studies* 37, no. 2 (2005): 225.

establishment and actively appointed loyalists to key positions within the public sector and the military, with the aim of preempting the rise of potential competitors.⁹⁵

Occupying high positions in the state through appointment based on loyalty impacted the effectiveness of the Jordanian institutions and economy. To stabilize the political system, the king retained the power to appoint members of the government. Appointment on the basis of loyalty and tribal influence has led to the existence of an elite that rotates political and economic positions. The king's appointment of the prime minister and key members of the cabinet strengthened the elite's hold on power. Throughout Jordan's history, a distinct group of wealthy and influential families has consistently played a significant role in producing political leaders.⁹⁶ For instance, many individuals from certain families, like the Almajali, Badran, Almulqi, and Alrifai families, have repeatedly held key positions. This has resulted in a recurring pattern of leadership changes to the extent that many current ministers, including the prime minister, have familial connections to past ministers. To illustrate, the present Prime Minister, Bisher Alkhasawneh, is the son of former Minister Hani Alkhasawneh, and the previous Prime Minister, Hani Almulqi, is the son of former Prime Minister Fawzi Almulqi.

The elite in Jordan is a mixture of social and economic figures. Many of the businesspeople and politicians in Jordan come from wealthy families engaged in commerce or with extensive land holdings that could educate their children in America and Europe, so they were more equipped than others to assume official positions with the state. Likewise, many of the elite were fortunate to be the sons of influential tribal sheiks to whom the state showed favoritism to secure their loyalty. These elite obtained prominent positions in the official civil, military, and security institutions by being close to the royal palace and surrounded by a network of tribal and regional ties, which made them manage state institutions in a way that guaranteed the preservation of their privileges and those of their children after them.⁹⁷

⁹⁵ Alon, 225.

⁹⁶ Satloff, *From Abdullah to Hussein*, 4.

⁹⁷ Laurie Brand, *Jordan's Inter-Arab Relations: The Political Economy of Alliance-Making* (United States: Columbia University Press, 1995), 61–65.

Consequently, the elite class controlled Jordan's political and economic institutions, and many members were appointed based on political loyalty and social influence, regardless of their qualifications and merits. These individuals often pursued personal interests and security-driven goals, disregarding the principles of effective governance. Therefore, corruption and nepotism are rampant in many Jordanian institutions, exacerbating the country's already ineffective nature of governance. This system stifled innovation, stunted economic progress, perpetuated the cycle of nepotism, and created an economy highly dependent on externalities and plagued by opaque and inefficient practices.

Furthermore, the concentration of power within the elite has resulted in inefficiencies in the management of state-controlled economic institutions in Jordan. During the 1950s and 1960s, the Jordanian government established significant economic industries, such as phosphate, cement, potash, and fertilizer companies, as well as an oil refinery. The management of these projects was often entrusted to a select group of elite members who rotated between political and economic positions.⁹⁸ This practice allows the elite to utilize state economic institutions to further their own social agendas while reinforcing the state's involvement in the economy, often disguising their actions as necessary for maintaining internal cohesion. As a result, the economic institutions have become burdened with excessive staffing and plagued by issues of corruption, nepotism, and appointments based on familial connections (*wasta*) rather than merit.

In addition, many economic laws are tailored to benefit elite projects instead of serving the interests of the majority of small and enterprise owners.⁹⁹ For example, the privilege of importing a number of basic commodities such as meat, sugar, rice, and cooking oil is monopolized by a small number of merchants. These monopolies often enjoy exclusive contracts that limit competition, allowing the elite to control commodity

⁹⁸ Piro, *The Political Economy of Market Reform in Jordan*, 94–101.

⁹⁹ Markus Loewe, Jonas Blume, and Johanna Speer, "How Favoritism Affects the Business Climate: Empirical Evidence from Jordan," *The Middle East Journal* 62, no. 2 (April 1, 2008): 267, <http://www.jstor.org/stable/25482509>.

prices.¹⁰⁰ Consequently, this situation perpetuates inequality and restricts opportunities for fair competition among small businesses.

After launching political and economic reforms in 1989, many elite members began an undeclared resistance to these reforms, contributing to the slowdown in Jordan's pace of reform. Within the Jordanian state institutions, there are groups of officials who benefit from the existing status quo and actively impede institutional reform efforts.¹⁰¹ By conducting interviews, Brand discovered many managers across various levels, from senior to lower positions, exhibit a fear of change and economic shifts due to the financial and social benefits associated with their roles.¹⁰² The reluctance of administrative elites in numerous state-owned economic institutions to relinquish their privileges and social influence sheds light on the deceleration of privatization processes and the hesitancy surrounding institutional reform.

Furthermore, there are allegations that the elite in Jordan are undermining the role of parliament and other political and economic institutions in shaping the country's political economy. Despite the democratic process initiated in 1989, the Jordanian parliament still faces challenges in fulfilling its constitutional role in formulating economic policies. One of the reasons for this is the deliberate actions of the elite, who have crafted electoral laws that favor tribal and clan candidates, thereby sidelining qualified party or independent individuals capable of monitoring government performance and enacting legislation.¹⁰³

Additionally, some retired officials often express criticism towards market-oriented economic reforms and the privatization of public enterprises. A group of former officials, including former Prime Minister Ahmed Obeidat and several retired ministers, released a statement stating their concerns that economic reforms and the shift towards privatization

¹⁰⁰ Alurdunu Alyawm, "Member of the House of Representatives Said: One Person Controls the Price of Meat in Jordan," Video, 0: 01: 10, YouTube, March 1, 2023, <https://www.youtube.com/watch?v=gkYHY7myFRo>.

¹⁰¹ Brand, *Jordan's Inter-Arab Relations*, 70–71.

¹⁰² Brand, 62.

¹⁰³ Rodney Wilson, *Politics and Economy in Jordan* (Routledge, 2005), 169.

would result in the sale of national institutions and lead to higher prices of goods and services.¹⁰⁴ Robert Satloff, executive director of the Washington Institute for Near East Policy, believes that the entrenched political elite represents the primary obstacle to political and economic development in Jordan.¹⁰⁵ He emphasizes the state's reluctance to confront this elite, as doing so may create a populist opposition force.

2. Internal and External Security: Institutional and Economic Impacts

Turning to the impact of security concerns on institutions and the economy, it is known that the prolonged conflict with Israel has greatly affected the Jordanian economy. The protracted conflict with Israel impeded economic activities, increased security and military expenditures, and forced the government to prioritize these areas over other developmental aspects. The wars in 1948 and 1967 caused a large influx of Palestinian refugees, exacerbating economic and security pressures. Internal tensions escalated, leading to martial law and increased state intervention since 1967.¹⁰⁶ The events of Black September in 1970 further damaged the economy and reduced investments.¹⁰⁷

Another important aspect is that the conflict with Israel has made the Jordanian economy dependent on foreign aid. Hassan, the former Jordanian minister of planning, argues that the Jordanian economy has been built upon a political ideology that assumes uninterrupted regional and international financial assistance, associated with the notion of a functional role for Jordan.¹⁰⁸ This underscores a troubling pattern of government spending in Jordan, characterized by wastefulness, substantial allocations to public services and salaries in the public sector, and the provision of high salaries to numerous officials. The Jordanian economy's heavy dependence on foreign financial flows has rendered it

¹⁰⁴ Muhamed Al Najar, "Jordanian Politicians Are Highly Critical of the Kingdom's Administration," Al Jazeera, accessed July 14, 2023, <https://www.aljazeera.net/news/2008/6/23/>.

¹⁰⁵ Emad Omar, "The Challenge of Progress," in *Dissent and Reform in the Arab World: Empowering Democrats*, ed. Jeffrey Azarva, Danielle Pletka, and Michael Rubin (American Enterprise Institute, 2008), 56, <https://www.jstor.org/stable/resrep03025.9>.

¹⁰⁶ Piro, *The Political Economy of Market Reform in Jordan*, 31.

¹⁰⁷ Piro, 60–61.

¹⁰⁸ Jafar Hassan, *Jordanian Political Economy: Construction in the Womb of Crises* (Amman, Jordan: Alaan Publishers & Distributors, 2020).

vulnerable to political and economic fluctuations, undermining its self-sufficiency. Similarly, Rivlin highlights the consequences of excessive reliance on remittances from Jordanian expatriates and financial aid, despite some progress in sectors such as health and education through foreign aid in the region.¹⁰⁹

Consequently, the decline in external financial flows to Jordan has revealed the drawbacks of relying on foreign-based economic development. The reduction in Arab states' aid to Jordan during the late 1980s can be attributed to the dissatisfaction of Arab Gulf rulers with Jordan's non-participation in the liberation of Kuwait in 1991, which led to a decline in Gulf grants to Jordan. Investments, grants, and transfers from Gulf countries also diminished, with the percentage of Gulf grants received by Jordan dropping from 112% in 1979 to 12% in 2018.¹¹⁰ To cope with the financial gap resulting from the reduction in external financial flows and oil aid, the Jordanian government resorted to implementing a sales tax and engaging in imprudent external and internal borrowing practices.¹¹¹ This approach, aimed at sustaining high expenditures on services, public sector salaries, and oil and gas imports, eventually led to a debt crisis, heightened inflation, and increased taxes, unemployment, and persistent budget deficits.

Moreover, from the 1950s to 1989, the Jordanian state gradually consolidated its control over government institutions and impeded the democratic process. The official claim behind the Jordanian state's cessation of democratic practices was the need to address security concerns related to Gamal Abdel Nasser's pan-Arab ideology and deal with Palestinian extremism within its borders and the inability to hold democratic elections due to the Israeli occupation of the West Bank, which was considered part of Jordan until the issuance of the Arab League's decision to distinguish between Jordan and the West Bank in 1988.¹¹² The security concern has made state institutions, including economic ones, run

¹⁰⁹ Rivlin, *Arab Economies in the Twenty-First Century*, 155–75.

¹¹⁰ Hassan, *Jordanian Political Economy: Construction in the Womb of Crises*, 35.

¹¹¹ Scott Greenwood, "Jordan's 'New Bargain': The Political Economy of Regime Security," *Middle East Journal* 57, no. 2 (2003): 260–61.

¹¹² W. Andrew Terrill, *Jordanian National Security and the Future of Middle East Stability* (Carlisle Barracks, PA: Strategic Studies Institute, U.S. Army War College, 2008), 4–6.

by authoritarian administrations that claim that their primary concern is to maintain the security of the country and the stability of the political system. The conflict resulted in martial law from 1957–1990 that heightened state control over trade unions, chambers of commerce, and industry.¹¹³

The role of the intelligence department could be one of the challenges to Jordan's democratic progress. Although Jordan resumed its democratic path in November 1989 with the first parliamentary elections in 22 years, concerns have been raised about the influence of the Jordanian General Intelligence Department (GID) over political and economic decision-making, potentially weakening Jordanian institutions.¹¹⁴ In February 2021, King Abdullah II directed the director of the GID to enable national institutions to independently carry out regulatory and oversight work, focusing on their primary intelligence responsibilities and counterterrorism efforts.¹¹⁵

In addition, instability in Iraq and the civil war in Syria have also had profound consequences for Jordan's economy. The second Gulf War disrupted trade with Iraq, Jordan's primary trading partner and a vital supplier of affordable oil. The conflict brought an influx of Iraqi refugees, straining resources and social services.¹¹⁶ Similarly, the Syrian civil war disrupted overland trade flows and burdened Jordan with hosting more than 1.3 million Syrian refugees. In response, the Jordanian government increased military spending to secure its northern borders, combat terrorist infiltration, and prevent smuggling. These factors have further strained Jordan's limited resources.¹¹⁷ Also, the

¹¹³ Brand, *Jordan's Inter-Arab Relations*, 53–63.

¹¹⁴ Guilain Denoeux, Oliver Wilcox, and Zayyan Zawaneh, "Jordan Democracy and Governance Assessment," *USAID/Jordan*, Democracy and Governance, August 2003, 25.

¹¹⁵ "King Sends Letter to General Intelligence Department," King Abdullah II Official website, accessed May 29, 2023, <https://kingabdullah.jo/en/news/king-sends-letter-general-intelligence-department-director>.

¹¹⁶ Swaidan and Nica, "The 1991 Gulf War and Jordan's Economy," 70.

¹¹⁷ Andrew Szparaga, *The Effect of the Syrian Crisis on Jordanian Internal Security*, Independent Study Project (ISP) Collection No. 1929 (Brattleboro, VT: School for International Training), October 1, 2014, https://digitalcollections.sit.edu/isp_collection/1929.

ongoing conflict in Syria is causing disruptions in trade and leading to increased costs for imports and goods that typically transit through Syria from Turkey.¹¹⁸

B. INSTITUTIONAL LEGACIES IN JORDAN'S CURRENT ECONOMIC CRISES

1. Negative Impacts of Ineffective Public Institutions on Jordan's Economy

The public sector in Jordan has faced considerable criticism for its bloated nature and inefficiency, with successive governments expanding the sector over the past two decades in an attempt to maintain stability by providing state jobs.¹¹⁹ However, this has resulted in excessive staffing and inadequate service delivery.¹²⁰ Jordan has one of the highest shares of public sector employment globally, with around 40% of employed Jordanians working in this sector.¹²¹ Approximately 64% of all public expenditures is allocated towards public sector salaries, diverting resources away from more productive sectors of the economy.¹²² This situation has hindered economic development and the potential for growth in Jordan.

Corruption and nepotism practices still exist in Jordanian institutions. A notable 56% of Jordanians acknowledge the detrimental effects of corruption, with 10% considering it the most critical problem currently facing the country.¹²³ Despite the government's efforts to combat corruption, Transparency International's Corruption Perceptions Index in 2022 ranked Jordan 61 out of 180 countries, giving the country a score

¹¹⁸ "Economic Grievances Add to Reform Demands in Jordan," Oxford Analytica Daily Brief Service, July 11, 2012, <https://www.proquest.com/docview/1024497824/abstract/4525DE6FEABB4955PQ/1>.

¹¹⁹ Suleiman Al-Khalidi, "Jordan Government to Raise Public Sector Wages Next Year," Reuters, December 5, 2019, sec. Economic News, <https://www.reuters.com/article/jordan-economy-wages-idUSL8N28F4P6>.

¹²⁰ AlMamlaka TV, "Crown Prince: We Have to Admit Failure," Video, 0: 01: 31, YouTube, February 23, 2023, <https://www.youtube.com/watch?v=RyMcuIoipfQ>.

¹²¹ Winkler and Gonzalez, "Jobs Diagnostic-Jordan," 24.

¹²² Winkler and Gonzalez, 24.

¹²³ International Republican Institute, "State of Democracy in Jordan Public Opinion Survey: Residents of Jordan."

of 47 out of 100. This decline is evident from its previous ranking of 50 in 2010.¹²⁴ Moreover, the absence of transparency and accountability within public institutions has compelled Jordanians to continue relying on the practice of favoritism, commonly known as *wasta* in Arabic.¹²⁵ Despite its negative consequences, the prevalence of *wasta* persists due to the lack of measures promoting transparency and accountability.

The centralization of decision-making in higher administrations and the ineffective performance of government employees at lower levels in Jordanian government institutions have intensified over time. Furthermore, appointments based on personal connections rather than qualifications, particularly from ministers' villages, towns, and tribes, have contributed to this issue. As a result, employees have become accustomed to merely implementing instructions, reinforcing decision-making authority in the hands of higher managers and ministries. This poor executive performance and centralized decision-making hinder transactions and create fertile ground for corruption.

Corruption and nepotism within the Jordanian public sector have had a severe impact on economic performance. The prevalence of *wasta* and corruption in government institutions has eroded public trust in both the government and society at large.¹²⁶ This lack of trust can negatively affect investment levels, as social trust is closely linked to investment. Furthermore, the culture of *wasta* results in an unfair distribution of resources, jobs, and services. Managers within many Jordanian public institutions exploit their positions to favor their networks of supporters and relatives, leading to inequitable outcomes.¹²⁷ Additionally, these appointments have resulted in a larger number of inactive employees at lower levels and further centralized decision-making power in higher

¹²⁴ "Our Work in Jordan," Transparency International, January 31, 2023, <https://www.transparency.org/en/countries/jordan>.

¹²⁵ Loewe, Blume, and Speer, "How Favoritism Affects the Business Climate."

¹²⁶ International Republican Institute, "State of Democracy in Jordan Public Opinion Survey: Residents of Jordan."

¹²⁷ Mohammad Rawabdeh, *The Extent of the Phenomenon of Wasta and Favoritism in the Jordanian Public Sector*, (Queen Rania Center for Jordanian Studies and Community Service, Yarmouk University, July 2020), 14–16.

administrations.¹²⁸ Appointments based on personal connections rather than qualifications have also contributed to inefficiencies and hindered transactions, creating an environment that is conducive to corruption.

The convoluted bureaucracy and overlapping responsibilities in Jordan create significant hindrances in the investment, economic reform, and privatization processes. Within the Jordanian system, multiple ministries and institutions, including the Ministry of Planning, Ministry of Finance, Ministry of Industry and Trade, and independent bodies like the Investment Promotion Authority, share similar duties, resulting in the duplication of efforts and redundant tasks, known as *al-izdiwajiyya* in Arabic.¹²⁹ Former Prime Minister Al-Rawabdeh has acknowledged the detrimental impact of these complex government procedures and the resulting overlaps.¹³⁰ Transaction delays and inefficiencies in managing public services are common consequences. Moreover, the competition, conflicting powers, and overlapping responsibilities within bureaucratic institutions pose significant barriers to the privatization and liberalization of government-owned companies.¹³¹

Jordan's efforts to establish independent institutions for facilitating privatization have had unintended consequences. Instead of simplifying processes, the proliferation of these institutions has led to complex procedures and costly legislation, burdening the public budget with tens of independent bodies that receive substantial annual allocations. This has resulted in more overlapping responsibilities, particularly in sectors such as transportation, media, communications, education, and tourism, creating confusion and inefficiency.¹³² The public perceives corruption within these bodies, with appointments often based on personal connections rather than merit, further exacerbating the issue. Moreover,

¹²⁸ Brand, *Jordan's Inter-Arab Relations*, 63–69.

¹²⁹ Piro, *The Political Economy of Market Reform in Jordan*, 84–85.

¹³⁰ ONE TV, “A Strategic Dialogue Deals with the Hot Jordanian Files,” Video, 0: 52: 19, YouTube, January 11, 2022, <https://www.youtube.com/watch?v=Zu8GXYQG7iI>.

¹³¹ Piro, *The Political Economy of Market Reform in Jordan*, 87–88.

¹³² Sabry Alrabeihtat, “The Independent Bodies,” Ammon News, October 20, 2019, <https://www.ammonnews.net>.

significant disparities in salaries and allowances between employees of independent bodies and parent ministries have caused a lack of harmony and cooperation.¹³³

2. Role of Institutional Economic Policies in Current Economic Crisis

The economic policies adopted by Jordanian institutions have played a significant role in shaping the country's economic landscape. Throughout its history, the state has pursued a policy of economic intervention to varying degrees, with different underlying motivations. This interventionist approach led to the establishment of state-owned economic institutions, with the aim of maintaining stability and ensuring state dominance. However, this involvement also had consequences on the structure and efficiency of the economy, blurring the line between the public and private sectors and hindering the development of a productive private sector. Additionally, the government's adoption of a rentier state policy to secure political stability and loyalty relied on external financing, leading to a growing dependence on government subsidies and limited productivity in the service-based economy.

a. Interventionist State Policy

Since its inception, the Jordanian state has pursued a policy of economic intervention to varying degrees. The underlying reasons for this intervention are subject to different opinions. Some argue that the tribal structure of society compelled Jordanian policy to use the economy as a means to maintain stability.¹³⁴ In this context, political and economic decision-makers established state-owned economic institutions and employed them primarily to ensure undisputed state dominance.¹³⁵ Following the initiation of economic reforms in 1989, the state's intervention in the economy gradually lessened, but it did not completely withdraw. It is possible that some official resistance to market liberalization efforts that began in 1989 was motivated by a desire to maintain the state's economic control. On the other hand, some view state intervention as necessary to

¹³³ AlMamlaka TV, "Independent Bodies to Be Merged or Abolished," Video, 0: 48: 59, YouTube, October 20, 2019, https://www.youtube.com/watch?v=_9aNR2UghNQ.

¹³⁴ Piro, *The Political Economy of Market Reform in Jordan*, 30–31.

¹³⁵ Piro, 62.

undertake major economic projects that require significant financing, which the local economy lacks.¹³⁶ The government, with access to foreign financial resources, was seen as capable of providing the required funding.

The state's interventionist policy had significant effects on the structure and efficiency of the Jordanian economy. In the 1950s, the government established major projects such as the Jordan Cement Company, the Arab Potash Company, the Jordan Petroleum Refinery Company, and the Jordan Fertilizer Company, where it holds the majority of shares. The administrations of these government economic institutions swelled with a large number of employees serving security and social objectives, which negatively affected the efficiency of these institutions.¹³⁷ Moreover, government control over economic institutions blurred the line between the public and private sectors.¹³⁸ In other words, the broad economic control by the government hindered the development of a productive and self-sufficient private sector. Instead, it fostered an environment where the private sector heavily relied on the state. As a result, only a few companies thrived, primarily through government contracts.¹³⁹ The inefficiency of public economic institutions and the limited scope of the private sector have prevented Jordan from reaping the full benefits of transitioning to a market economy.

b. Rentier State Policy

The Jordanian government has adopted a rentier state policy to maintain political stability and secure loyalty. This approach has relied on external financing to support the state's functioning as a rentier state.¹⁴⁰ As a result, there has been an implicit social contract between the people and the government, where citizens receive government-

¹³⁶ Brand, *Jordan's Inter-Arab Relations*, 42–43.

¹³⁷ Alan Richards, John Waterbury, Melani Cammett, and Ishac Diwan, *A Political Economy of the Middle East* (Westview Press, 2013), 252.

¹³⁸ Piro, *The Political Economy of Market Reform in Jordan*, 81.

¹³⁹ Piro, 59.

¹⁴⁰ Rex Brynen, "Economic Crisis and Post-Rentier Democratization in the Arab World: The Case of Jordan," *Canadian Journal of Political Science/Revue Canadienne de Science Politique* 25, no. 1 (1992): 71–74.

provided services and employment opportunities in exchange for their loyalty. This has led to a growing dependence on government subsidies for employment, financial aid, and essential services. Education, healthcare, and other services have been provided by the state with minimal direct costs imposed on citizens.¹⁴¹ However, concerns have arisen among the population regarding potential economic reforms. Yom says that King Abdullah II's adoption in the 2000s of a market-oriented economy and the start of a shift away from the traditional state-led development approach sparked the fears of many Jordanians, especially military retirees, about the impact of this shift on their incomes and their access to public services. This concern, particularly among influential tribal communities, may have been a contributing factor to the rise in grassroots activism observed since the Arab Spring.¹⁴²

The rentier state policy has contributed to the development of a service-based economy with limited productivity. Vasquez and Khreishi describe the Jordanian economy as being heavily reliant on the service sector with low productivity levels.¹⁴³ The prolonged generosity of the government has not motivated Jordanians to actively pursue the development of a private economy separate from state projects and contracts.¹⁴⁴ Furthermore, the rentier policy in Jordan has led to a consumer culture and a preference for imports over domestic production, negatively impacting local industries. This has allowed citizens to enjoy a high standard of living, surpassing the country's level of local production. As a result, resources and labor have shifted away from small-scale industries and agriculture towards the service sector, leading to the "Dutch disease" phenomenon.¹⁴⁵ Moreover, the rentier policy has increased domestic consumption of imported goods without a corresponding increase in domestic production, leading to a trade imbalance and heavy reliance on customs duties as the main source of revenue.

¹⁴¹ Piro, *The Political Economy of Market Reform in Jordan*, 60.

¹⁴² Hicham Alaoui and Robert Springborg, *Security Assistance in the Middle East: Challenges ... and the Need for Change* (Boulder, CO: Lynne Rienner Publishers, 2023), 221.

¹⁴³ Vasquez and Khraishy, "Market Overview and Guide to Jordanian Market Requirements."

¹⁴⁴ Piro, *The Political Economy of Market Reform in Jordan*, 102.

¹⁴⁵ Piro, 68.

C. CONCLUSION

The weak performance of the Jordanian economy can be attributed to a combination of internal and external political and institutional factors. The circumstances surrounding the formation of the Jordanian state and the subsequent political stages left a lasting impact on its institutions and economy. Prioritizing political stability over effective institution-building during the state-building phase led to the establishment of political and economic institutions that serve the interests of the ruling elite rather than promoting sustainable economic development. The concentration of power within the elite class has led to a lack of meritocracy and accountability in decision-making and the perpetuation of corruption and nepotism within public institutions. In addition, elite resistance to reform and its impact on political and economic decision-making have hampered the pace of institutional change and privatization efforts, further hampering economic progress.

Inefficient public institutions, characterized by bureaucracy, overlapping responsibilities, and excessive staffing, have also impeded economic growth and development. Corruption and nepotism within the public sector have eroded public trust and led to an unfair distribution of resources, hampering investment levels and economic performance. Moreover, the state's historical interventionist policy and reliance on rentier state practices have contributed to an economy that is highly dependent on foreign aid and lacks productivity and self-sufficiency. Overreliance on government subsidies and services discouraged the development of a strong private sector and productive industries.

To address the underperformance of the Jordanian economy, there is a need for institutional, political, and economic reforms, and for amending some of the existing policies and replacing them with more effective and efficient ones. The next chapter presents a number of recommendations necessary to overcome Jordan's economic challenges.

IV. CONCLUSION: RECOMMENDED REFORMS

Jordan can overcome its economic challenges. The previous chapter emphasized that the economic crisis in Jordan stems from political and institutional factors. The experience of the Asian Tigers, who succeeded in overcoming their economic troubles, provides a helpful example in the Jordanian case. These countries overcame their economic challenges through a wide range of reforms that led to enhancing transparency, limiting corruption, creating equal opportunities for all citizens, limiting state intervention in the economic process, giving priority to export-oriented industrialization, harnessing modern technology in production, and creating an environment that attracts foreign investment.¹⁴⁶

Addressing Jordan's economic crisis and advancing reforms necessitates restoring public confidence and acknowledging the root causes of the crisis. While economic reform stands as a prominent priority for King Abdullah II of Jordan, it faces substantial challenges in the form of insufficient public backing and the government's limited capacity to enact comprehensive reforms.¹⁴⁷ A key first step in the reform process is to officially recognize the bad policies that caused the crisis rather than blame external factors such regional instability or geographic limits like oil and water shortages. This self-awareness among decision-makers is key to embarking on the right path of reform despite its many challenges. Also, addressing the economic crisis in Jordan requires the government to restore popular confidence. The government cannot advance reforms if it faces broad public opposition.

A participatory approach is indispensable to addressing Jordan's economic crisis. The efficacy of crisis mitigation measures hinges upon collaboration among state institutions, the public and private sectors, civil society entities, economic sector representatives, and academics. These stakeholders must co-create a cohesive roadmap to

¹⁴⁶ Jostein Hauge, "Should the African Lion Learn from the Asian Tigers? A Comparative-Historical Study of FDI-Oriented Industrial Policy in Ethiopia, South Korea and Taiwan," *Third World Quarterly* 40, no. 11 (November 2, 2019): 2–15, <https://doi.org/10.1080/01436597.2019.1629816>.

¹⁴⁷ "Economic Reform Efforts in Jordan Lack Critical Support," Carnegie Endowment for International Peace, accessed August 18, 2023, <https://carnegieendowment.org/2007/08/08/press-release-economic-reform-efforts-in-jordan-lack-critical-support-pub-19482>.

save the economy and promote sustainable growth. Successful outcomes necessitate synergy between official and unofficial sectors, compelling Jordan's government to engage with both civil society and academic experts in devising remedies. Effective participatory approaches also entail active listening to reform advocates, elevating them from critics to constructive partners offering pragmatic solutions.

The Jordanian government must undertake a triple set of institutional, economic, and political reforms to overcome the current economic crisis. The following sections dive into these proposed solutions, identified by category.

A. INSTITUTIONAL REFORMS

Developing the performance and services of Jordanian public institutions has become a priority for economic empowerment. Jordan can only achieve the desired results with institutional capabilities that allow optimal resource use. Therefore, it is essential to improve the professionalism of institutions and eliminate corrupt practices to ensure the effective implementation of governmental interventions that support economic development.

Ensuring the success of Jordan's reform program hinges on the qualification and empowerment of the country's public sector employees. A pivotal aspect of enhancing employee performance involves establishing a clear connection between a public servant's career progression, annual performance evaluations, and their ongoing ability to acquire the requisite qualifications and training relevant to their role. Consequently, it is imperative to evolve promotion systems, shifting away from the prevailing practice in Jordan, which predominantly relies on years of service, to a more merit-based approach founded on functional competencies.¹⁴⁸

Appointing highly qualified individuals to administrative roles within Jordan's public sector institutions is crucial for overcoming crises and promoting economic development. Jordan's institutional services have suffered due to the inadequate selection

¹⁴⁸ Mohammed Badarin, "Regarding Administrative Reform in Jordan," Ammon News, April 5, 2023, <https://www.ammonnews.net>.

of competent administrative leaders. Currently, the Civil Service Bureau oversees appointing employees in public institutions using a seniority-based waitlist system. But regarding managers and senior leaders, the prime minister or other ministers typically nominate managers and senior employees. Unfortunately, this traditional approach often leads to the appointment of inept managers based on personal connections within the public sector.¹⁴⁹ Persisting with this method will only perpetuate the deterioration of public sector institutions.

Elevating the performance of Jordan's public sector institutions necessitates overcoming the barriers to hiring qualified employees and capable leaders. Filling public positions and senior managerial roles should be done through open competition, with selection committees comprising representatives from the Civil Service Bureau and experts from the relevant institution responsible for evaluating applicants. To ensure the professionalism and integrity of these selection committees, it is essential to include members from various oversight bodies, such as the House of Representatives and the Anti-Corruption Department. This proposed mechanism ensures that public institutions obtain qualified employees and managers who can improve public services and ensure fairness in their distribution, reflecting positively on the economic development process.

Fighting corruption (*alfasad*) in Jordanian public institutions is essential to implementing economic reforms. A robust strategy is needed to achieve greater transparency and accountability and protect against the drivers of corruption.¹⁵⁰ The most effective anti-corruption strategy includes activating oversight, engaging the public, and reducing traditional financial collection processes. All government actions must be subject to official and popular oversight through solid and effective oversight institutions to combat corruption. Likewise, it is necessary to activate the legal accountability of public employees in a way that contributes to advancing development and preventing the waste of public money. Despite the existence of an anti-corruption commission, many believe its

¹⁴⁹ Badarin.

¹⁵⁰ Satloff, *From Abdullah to Hussein*, 4–5.

role is still limited.¹⁵¹ The success of anti-corruption efforts requires granting the Anti-Corruption Commission broader powers. Moreover, a hotline should be established for reporting cases of corruption by the public while protecting whistleblowers who report those cases. In addition, financial corruption can be reduced by operating digital payment systems in all government institutions. Additionally, public institutions could appoint an inspector general to investigate violations of internal controls and other oversight mechanisms.

Activating the asset declaration system for public servants would allow Jordan to strengthen its anti-corruption efforts. Transparency International has proposed a solution to the problem of corruption, which is to enhance the asset declaration system for public servants.¹⁵² By publicly making data available, governments empower civil society to assist in efforts to eliminate and deter corruption and debunk false accusations.

Fighting nepotism (*wasta*) in Jordanian institutions contributes to getting out of the crisis and advancing development. In Jordan, society must consistently apply the law and have access to opportunities. There is still a class of citizens who have the support of influential people and a greater chance than others of being appointed to public jobs or obtaining resources they do not deserve. Some employees also take advantage of their relationships with influential people to escape the legal consequences of their dismissal.¹⁵³ Continuing nepotism causes a waste of resources and unfair access to opportunities and resources, and it encourages corrupt employees to neglect and misuse public funds. The government should use legal mechanisms to criminalize and punish the practitioners of this unjust culture and employ monitoring tools to track and eliminate it. The absence of patronage means more fair competition, production, and development.

¹⁵¹ “Jordan Country Risk Report,” GAN Integrity, November 4, 2020, <https://ganintegrity.com/country-profiles/jordan/>.

¹⁵² David Linfield, “Jordan Could Repair Public Rift with These Five Reforms,” Carnegie Endowment for International Peace, June 16, 2021, <https://carnegieendowment.org/2021/06/16/jordan-could-repair-public-rift-with-these-five-reforms-pub-84774>.

¹⁵³ “Jordan Country Risk Report.”

Reducing bureaucracy and streamlining the business environment contribute to economic development. Many observers believe that Jordan needs to abolish some independent government institutions and merge others with their respective ministries within the policy framework of improving government performance, addressing administrative sluggishness, and rationalizing expenditures. All Jordanian governments formed in the last two decades have discussed the problem of independent bodies and the need to abolish or reorganize some. Still, there is a hidden resistance to this approach, behind which the beneficiaries of these independent government bodies stand.¹⁵⁴ Many of the independent bodies overlap their duties with some ministries. Therefore, merging them will achieve financial savings and facilitate service transactions. Examples include the merger of the Transport Regulatory Authority with the Ministry of Transport and the union of the Telecommunications Regulatory Authority with the Ministry of Information Technology.

Clearly, to shorten the time for conducting transactions and reduce the burden and expenses on service recipients, Jordan needs to simplify the procedures related to opening businesses, investing, and closing trades. The Jordanian government needs to unify the institutions monitoring existing investment businesses or licensing new investments. Although the government has created what is now known as the unified investment window, investors still complain. The investors' problem in Jordan is not getting the licenses from the investment window, but rather subsequent bureaucratic difficulties that ensue.¹⁵⁵

Enhancing the harmony between labor market demands and the outputs of higher education institutions in Jordan is pivotal for surmounting economic challenges, particularly unemployment. State-led guidance and coordination are imperative to bridge the gap between productive sectors and the education system. Given the dynamic shifts in production and labor markets, the key lies in producing graduates with distinct skills and

¹⁵⁴ Ahmed Al-Husban, "Independent Bodies: What Next?" Alghad, April 18, 2023, <https://alghad.com/story/1334825>.

¹⁵⁵ Salama Al-Darawi, "Investment Complaints ... Before and After," Alghad, March 6, 2021, <https://alghad.com/story/976924>.

experiences. To achieve alignment between educational outputs and business requirements, Tarawneh proposes a national observatory. This observatory would monitor local, regional, and global vocational market needs, providing essential recommendations to introduce, adapt, or enrich educational specializations.¹⁵⁶ Efficient investment in education will yield anticipated positive results only if it can produce graduates highly skilled in their respective domains.

B. ECONOMIC REFORMS

The ongoing decrease in capital spending in favor of current expenditures will directly impede Jordan's desired economic growth. Capital spending, which yields future benefits and strengthens domestic financing, constitutes only 10% of budgets, compared to the 90% allocated for current expenditures.¹⁵⁷ The current spending largely encompasses salaries, subsidies, public services, defense, and expenses related to imported energy. Therefore, the government should evaluate the efficiency of managing current expenditures to reduce the waste and corruption contributing significantly to the current high expenses. The government should also reconsider the target groups of free or reduced government services to focus on the poorest and rearrange current spending priorities, temporarily emphasizing the most essential aspects.¹⁵⁸

Tax reform will also contribute to overcoming the economic crisis. Increasing taxes does not necessarily mean increasing the state's financial revenues. Raising taxes means a decrease in investment activity and an increase in tax evasion attempts. The Jordanian tax system needs to adhere to the principle of linking the increase in tax revenues to economic growth to ensure the government collects the necessary revenues for government spending

¹⁵⁶ Ikhilif Altarawneh, "Visions of Higher Education Reform in Jordan," World Affairs Council, November 30, 2014, <https://www.wac-jo.org/index.php/ar/2014-11-30>.

¹⁵⁷ Jordanian General Budget Department, "Summary of Jordan General Budget for the Fiscal Year 2022," Jordanian Ministry of Finance, 2022, 3–4, <https://gbd.gov.jo/Uploads/Files/gbd/draft-min/2022/ar/2.pdf>.

¹⁵⁸ UNICEF, "Social Expenditure Observatory for Arab Countries," UNICEF, 2022, 8–9, <https://www.unicef.org/mena/media/20066/file>.

without discouraging economic activity.¹⁵⁹ The government should also improve the efficiency of tax collection and adopt digital payment systems. Likewise, the expansion of exempting industrial and agricultural production inputs from taxes reduces the costs of locally produced commodities so that local producers can compete with imported commodities in the Jordanian market and commodities in foreign markets to which Jordanian products are exported.

Strong support for the agricultural sector will lead to a more productive economy. The agricultural sector's contribution to the GDP has declined until it reached only 5%.¹⁶⁰ Encouraging the agricultural sector will create job opportunities, boost local production, reduce dependence on imports, and provide a significant source of income. Allowing citizens to produce or raise animals on vast government-owned land in exchange for a modest portion of the value of their agricultural output strongly encourages agricultural development. Moreover, providing farmers with modern agricultural techniques at a lower cost will encourage them to produce more. It is also essential to find appropriate solutions to the problem of water scarcity to promote agriculture. Expanding water harvesting initiatives in arid regions, expanding wastewater recycling initiatives for reuse in irrigation, and changing building code regulations to mandate that residents construct cement tanks to collect rainwater for each home or residential property are all ways to achieve water security.

Expanding the role of the private sector (foreign and local) in economic work is essential for creating a healthy economic situation. The prime minister of Jordan said, "After ten years if we do not find solutions, we will have one million Jordanians without jobs."¹⁶¹ He added that empowering the private sector has become necessary to achieve economic growth and create job opportunities to serve citizens. Expanding the role of the

¹⁵⁹ Vito Tanzi, Howell Zee, "Economic Issues No. 27 -- Tax Policy for Developing Countries," accessed August 31, 2023, <https://www.imf.org/external/pubs/ft/issues/issues27/>.

¹⁶⁰ Tim O'Brien et al., "What Will It Take for Jordan to Grow?," *Center for International Development at Harvard University*, Faculty Working Paper Series, No. 411 (March 2022): 13, <https://growthlab.hks.harvard.edu/files/growthlab/files/2022-03-cid-wp-411-what-will-it-take-for-jordan-to-grow-final.pdf>.

¹⁶¹ "Jordan Lays Out 10 Year Plan to Revive Economy," *Middle East Monitor*, June 7, 2022, <https://www.middleeastmonitor.com/20220607-jordan-lays-out-10-year-plan-to-revive-economy/>.

private sector needs to solve the dilemmas of financing and government monopoly. No government financing institution in Jordan can bridge the financial resource gap. Funding constraints significantly impede firm-wide capacity development and new investments in new productive activities.¹⁶² The government can solve the funding problem by providing low-interest loans to the private sector. It is also possible to benefit from the financial balance of the Social Security Corporation by providing investment loans to the private sector, which requires the government to stop internal borrowing from Social Security Corporation funds. The government can also use the Central Bank's tools to facilitate the private sector's access to the financing necessary to establish investment projects from banks and non-banking financial institutions. Likewise, the state must dismantle the government's monopoly on petrochemical, fertilizer, and other industries based on the natural resources of phosphate and potash and enable private companies to also invest in these resources.¹⁶³

Jordan can pave the way toward significant economic growth, job creation, and poverty reduction by creating a more attractive climate for foreign investment. Foreign investment is the most capable source of job creation, especially given the limited local capital for significant projects. Attracting foreign investment will create job opportunities and generate a new revenue source for the government through fees and taxes. To stimulate foreign investors, Jordan should consider lowering taxes and fees and reassuring potential investors that their returns on investment will be rewarding. In addition, the state can lease vast tracts of vacant land to foreign investors to build their investments for low fees. Granting investors, the right to use qualified production sites available in large empty areas or industrial cities for reduced rental fees can boost the business sector. Moreover, developing adequate infrastructure lowers transaction costs and generates positive externalities to bring in productive activities. Despite achieving some progress, Jordan still

¹⁶² Luis Abugattas-Majluf, "Jordan: Model Reformer without Upgrading?" *Studies in Comparative International Development* 47, no. 2 (June 2012): 243, <https://doi.org/10.1007/s12116-012-9112-9>.

¹⁶³ Abugattas-Majluf, 243.

needs to develop the infrastructure that covers digital infrastructure, energy transmission, railways, roads, and water.¹⁶⁴

Directing the local and foreign private sector to new activities with higher productivity and greater technological intensity will generate more job opportunities. In Jordan, foreign investment has yet to contribute significantly to development. Some of the most significant foreign investments involved acquisitions of private Jordanian companies and thus did not lead to the creation of new companies. Also, several foreign investors tend to invest in building apartments. During 2004–2008, real estate investments accounted for approximately 45% of total investments in Jordan.¹⁶⁵ Despite the importance of these projects, they provide few job opportunities. Directing investment and the private sector towards more technology-intensive industrial activities will increase exports and achieve a financial return that encourages more viable industrial projects.

Additionally, the structure of the industrial sector in Jordan consists mainly of small firms with low labor productivity. Because small enterprises that employ fewer than nine workers account for nearly 95% of all industrial establishments, the ratio of value added to gross product for the entire industrial sector is relatively low.¹⁶⁶ The government can encourage investors to build labor-intensive projects with high added value that enable local youth employment.

Stopping the huge annual financial losses for the National Electric Power Corporation and the Royal Jordanian Airlines, both of which are owned by the Jordanian government, is critical for improving Jordan's financial situation. A World Bank report released in fall 2022 recommends that Jordan ease pressures on public finances from state-owned enterprises.¹⁶⁷ The government still controls two essential sectors, electricity and

¹⁶⁴ Tim O'Brien et al., "What Will It Take for Jordan to Grow?" 38.

¹⁶⁵ Abugattas-Majluf, "Jordan," 242.

¹⁶⁶ Maram I. Shqair and Safwan A. Altarazi, "Evaluating the Status of SMEs in Jordan with Respect to Industry 4.0: A Pilot Study," *Logistics* 6, no. 4 (December 2022): 69, <https://doi.org/10.3390/logistics6040069>.

¹⁶⁷ "Jordan: Accelerating the Pace of Pro-Investment Reforms," World Bank, accessed August 13, 2023, <https://www.albankaldawli.org/ar/news/press-release/2023/01/19/jordan-acceleration-of-investment-enabling-reforms-needed-for-resilient-recovery-and-inclusive-job-creation>.

air transport, through the National Electricity Company and Royal Jordanian Airlines. Both companies are exposed to substantial, unjustified financial losses annually. The state often has to borrow to maintain the services of these two companies. The accumulated losses of the National Electric Power Company amounted to 5.36 billion dinars.¹⁶⁸ The accumulated losses the Royal Jordanian Company amounted to about 400 million dinars until the end of 2022.¹⁶⁹ The international airport's economic experience may be inspiring to save the faltering electricity and air transport sectors. The Jordanian government did not have the money needed to rehabilitate the dilapidated buildings at the Royal Alia International Airport in Amman, so it conceded all rights to the Paris Airports Group for 25 years in 2007. The company pledged to pay the Jordanian government 54.5% of total airport revenues under an agreement to build, operate, and, finally, return ownership of the airport to Jordan after 25 years.¹⁷⁰ The agreement improved the revenues of the Jordanian government, provided job opportunities, and reconstructed the airport, which will be wholly owned by the government in 2032 without burdening the government with any financial expenses. This experience can be repeated with the National Electric Power Company and the Royal Jordanian Airlines Company, which incur heavy annual losses to the treasury due to mismanagement and high maintenance fees for electrical networks and aircraft.

Solving the problem of the immense cost of imported energy will achieve significant financial savings. In 2018, the country spent a considerable amount, equivalent to 20% of its GDP, on energy imports.¹⁷¹ Also, there is no doubt that the continuous increases in energy prices and the rise in electricity bills impact economic activity. The

¹⁶⁸ "The Accumulated Losses of the National Electric Power Company," Jordanian News Agency (Petra), accessed August 17, 2023, <https://petra.gov.jo/Include/InnerPage.jsp?ID=250734&lang=ar&name=news>.

¹⁶⁹ "Royal Jordanian Records Accumulated Losses," CNBC Arabia, March 31, 2023, <https://cnbcarabia.com/>.

¹⁷⁰ Leigh Alexandre, "Looking Back: Was the Queen Alia International Airport PPP a Success?," February 28, 2017, <https://blogs.worldbank.org/ppps/looking-back-was-queen-alia-international-airport-ppp-success>.

¹⁷¹ "Foreign Trade," Department of Statistics, accessed August 20, 2023, <http://dosweb.dos.gov.jo/?s=foreign+trade>.

development of the energy sector should prioritize a gradual transition to self-sufficiency by increasing the contribution of local and renewable energy sources to power generation and encouraging the use of solar energy by exempting solar energy systems from taxation.

The development of mass transportation and the expansion of transportation that operates on electric energy will also achieve significant financial savings. The transportation sector is the largest consumer of oil energy in Jordan, as transportation represents 50% of imported oil derivatives.¹⁷² Nearly half of the fuel imports are consumed by the public and private transport sectors that serve citizens, residents, and refugees. It is necessary to meet this challenge by promoting mass transportation (such as the development of the currently suspended railways) to reduce people's dependence on private transportation and give tax incentives to encourage electric cars.

C. POLITICAL REFORMS

Strengthening the elected House of Representatives role in legislation and government oversight is vital for addressing the economic crisis. Successful reform hinges on a capable parliament responsible for legislation, oversight, and accountability. Such a parliament ensures rigorous scrutiny of executive actions, including economic matters, and curbs decisions not in the public interest, particularly those involving public finances, appointments, and state-owned enterprises.

However, establishing an effective parliament demands substantial governmental action. Upholding genuine representation of the people is essential, requiring a halt to executive influence on elections. Updating political laws, especially those concerning elections, political parties, media, and access to information, is crucial. The current rules and constituency allocation tend to favor tribal representatives, disadvantaging parties with substantive policies.¹⁷³ Some economists emphasize that an electoral system allowing genuine representation is essential for effective reform, facilitating grassroots-driven change and civil society involvement. Also, revising the constitutional framework for the

¹⁷² Ayman Fadilat, "Jordan. High prices of oil derivatives and popular campaigns to boycott them," Al Jazeera, June 5, 2022, <https://www.aljazeera.net/ebusiness>.

¹⁷³ Linfield, "David Linfield, "Jordan Could Repair Public Rift with These Five Reforms."

legislative process is pivotal for a more empowered parliament. The current provision necessitating executive review before parliamentary consideration weakens legislative authority.¹⁷⁴ It is important to emphasize that the ultimate goal of political reforms should be establishing a civil state in which elected governments are formed based on the popular vote results.

Elected governments will play a significant role in overcoming economic difficulties. The method of appointing governments does not allow qualified individuals to gain political and economic decision-making positions. The current method used to distribute political and institutional power in Jordan allows certain political elites to resist deep reform programs to preserve their privileges and control over specific institutions. Popular elections, on the other hand, often enable qualified and popularly supported individuals to assume decision-making positions.

In his speech before the European Parliament, King Abdullah II referred to the need to strengthen political and civil society to conform to the conditions for establishing parliamentary governments.¹⁷⁵ Elected governments enhance respect for the rule of law and justice by distributing gains, resources, and jobs and reducing preferential practices based on personal relationships and tribal affiliation. Prevailing cultural patterns in Jordanian society promote kinship, encourage nepotism, and favor tribal interests at the expense of public considerations.¹⁷⁶ Many examples have proved that while non-democratically elected governments can accomplish good results, democratic governments provide the best platform and safeguards for the debates and deliberations needed for sustainable growth.¹⁷⁷ Also, the existence of competing parties creates favorable

¹⁷⁴ Sufyan Alissa, “Rethinking Economic Reform in Jordan: Confronting Socioeconomic Realities” (CEIP: Carnegie Endowment for International Peace, July 1, 2007), 21, <https://policycommons.net/artifacts/977303/rethinking-economic-reform-in-jordan/1706430/>.

¹⁷⁵ “King Delivers a Speech in the European Parliament,” Petra – Jordan News Agency, accessed August 18, 2023, https://petra.gov.jo/Include/InnerPage.jsp?ID=2010541&lang=ar&name=archived_news.

¹⁷⁶ Jennifer Rowland, *Democracy and the Tribal System in Jordan: Tribalism as a Vehicle for Social Change*, Independent Study Project (ISP) Collection No. 749 (Brattleboro, VT: School for International Training, October 1, 2009), https://digitalcollections.sit.edu/isp_collection/749.

¹⁷⁷ Dan Banik, “Democracy and Sustainable Development,” *Anthropocene Science* 1, no. 2 (July 1, 2022): 233–45, <https://doi.org/10.1007/s44177-022-00019-z>.

opposition that contributes to the improvement of public policies. Democratically elected governments are also committed to maximizing the people's interests and limiting traditional elites' dominance over state institutions' capacities. Therefore, Jordan needs to advance its democratic approach to increase popular participation in policy-making and implementation, enabling public oversight over the performance of public institutions to enhance fair competition and transparency while reducing opportunities for corruption and nepotism.

Therefore, it is crucial for the Jordanian authority to remove all security and cultural obstacles that prevent the development of the democratic path. The Jordanian state must lead a continuous effort to build a culture that promotes pluralism. The development of a democratic culture must begin through school and university education curricula and the media. Abu Rumman argues that the real challenge for developing democracy in Jordan is to convince citizens and the younger generation of the state's credibility and seriousness in developing civil life and to end the era of holding people accountable for party affiliation.¹⁷⁸ The government can launch a campaign of meetings, workshops, and conferences in which official officials participate, all of which work towards removing fears of political participation and enhancing hope for reaching a state of democracy in harmony with the constitution of the Jordanian state and its constitutional monarchy.

D. CONCLUSION

The economic challenges that Jordan is facing stem mainly from political and institutional roots. Therefore, the path to revitalizing Jordan's economy and ensuring long-term stability lies in a comprehensive approach encompassing institutional, economic, and political reforms. These reforms are suggestions and a strategic roadmap for the nation's progress.

Institutional reforms are imperative for fostering professionalism, transparency, and accountability within the public sector. The appointment of competent leaders through open competition, a robust anti-corruption strategy, and the eradication of nepotism are

¹⁷⁸ Muhammad Abu Rumman, "The Opportunity for Democratic Reform in Jordan and Its Challenges," Alaraby Aljaded, July 19, 2022, <https://www.alaraby.co.uk/opinion/>.

vital steps in this journey. Streamlining bureaucracy, aligning education with labor market demands, and empowering public servants to excel in their roles will further enhance the country's institutional capabilities.

Economic reforms underscore the importance of responsible spending, efficient taxation, and targeted support for the agriculture sector. Encouraging private sector growth, both local and foreign, through innovative financing solutions and infrastructure development is vital for job creation and economic expansion. Addressing the financial challenges of state-owned enterprises and reducing the dependence on imported energy are essential steps to ensuring fiscal stability.

Political reforms are the linchpin of this transformation. A strengthened and genuinely representative parliament, free from executive influence, can ensure better oversight of economic matters and the fair distribution of resources. Elected governments, accountable to the people, will facilitate meaningful decision-making and contribute to reducing preferential practices. Developing a democratic culture and encouraging citizen participation are fundamental for a prosperous and inclusive future.

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