
Jordan and the Middle-Income Growth Trap: Arab Springs and Institutional Changes

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Arab Springs and Institutional Changes

Bénédicte Coestier¹²

“History and national memory will record that the Jordanian Spring was civilised, characterised by a high sense of responsibility and awareness, and a model of peacefulness.” King Abdullah II, in Letter of Designation to Prime Minister Abdullah Ensour, 10 October 2012.

Abstract: Although Jordan reached middle-income status more than three decades ago, the country has not made the additional leap, like most developing countries in the Middle East, to become a high-income economy. In this paper, we argue that institutions, namely formal rules (constitution, judiciary, political system) as well as “personality-based” informal rules (tribalism, *wasta*) might explain the middle-income growth trap. More precisely, we highlight that informal institutions, as well as the distorted use of formal institutions, are a by-product of the process of state formation. They play a part in the preservation of personal/anonymous relationships between the state and society and in the persistence of the rentier system. Jordanian Spring events reveal that a demand for reforming the power structure prevails over the overthrow of the Monarchy. Finally, to assess the undergoing transition process in Jordan, we resort to the social orders conceptual framework (North et al. (2009, 2012)) with an emphasis on impersonality (Wallis (2011)). The “Arab Springs” events have put pressure on the power structure to advance the rule of law (impersonal relationships among elites), and on the Monarchy in Jordan to create a “perpetual” state.

Keywords: Economic development, middle-income growth trap, rentier system, institutions, rule of law, tribalism, *wasta*, Arab springs.

JEL classification: D02; H11; O43; O53; N45; Z1.

1. Introduction

According to Felipe et al. (2012), in 2010, Jordan appears among the thirty countries that are in the lower-middle-income trap.³ If the economic takeoff that has taken place since the beginning of the years 2000s allowed Jordan to join the upper-middle income sub-category in 2009 (see Figure A.1, Appendix A), the country has not made the additional leap, like most developing countries in the Middle East, to become a high-income economy.

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³ According to these authors, a country is in the lower-middle income trap if it has been a lower-middle income country for 28 or more years.

Although resource-poor, Jordan has been characterized as a rentier system given its reliance on external aid.⁴ During colonization, the main source of foreign assistance was from Britain. With independence and political concerns, the main sources of rents then originated from the oil-rich Gulf countries (cash transfers and migrant workers' remittances) later supplemented with significant financial flows from the United States and International Financial Institutions (IFIs) to implement economic reforms, a sequel to the economic crisis of 1989. With a relatively steady flow of external aid, Jordan was keen on adopting a distributive strategy towards a broad based power elite consisting in several tribal families and some urbanites - mostly of Palestinian and Syrian origins - so as to secure and maintain their loyalty to the Hashemite regime, one of the most stable regimes in the region. The side payments, depending on the historical period, took as diverse forms as cash transfers, selected tax exemptions, public sector employment opportunities, welfare benefits to civil servants and military personnel, direct subsidies, trade protectionism and procurement process.⁵

Jordan like other countries in the region is experiencing its own "Arab uprising" or "Arab spring" with several protests of varying size – involving Islamists, liberals, leftists and East Bank tribes – since the beginning of 2011. Social violence appears on the rise, e.g., several clashes on university campus between tribe members. Growing dissatisfaction is also emerging in the tribal south over land ownership. All these phenomena, sometimes ending with fatalities, put pressure on the regime and moved the reform process forward with several institutional reforms affecting among others the judiciary (creation of a constitutional court) and the political system (new electoral law) put into place in 2012.

In this paper, we argue that formal institutions (constitution, judiciary, political system) and personality-based informal rules (tribalism, *wasta*) as they appear in Jordan today might explain the middle-income growth trap. Our reasoning is based on a case study on the emergence, existence and "Arab springs" induced evolution of institutions. As in North (1990), institutions denote the set of formal rules (constitution, laws and regulation, political system...) and informal rules (system of values and beliefs, social norms...) that structure the behavior of individuals and organizations (i.e., groups of individuals following a common goal such as firms, syndicates, NGOs,...). We highlight that informal institutions as well as the distorted use of formal institutions are a by-product of the process of state-formation. They play a part in the preservation of personal/anonymous relationships between the state and society and in the persistence of the rentier system.

If the rentier nature of the economy persisted during the reform process incepted in 1989, the "Arab springs" events provide a window of opportunity for the Kingdom to implement institutional reforms. To assess the undergoing transition process in Jordan, we resort to the social orders conceptual framework (North et al. (2009, 2012)), with an emphasis on impersonality (Wallis (2011)). To the best of our knowledge, these concepts have not yet been applied to any Middle Eastern country and we aim at filling this gap in the literature.⁶ We highlight that the "Arab Springs" events have put pressure on the power

⁴ According to the political economy theory of the Rentier State, inspired by the Middle East countries, the rentier status is characterized by both the nature of the state's revenue (unproductive external source) and the allocative nature of the state spending (see, e.g., Beblawi (1990) and Luciani (1990)).

⁵ For an analysis of the evolution of rentierism in Jordan, from a political economy perspective, from the early 1920s to 2002, see Knowles (2005).

⁶ See, for instance, case studies in North et al. (2012).

structure to advance the rule of law (impersonal relationships among elites), and on the Monarchy in Jordan to create a “perpetual” state.⁷

Having argued that the evolution of institutions was key to Jordan’s growth, our paper integrates with the last trend in economic development literature that views development as a process of organizational change with an emphasis on institutions and their relations to markets (e.g., Meier and Stiglitz (2001)). However, in contrast to the objective of greater protection of property rights and greater freedom for markets put forward by some authors (e.g., La Porta et al. (2008)) and criticized by others (e.g., Chang (2011)), we position our analysis in the market failure tradition with an emphasis on the state status and consider a broader approach that encompasses economic, political as well as social evolutions.

Our paper is also linked with the growing literature on institutions and development. As underlined by Pande and Udry (2005), empirical analysis on the impact of institutions on economic growth based on cross-country regression, which burgeoned in the 2000s, presents several limits of which the focus on *de jure* institutions and the limited scope for identifying the specific channels through which institutions affect growth are the most frustrating. More recently, a research program emphasizing the role of informal institutions in shaping formal ones based on socio-economic analysis of institutions developed (Casson et al., 2010). In this paper, we opt for a micro-based analysis of institutional change that appeals to other social sciences tools and more specifically to history and anthropology (Alon (2009), Antoun (2000), Layne (1994), Cunningham and Sarayrah (1993)). By reviewing state building history as well as present-day events, coupled with an anthropological point of view on informal institutions, we aim at explaining the emergence, the functioning and the evolution of the institutional framework in Jordan. In so doing, we shall provide some possible channels of influence of institutions on growth.

This case study on institutional dynamics more particularly highlights the interdependency between the bottom-up approach to institutional transformation where institutional changes are initiated by the “governed who seek enfranchisement”, and the top-down one, where reforms are implemented by an “enlightened elite”.⁸ If the Jordanian Spring is a “model of peacefulness”, compared for instance to the Egyptian case, the “Arab springs” events have rendered the threat of internal violence so credible that those who were opposing reforms became less able to oppose. And a process of bargaining developed within the power structure which allowed the enactment of a delayed gradual political reform (electoral law).

Finally, the “institutional explanation” we provide to the middle-income growth trap contrasts with the one given by Kuran (2004) which considers that the Middle East “underdevelopment” in the period before the industrial revolution and its persistence to this day is mainly due to some traditional Islamic institutions such as the Islamic law of inheritance, the individualistic characteristic of Islamic law and the *waqf* system (a trust or permanent donation dedicated to religious projects) which failed to adapt and obstructed economic development by hindering the development of a strong private sector and civil society.⁹

⁷ The rule of law is rather a multidimensional concept (see, for instance Haggard and Tiede (2011)). In this paper, we adopt a definition of the rule of law inspired by North et al. (2009) and Kleinfeld (2012). The rule of law is viewed as a relationship between the state and its citizens which is based on two components, law and impersonality. The government is subject to law and must rule through laws while citizens are informed of the laws and expect them to be enforced in an impersonal way. In addition, this relationship must be shaped by those inside the country.

⁸ These expressions are taken from Brousseau et al. (2011) which provides a survey of the literature on institutional transformation.

⁹ See also Kuran (2011).

Our analysis is organized as follows. We first give an overview of the economic and institutional performances of Jordan since the beginning of market-led reforms initiated after the 1989 economic crisis up to 2010. We then focus our attention on the Jordanian Spring and the ensued reforms. Finally, we ponder the rise of impersonality, an important component of the rule of law, in a country like Jordan.

2. Economic and institutional trends of Jordan since 1989

In this section, we focus our attention on the economic and institutional development trends over the period starting from the severe fiscal crisis in 1989, which marks the beginning of the reform process in Jordan, at the dawn of the regional turmoil (that is up to the end of the year 2010 in the case of Jordan). This period is characterized by a change of ruler and a regional/international environment particularly unstable with evident consequences on the economic and political fronts. Two periods will be distinguished for the analysis: the last ten years of King Hussein's reign (1989-1999) and the first ten years of King Abdullah II (1999-2010).

2.1. Economic development under Hussein ending reign 1989-1999

This period is dominated by the implementation of a neoliberal economic reform program, under the auspices of the IMF and World Bank to face two major problems, the debt crisis of 1989 and the 1990-1991 Gulf crises.

The economic prosperity experienced in the 70s, with real income growth rate at two digits, was mainly driven by the following factors: the oil boom, the agricultural exports and the foreign aid coming especially from the Gulf countries. The oil boom provided the Jordanian skilled workforce with relatively high-paying job opportunities in the Gulf countries. Those expatriate workers were sending home remittances which inflated disposable incomes and encouraged conspicuous consumption. Foreign assistance allowed Jordan to increase public spending with consequent investment in infrastructure and social services such as education and health while maintaining high military expenditures implied by its geostrategic situation as well as high public employment. Jordan came to a situation where spending was higher than earnings and consumption higher than production.

2.1.1. A vulnerable economy

The situation started to deteriorate in the mid-80s with the rapid drop in oil prices that affected oil-producing neighboring countries. Oil-based remittances started to drop with the return of many Jordanians, and domestic growth started to weaken. To sustain the economy, the choice was made by the government to have recourse to foreign financing through external debt which led to huge fiscal deficits and balance of payments difficulties. The country then entered into an unsustainable debt dynamics with a debt-to-GDP ratio reaching 220 percent in the early 1990s. Keeping a high level of imports implied that Jordan's foreign reserves melted like snow in the sun.

Jordan entered the economic crisis in 1989 after a 37 percent drop of the national currency (Kanaan and Kardoosh (2002)). The incapacity of Jordan to service its growing debt and attract new sources of financing led it inevitably to request the support of the IFIs. It took almost a decade for Jordan to revert back to the pre-crisis growth level.

2.1.2. Stabilization and austerity measures

The stabilization and adjustment policies implemented under the auspices of the IMF and World Bank, and inspired by the Washington consensus, aimed at restoring macroeconomic stability and promoting market-oriented reforms in Jordan.

The first phase of the program focused on public finances, and more specifically the expenditures side, as government expenditures (including interest payments) represented around 40 percent of GDP since the

early 1980s. Given the rentier nature of the economy, whereby civil service recruitment is envisioned more as patronage rather than servicing the public, and as the main spending concerned the military and public employment, reducing government expenditures appeared as a sensitive issue.

Rather than tackling the problem of already excessive public employment with regard to the service provided, austerity measures started with the question of subsidies prevalent in many Middle East countries, and more particularly the unpopular measure of lifting oil products subsidies. This measure, which led to the walk out of the government, greatly affected the regulated transportation sector. It also resulted in a spread of violence in the country, especially in the southern city of Ma'an, a community considered as traditionally supportive of Hashemite rule. As we shall see below, this incident, which became known as the April insurrection, opened temporarily a window on democracy.

Besides obstructing Jordan's stabilization and adjustment program, the Iraqi invasion of Kuwait in August 1990 greatly affected the Jordanian economy. In addition to losing its major manufactured export market, Jordan also lost other Gulf markets as a retaliation measure against the political position adopted by the country in which it favored an Arab solution to joining the international coalition. Foreign assistance from these countries also declined. The conflict translated into a new wave of Iraqi migration¹⁰ and to the repatriation of around 300,000 Jordanians working in the Gulf. If this sudden 10 percent increase of the population appeared beneficial at first, with associated capital repatriation (mainly driven towards the Amman Financial Market and the construction sector) and increased consumption, it transformed into a burden with respect to the country's infrastructures (water, education, health) and markets (rising unemployment and poverty).

Subsequently, under the second phase of the adjustment program, Jordan managed to reduce substantially the fiscal deficit as well as its current account position. The successive governments resorted to cutting government capital spending which showed a declining trend over the period, as well as interests on debt.¹¹ Jordan managed to reduce its debt mainly through debt forgiveness and successive rescheduled payments (Paris Club in July 1989, February 1992, June 1994, May, 1997, May 1999)¹², but this substantial decline in debt service has been offset by an increasing wage bill and volatile consumption subsidies. The share of current expenditures to GDP has remained fairly constant over the 1989-1999 period, at an average close to 30 percent.

By the mid-1990s, with the growth of public expenditures, improving fiscal discipline through the broadening of revenues was on the agenda, with the IFIs calling for the introduction of a General Sales Tax (equivalent to a Value Added Tax) effective in 1994, and a reform of income taxation.

The introduction of GST was concomitant with the reduction of trade barriers (tariff and non-tariff barriers) recommended in the perspective of joining the WTO. Trade reforms started with the simplification and lowering of the tariff structure to comply with WTO requirements. A reduction in the weighted average tariff rate was implemented, from 34.4 percent in 1987, 17.5 percent in 1994 to 13.5 percent in 2000, and Jordan granted a high proportion of zero-duty items.¹³ Also, the Customs administration evolved so as to conform to international practice (World Bank (2003)). As we shall see

¹⁰ Jordan experienced an increase in inflows of Iraqi refugees after the 2003 war. At the end of 2011, there were about 420,000 Iraqi refugees in Jordan, representing 7 percent of the population (UNHCR).

¹¹ The share of capital expenditure to GDP averaged 9.2 percent in 1990-1995 and 6.8 percent in 2005-2010 (World Bank (2012a)).

¹² Debt rescheduling was furthered in 2002 and 2008. During the 1990s, about 80 percent of the total debt is external (with Japan the largest creditor (27 percent) and the World Bank the second largest (12 percent)) that is guaranteed by the Government. The domestic debt is held by the banking system, the Central Bank of Jordan and the commercial banks (World Bank (2003)).

¹³ In May 2000, 494 industrial inputs were granted full exemption from tariffs (Kanaan and Kardoosh (2005)).

below, globalization was emphasized after Jordan joined the WTO in the year 2000. To comply with the international Agreement on Trade Related Aspects of Intellectual Property Rights (TRIPS), Jordan started to adapt its intellectual property legislation with the promulgation of a Copyright Law in 1992 (amended in 1999).

From the mid-1990s, despite a humble growth averaging 2.9 percent in real terms over 1996-1999, additional austerity measures were taken. The targeting of bread subsidies led to the “Bread Riots” which were reminiscent of the 1989 fuel riots but with less violence. The government, with the king’s support, refused to back down (Saif (2007)). Overall, during the 1990s, reforms measures were essentially austerity measures to stabilize the economy. Market-oriented reforms were delayed and on the privatization front, progresses were virtually non-existent.¹⁴

2.2. Abdullah II and the pre-Arab Spring period: 1999-2010

Despite several governmental initiatives such as the “Jordan First” program in 2002, the “National Agenda” in 2005 and the “We Are All Jordan” initiative in 2006 for discussing economic and political reforms, we can assert that economic reforms were at the top of the agenda of King Abdullah II since his accession to the throne. Indeed, several authors sustain that discussed political reforms were delayed by the ruling elite, while the latter influenced economic reforms so as to preserve their interests.¹⁵ If Jordan experienced impressive growth at the beginning of the 21st century, the 2008 global financial crisis gave a halt to the growth dynamics which had failed to be inclusive and had not materialized into an extensive production base.

2.2.1. Impressive growth but limited job creation

Over the period 2000-2008, Jordan succeeded in macroeconomic stability as well as in moving towards world integration.¹⁶ Between 2000 and 2008, Jordan posted an accelerated growth with an average annual real GDP growth rate at 7 percent. With the international global financial crisis, growth started to decline in 2009, with a real GDP growth at 5.5 percent, and this decline accelerated down to 2.3 percent in 2010.¹⁷

Integration into the global economy was furthered with most legislative amendments passed in the years 1999-2000 corresponding mainly to legal changes required for the WTO membership which became effective in 2000.¹⁸ These legal changes were directed towards the promotion of both domestic and international investment (with the Investment Promotion Law for the year 2000 and the establishment of the Jordan Investment Board), the modernization of the financial sector (with the Banking Law for the year 2000) and the process of privatization (with The Privatization Law for the year 2000 and the establishment of the Executive Privatization Council). Great effort with respect to the protection of intellectual property was also made in the early 2000s with amendments to existing laws (such as the Copyright law of 1992, the Patent Law of 1999, the Trademark Law of 1952). New legislations were introduced such as The Geographical Indications Law, The Industrial Designs and Models Law, The

¹⁴ The privatization process started by the end of year 1998, with the decision of the government to sell 33 percent of its equity in the Jordan Cement Factory Corporation.

¹⁵ See, for instance, Muasher (2011).

¹⁶ Over the 2000-2008 period, the currency has been stable with an exchange rate pegged to the U.S. dollar since 1995 at JD 0.709 for one dollar.

¹⁷ Source: DOS, http://www.dos.gov.jo/dos_home_a/jorfig/2012/18.pdf

¹⁸ Jordan became a member of the WTO on April 11, 2000. For a description of the major commitments Jordan undertook in its accession, see Malkawi (2010).

Protection of Layout Designs of Integrated Circuits, The Law of Unfair Competition and Trade Secrets, The Protection of New Varieties of Plants Law, in 2000, and the Trade Names Law in 2003.¹⁹

Several trade and investment agreements with non-Arab and Arab countries were signed such as the Association Agreement with the European Union in 1999, the Free Trade Area Agreement with the United States in 2000 and the Free Trade Agreement in 2008 with Canada, which permitted bilateral reductions in trade barriers. Jordan is also a member of the Greater Arab Free Trade Area (GAFTA) and the Agadir Process. The free trade agreement with the US enabled the development of Qualified Investment Zone (QIZ) for tariff-free and quota-free exports to the United States. As described by Kanaan (2005), a QIZ product must comply with specific rules of origin involving Arab countries and Israeli contents. In addition, businesses set up in QIZs are exempt from Jordanian income and social security taxes. Plants can be fully owned by foreign investors and full repatriation of capital, profits, and salaries is authorized. The QIZ benefited especially the textile industry, an important sector in the economy despite its diminished competitiveness since the abolition of the Multi-Fiber Agreement.²⁰

According to the World Bank (2012a), Foreign Direct Investment (FDI) was an important driver of growth over the period 2000-2008. Indeed, net FDI inflows tripled in that period, from US\$0.9 billion in 2000 to US\$2.8 billion in 2008. In 2000-2008, FDI inflows averaged 10.6 percent of GDP, and FDI represented 42 percent of gross fixed capital formation. However, since 2009, Jordan began losing some of its attractiveness for international investment: the country ranked 12 in the inward FDI performance index in 2008, 13 in 2009, and 31 in 2010.²¹

These large inflows are partly explained by investment incentives (freedom from custom duties, exemption on income and social services taxes) and by the privatization program which included among others the privatization of several state companies in the area of transportation, electricity, water, mining and telecommunications.²² More recently, a number of large Public-Private Partnerships (PPPs) were signed that includes the As Samra Wastewater Treatment Plant (2002), AES Amman Jordan IPP (signed in 2007), the new terminal of Amman Airport (signed in 2007), the Al Qatrana IPP (signed in October 2009), and the Disi Water PPP (June 2009).

2.2.2. An economic development sustained by the private sector

Since the beginning of the 2000s, an increase in the manufacturing sector's share in the economy has been noticeable. This sector and more particularly the pharmaceutical industry, the textile industry and the fertilizer industry, benefited from the reform process (trade integration reform and QIZ development). The manufacturing sector came in third position amounting to around 15 percent of GDP on average over the 2000-2008 period, supplanting the transport and communication sector (13 percent), behind the private services (finance, insurance, real estate and other private services; 18 percent) and the public services sector (21 percent).²³ The expansion of the manufacturing sector is also reflected in the patterns of exports that evolved from minimal value-added products (agriculture, potash, and phosphate) to more complex and higher value-added products (apparel, tourism, information technology, and

¹⁹<http://www.jordaninvestment.com/BusinessandInvestment/Taxation/IntellectualPropertyLaw/tabid/116/language/en-US/Default.aspx>.

²⁰ World Bank (2012a).

²¹ http://www.unctad.org/sections/dite_dir/docs/wir11_fs_jo_en.pdf. The evolution of external revenue between 1990 and 2012 is given in Figure A.2.

²² Among others, the Jordanian Telecommunications Company (JTC) (2000, 2002), the Arab Potash Company (2003), the Jordan Phosphate Mines Company (2005).

²³ Data from DOS, (http://www.dos.gov.jo/dos_home_e/main/sel2/nat_2/10.pdf) compiled by the author.

pharmaceuticals).²⁴ This noticeable evolution comes as part of Jordan's effort to move towards a capital-intensive and knowledge-based economy, given its comparative advantage of a skilled labor force.

It can be asserted that economic development in the 2000s was sustained by the private sector, because of the contribution to growth of the private services, the manufacturing sector and the transport and communication sector.²⁵ However, no real shift to industrialization can be observed as the GDP's sectorial decomposition is relatively stable since the 1980s with the domination of the services sector (at about 65 percent of GDP), the decline of the agricultural sector (from about 6 percent to 3 percent) at the advantage of the industrial sector (from 27 percent to 32 percent).

Also, the development of the private sector, predominantly composed of small and medium enterprises, was not accompanied with sufficient job creation, in a context of demographic pressure.²⁶ The unemployment rate for Jordanians remained high, within the range of 12-14 percent over the decade and poorly correlated with growth rates (Figure A.3). Over the 2000-2008 period, job creation for Jordanian citizens in the private sector stand at a 28 percent of all the jobs created, estimated at 457,000 (World Bank (2012a)). A mismatch between the skills demanded by the market and those offered by the candidates is recognized, raising questions about the efficiency of the education system in forming human resources. This despite the education reform for the Knowledge Economy initiated in Jordan about 10 years ago. Also, the employment policies conducted in the public sector could have had a distortive effect. For instance, for the year 2009, the average monthly wage in the public sector of JD412 remains higher than the one in the private sector (of JD338). Jobs in the public sector are particularly attractive for the unskilled and semi-skilled labor force which can expect to be paid 1.5 times more than in the private sector (Jordan's National Employment Strategy (2012)). Furthermore, jobs in the public sector weigh heavily on public expenditures.

2.2.3. *The degradation of public accounts*

Jordan takes up again with negative public balance (including grants) by 1998, and from 1999 to 2011, the government deficit increases from US\$214.5 million to US\$1387.9 million, with a noticeable acceleration since 2005 (Figure A.4). This degradation of the public accounts can be explained by several misguided policy decisions taken with respect to investment incentives and public sector employment, despite the sound measures regarding energy subsidies.

As a net importer of crude oil, with the Jordan Petroleum Refinery Company in charge of the refining and selling at controlled prices, inferior to import prices, the question of energy subsidies came to the forefront when Jordan ceased to benefit from concessional prices from Iraq (until 2003) and Saudi Arabia until 2004. As a consequence, since 2004, the increase of import prices translated into an increase in the cost of fuel subsidies that led to an energy price reform which started in 2005. For passing the international price increase to the domestic market, several price increases were implemented in 2005 and 2006, and in 2008 the decision was taken to gradually remove most energy subsidies which resulted in

²⁴ Exports promotion programs were also carried out by the Jordan Enterprise Development Corporation (JEDCO) established in 2003 in replacement of the Jordan Export Development and Commercial Centers Corporation. For an evaluation of JEDCO's program, see World Bank (2012a).

²⁵ In Jordan, a private sector exists which is constrained by personal relationship and is a source of a community divide. To this regard, Jordan may not appear in the group of countries considered by Malik and Awadallah (2013) in their analysis of the Arab spring where they argue that the unfolding crisis in the Middle East is about the Arab state and more importantly the absence of a private sector, independent, competitive, and integrated with global markets. In Jordan, a private sector developed tentatively within the context of a rentier economy.

²⁶ According to the latest national estimations, almost 60 percent of the population in Jordan would be under 25 of age http://www.dos.gov.jo/dos_home_e/main/Demograghy/2012/2-5.pdf.

additional price increases. Between 2008 and 2011, a price adjustment mechanism was functioning whereby the energy price was calculated every month to reflect international prices and freight allowance.

This sound reform was however accompanied with a downward trend of domestic revenues with a declining tax burden since 2007, to attract domestic as well as foreign investment (Figure A.5). To stimulate internal demand and reduce domestic prices, in the context of the 2008 global economic crisis, the government implemented a tax exemption and reduction package consisting of the removal of custom duties, General Sales Tax reductions (for internet services and steel) and exemptions with an expansion of the list of exemptions (from basic food to agriculture and live-stocks inputs, non-tourist restaurants, retailers with turnover of less than JD 100.000 per year, ...).²⁷ Those tax exemptions were also used as a mechanism to enlarge the social safety net and appease popular discontent in periods of high inflationary pressure (World Bank (2012b)). Overall, the public revenue including grants displays a declining trend from 30.1 percent of GDP in 2008 to 24.9 percent of GDP in 2010 (Figure A.6).

In the last decade, fiscal policy in Jordan has been largely pro-cyclical with significant public deficit in periods of prosperity (up to 2008) that continues and even increases in periods of recession (2010 onward) as shown in Figure A.7. Current expenditures grew rapidly, almost at the same pace as growth, so that the share of current public expenditure to GDP has been relatively stable since 1990, at an average of around 29 percent (Figure A.8).²⁸ According to the World Bank (2012a), fiscal policy is a major source of macroeconomic instability in Jordan as the country performed relatively well with respect to the control of inflation and the support to its exchange rate regime. The econometric study of the relationship between fiscal policy and growth over the period 1999-2010, shows that if capital spending displays a pro-cyclical pattern as the current expenditures, the latter exhibits a relative rigidity with respect to output fluctuations explained by the fact that the public wage bill, not influenced by economic activity, constitutes the main spending category. Also, tax revenues are counter-cyclical in the short term, with tax revenues growing at a slower rate than GDP, meaning that there is a leeway for improving domestic revenue appropriation through improved collection procedures and reduced tax exemptions.

Focusing on the first ten years of Abdullah II's reign, this econometric study highlights the persistent rentier nature of the Jordanian economy and the necessary transition from a rentier state to a production/tax state. From a political economy perspective, as argued by Schwarz (2008), the rentier nature of the economy indicates a weak institutional capacity of the state, a point we clarify in the following.

2.3. Institutional trends: 1989-2010

We focus here on the prevailing political institutions as well as the public administration context (institutions in charge of implementing policies) in which the reform process has been initiated.

2.3.1. The political and institutional heritage

The 1952 constitution stipulated that Jordan is a hereditary monarchy with a parliamentary system where the executive authority is vested in the king and the government (council of ministers). From the late 1950s to the early 1990s, Jordan was under an autocratic ruling with the absence of any form of

²⁷ World Bank (2012b).

²⁸ Between 2000 and 2010, real GDP increased by 6 percent on average annually and the primary fiscal deficit (excluding grants) was on average 6.8 percent (World Bank, 2012a). Current expenditures include the wage bill (civil servants and military personal wages and compensations, social security and pension compensations), the subsidies, the payments of interest on debt, the public consumption on goods and services, and other marginal expenses. If the composition of the current expenditures (as a percentage of total expenses) is relatively stable up to 2003, workers' compensation and subsidies become more chaotic since then (Figure A.9). However, this does not weaken the allocative nature of public spending.

participatory politics (despite parliamentary elections held frequently). The first authoritarian inclination of the regime happened in 1957 with the imposition of martial law, after King Hussein defeated an attempted coup.²⁹ Civilian rule was re-established in November 1958, after the banning of existing political parties. The king then managed to concentrate political power into his hands, with several amendments to the 1952 constitution so as to enhance executive authority. In parallel, the Royal Court or *Diwan*, a non-elected institution which gathers the new political elite composed of members of the extended Hashemite family itself, notable families and tribal leaders grew in importance.³⁰

Authoritarian ruling was reinforced in 1967, after the loss of the West Bank and the reintroduction of martial law and the restriction of press freedom. For most of the next three decades, the kingdom was a *mukhabarat* (security-service) state. The Parliament that was in place since 1967 was suspended in 1974 and by then the king was ruling by decree. After King Hussein made the decision to reactivate the Parliament in 1984, by-elections were held to fill the vacant seats in 1984 and again in 1986. However, this was not accompanied with any real expansion of civil and political participation (Brynen (1992)).

2.3.2. *The short-lived political liberalization*

The 1989 economic crisis and ensuing social contestation favored a temporary transition from authoritarian rule. For the first time since 1967, a general election was held in November 1989 and those parliamentary elections were considered as “free and fair”. Indeed, as described by Kanaan and Massad (2011), these elections were run according to a district-level block vote system, with a drawing of electoral districts to represent East Bank constituencies only (as Jordan had lost all territories on the West Bank including Arab East Jerusalem in 1967). Under this system, opposition candidates were able to secure a significant number of seats. The Muslim-Brotherhood affiliated candidates managed to win 22 seats - out of a total of 80 – and 12 seats were obtained by independent Islamists, and they together constituted the largest single bloc in Parliament.³¹ Leftist and Arab nationalist candidates won around 10 seats. The remaining seats were filled by liberals, independents, conservative loyalists, former cabinet ministers, and tribal representatives who together played a role in sustaining the regime. In addition to giving opposition voices a clear majority, these elections witnessed the return of Jordanians of Palestinian origin, with around ten elected members (Brynen (1992)).

King Hussein then embarked on the development of a new legal framework for the opening of the political sphere. In the National Charter (*al-Mithaq al-Watani al-Urduni*) published in 1991, the king gives away his vision of Jordan as a democratic state governed by law, political pluralism and loyalty to the Hashemite monarchy. Two laws were passed: the Political Parties Law, promulgated in 1992 which institutionalized the organized opposition, and the Press and Publications Law, promulgated in 1993, which allowed the development of the press, while several sensitive issues were excluded from public discussion.³²

²⁹ The nature of the coup is not clear. If some assert that the coup was conducted by the palace supported by the US Embassy, (see e.g., Kanaan and Massad (2011)), other's argue that it was mounted by some left marked political parties composed of Palestinians.

³⁰ This institution plays a key role in the exercise of power in Jordan. It is defined as a necessary political and administrative link between the king and the Government, the armed forces and the security forces. It also provides a vital/personal link between the king and the Jordanian society characterized by the prevalence of tribes in a broad sense of community structure (Kassay (2001)). With respect to Tribes, the Advisor to H.M. the King for Tribal Affairs plays an important role. Other Tribes-specific institutions exist among others distinct voting districts and seats for the Bedouins in the Parliament, a Desert Police Legion, and recognition by Royal Decree of Tribal *Shyukh* (See bin Muhammad (1999)).

³¹ No representative of the Muslim Brotherhood were however member of the government formed by Mr. Badran at that time.

³² On the influence of political parties and more particularly the Islamist opposition, see Dieterich (2002).

However, the 1993 change of the electoral law which introduced the still controversial one man-one vote system, marks a decline in political opening, and the following elections of 1993 and 1997 appeared as much less democratic. The 1993 change in electoral law was motivated by a policy of rapprochement with the United States implemented via the signing in 1994 of the Peace Treaty with Israel, a widely unpopular process especially among the Islamic Action Front activists. The one man-one vote procedure combined with the redefinition of electoral districts is considered as favoring rural pro-regime constituencies over more urban opposition groups. And Islamist representation (IAF and independent Islamists) was indeed reduced by the 1993 elections, while the decision to boycott the 1997 elections was taken by the IAF as well as other smaller parties.

Overall, as argued by Dieterich (2002), the maneuvering of the ruling regime as well as the weak status of the opposition led to the pullback of the democratic process by the mid-1990s which persisted under King Abdullah II.

2.3.3. *Persisting authoritarian ruling*

The beginning of the 21st century is characterized by an impressive legislative reform with the passing of numerous laws and the creation of several institutions to provide for these laws. However, as underlined by Saif and Choucair (2010), the conditions under which this legislative reform was conducted, in particular, the absence of a participatory approach and of institutional mechanisms for implementation, widened the gap between *de jure* and *de facto* rules, which in turn weakened the rule of law.

The first years of King Abdullah's reign are marked by the extensive use of temporary laws (provisional legislation), with nearly 250 laws passed during the period of suspension of parliamentary elections from mid June 2001 to mid-June 2003. Indeed, the 1997-2001 parliament dominated by pro-regime conservatives, tribal leaders and very few opposition voices was dissolved by King Abdullah II in anticipation of the scheduled November 2001 elections which were eventually postponed to 2003 due to regional events (second Intifada in October 2000 and American attacks on Afghanistan in October 2001).

Before the parliamentary elections of 2003, changes in the Electoral Law were introduced by decree in 2002, modifying the age of voting eligibility from 19 to 18 years, increasing the number of seats from 80 to 110, and resizing electoral districts. Another decree, in 2003, extended the number of seats for women representation, with six additional seats reserved for women.³³ However, with these new laws, the voting system was not amended while the system of districts maintained the advantage of the tribal/rural pro-regime constituencies over urban oppositional voices.

The 2007 parliamentary elections were held under the same electoral law, with a noticeable weakening of the IAF, from 17 seats to 6 seats in the 110-member legislature.³⁴ With the deterioration of the economic environment and rising social tensions, the king decided to dissolve the unpopular 2007 parliament. The newly appointed Prime Minister, Samir Rifai, was advised to draft a new election law that would make qualitative steps. As the election law produced in 2010 left unchanged the single non-transferable vote and only introduced minor changes on procedures (increased transparency of registration and ballot-counting procedures), the Muslim Brotherhood decided to boycott the November 2010 elections which produced, once again, a pro-regime assembly.

Overall, up to 2010, electoral laws were manipulated so as to canalize political opposition and maintain regime security with biased pro-regime assemblies. With a political landscape, as in other countries in the

³³ In the previous parliamentary elections of 1989, 1993 and 1997, only one woman, Tujan al-Faysal, won a seat, as a Circassian running in one of the dedicated minority seats (Ryan and Schwedler (2004)).

³⁴ These elections were reported by the Prime Minister Bakhit as being rigged, and the latter resigned just after the elections (Muasher (2011)).

Arab world, which boils down to two forces, the “secular elements” (or the incumbent ruling elite) and the Islamists, the development of a political culture and political pluralism was also prevented.³⁵

2.3.4. *The public administration context*

The Jordanian public sector, the size of which has not changed significantly since the 1980s, played an important role in the state building process, with jobs in the public sector considered as a patronage measure for sustaining tribal loyalty to the regime rather than as an adjustment economic variable. This recruitment policy carried on under Abdullah II entailed a decline of the public sector productivity by an average of 0.6 percent during 2000-2009 while the real wage bill grew by an annual average of 5.2 percent during the same period. Non-merit based recruitment and promotion practices have undermined the efficiency of the public sector while emphasizing its overstaffing.³⁶

During the reform process, the rentier nature of the economy persisted. Peters and Moore (2009) suggest that the rentier system is not exclusively a product of external aid (foreign assistance). It is also the result of the power structure demand for rents. To the great satisfaction of the power structure, the regime adapted its institutional framework with an emphasis on informal institutions. As underlined by Saif (2007), economic interests were “generally best pursued informally, through personal access and quiet lobbying of members of the political elite, well-placed tribal leaders, extended family members and patron-client linkages”. Informal networks, in the form of personal relation with the power structure, were particularly active, and with the market-oriented reforms contributed to the development of personal state-business relations. Personal relationships prevailed with the public administration and translated into a weakening of the rule of law with a discretionary and arbitrary application of laws and regulations. Saif (2007) blames more particularly the “bureaucracy at the mid-level”: “even when top-level government officials took measure to please the private sector, bureaucracy at the mid-level – which has never been subjected to serious reform – was able to thwart these decisions during the implementation stage”.

The unequal and discretionary implementation of laws by government officials is confirmed by the state-business relations study conducted by the World Bank (2012a).³⁷ Raw firms data show that policy implementation perceptions differ across regions: 63 percent of Amman-based firms complain about inconsistent and unpredictable policy implementation, compared to 24 percent of periphery (Irbid and Al-Zarqa)-based firms. Regression results show that to deal with policy implementation policy, firms undertake costly action. Also, the uncertainty with respect to policy implementation would reduce domestic competition and restrict economic dynamism and hence employment growth.

Finally, the king recently acknowledged institutions inadequacy for reforms. In an article that made waves, published in “The Atlantic”, the king complains about the tribal conservatives’ (the “dinaosaurs”) dominance in institutions which prevented him to implementing the political reform of the National Agenda: “Institutions I had trusted were just not on board,[...] I didn’t realize the extent to which the conservative elements had [penetrated] institutions like the GID [General Intelligence Department],[...]“It became apparent in later years how they were embedded in certain institutions. Two steps forward, one step back”.³⁸

³⁵ For an analysis of Arab politics and society in an historical perspective, see Muasher (2014).

³⁶ (World Bank (2012a)).

³⁷ The study is based on a firm survey conducted in 2006.

³⁸ http://www.theatlantic.com/magazine/archive/2013/04/monarch-in-the-middle/309270/?single_page=true.

Also, commenting on the recent cases of social violence involving tribes, the Monarch blamed state institutions for their leniency in enforcing the law (http://kingabdullah.jo/index.php/en_US/news/view/id/10955/videoDisplay/1.html).

2.3.5. *The power structure: who is the elite in Jordan?*

Economic and institutional trends over the period 1989-2010 confirm the rentier nature of the system and the associated personal system for resource allocation bringing about public administration incapacity. As underlined by Saif and Choucair (2010), “the ruling class [...] has resorted to reform measure to consolidate their power and remain in office”. But who is behind the ruling class in Jordan?

Alon (2009) argues that “the Jordanian power elite is small. A quick look at its members reveals remarkable continuity since the days of the British mandate. A few dozen families – many of them tribal – which dominated Transjordan in 1946 still enjoy prominent status. Now the third generation holds power. The name Fayiz, Khuraysha, ‘Adwan, Majali, Tarawneh, Shurayda, Tal, al Jazi, Abu Taya and many others [...] represent the influential families today”. Saif and Choucair (2010) agree on this point as they argue that the wave of privatization in Jordan, rather than creating new business elites, reinforced the existing political elite by giving it economic resources resulting in a concentration of political and economic powers in the same hands. Kanaan and Massad (2011) qualify these analyses by underlining that the tribal power elite constitutes the “cohesive” component of broader power base which comprises also “urban Jordanians” mostly of Palestinian and Syrian origins. They consider that the support base is “balanced, rather than cohesive since it has been skillfully managed by the monarch to keep different segments of society in a state of keen competition for the benefits and privileges”. Finally, Alissa (2007) considers that with the reform process a new generation of entrepreneurs, many of them descending from the old political and economic elites, the so called “young globalized elite” gained some power. These young reformers who followed their higher education in the US and UK enjoyed extensive support from the palace but lacked some support in the Jordanian society and are often in confrontation with the traditional elite.

Under Hashemite ruling, the rentier nature of the system operated with powerful individuals and groups – traditional tribal and economic elites, young globalized elite – benefiting from valuable rights and privileges so that they cooperate for the regime security. This strategy resulted in diverting funds that would otherwise be used for economic development. It also prevented the development of a political diversity and of a strong industrial base. It also undermined public support for the economic reform efforts and gave rise to a growing distrust in the institutions of the state. The general feeling was that market reforms, such as the non-transparent privatization process, were benefiting a small elite at the expense of underprivileged groups most affected by austerity measures. This impression of being excluded from the reform process grew in intensity during the 2000s.³⁹

3. The Jordanian Spring and institutional changes

Since the inception of the reform process, with the fuel riots of 1989 and the bread riots of 1996, social mobilization is recurrent. In fact, as Ryan and Schwelder (2004) highlighted, popular protests of diverse forms (public display, labor strikes, sit-ins) have taken place regularly in Jordan since the 1950s, with government requested authorization from 1989. Domestic unrest in response to economic and political difficulties in Jordan is rather the rule than the exception. The incumbent regime has always managed to provide the adequate responses to guarantee its survival. As we shall see, once again, the Monarch seems to manage this crisis so that the question of a regime change is not on the agenda. After describing the stakeholders of the social unrest and their protests, we review the recent economic reforms (among others the lifting of energy subsidies) and institutional reforms (affecting the judiciary as well as the political system).

³⁹ The authorities reacted to the corruption problem by establishing an independent Anti-Corruption Commission and enacted a new anti-corruption law in 2006. Interestingly, this law, which defines corruption as a misuse of power and economic crime also includes actions related to *wasta* and nepotism.

3.1. When, where, who?

The first demonstration in Jordan in the wave of Arabs protestations occurred on January 14, 2011, with a coalition of leftists, public sector workers and youth activists gathering in downtown Amman. This protest had three particularities. First, dissatisfaction was coming from East Bankers (Jordanians who inhabited the area before the first wave of Palestinian refugees in 1948), who have formed, since the inception of the modern state, the pillar of support for the Hashemite monarchy.⁴⁰ Second, the traditional opposition (among other, the most organized political party, the Islamic Action Front) was absent at that stage. Third, slogans were focusing on socio-economic issues (growing poverty and unemployment).

A week later, some 2,000 people responding to the calls of various opposition political parties (Islamic Action Front, Jordan Communist Party, *Baath* Party, *Al Wihda* Party and National Front Party) and professional associations, peacefully demonstrated in downtown Amman, to protest against the economic policy conducted by the Rifai government.⁴¹ If the Islamists were active at that time, they were not dominating the Friday protests in downtown Amman. By the end of the month, the more structured protest movement appeared divided on the actions to be taken: while the IAF and the small leftist Popular Unity Party wanted to continue the Friday demonstrations, other protest groups, such as the *Jayeen* (We Are Coming) movement and the 1952 Constitution Movement opted for a break as the cabinet had just been reshuffled.⁴²

The protest movement gained momentum with a major protestation on the “Day of Anger”, Friday, February, 25, with leftists, youth activists and Islamists marching together in downtown Amman.⁴³ From then, the protest movement has switched to more political demands and the divergent positions asserted: while the *Jayeen* movement and other activists requested a return to the 1952 Constitution and a revoking of martial law-era amendments, Islamists claimed a new elections law and a government formed by the Parliament.⁴⁴

The potentially most threatening protests of the Arab Spring in Jordan occurred on March 24 and 25, 2011 in the centrally located *Dakhliyah* Circle in Amman, also named *Jamal Abdel Nasser* or Interior circle as it is located in the neighborhood on the Ministry of Interior. During the “24 March Movement”, pro-reformers claiming for indeterminate occupation of the circle, clashed with anti-reformist under the eyes of the anti-riot police, ending with 58 policemen and 62 civilians injured and one man said “dead of natural causes”. After this event, the choice not to recourse to repression was made with the promulgation of The Amended Public Gatherings Law which recognizes the possibility to manifest without granted permission (but required notification to authorities).

A few days later, on March 28, 2012, a rally organized by a group of young Jordanians, the *Nidaa Watan* (Home Country’s Call) gathered around 30,000 people from different cities across the Kingdom at Al

⁴⁰ A week before, the Public Sector Day Labourers Committee demonstrated in Dhiban, a provincial city south of Amman, hometown of the leader Committee, Mohammed Sneid and spokesman for the *Jayeen* movement, a coalition of leftists public sector workers, and youth activists founded in the southern city of Karak.

⁴¹ The Jordan Times, “Opposition Decries Gov’t Policies in Peaceful Protests”, January 23, 2013. Samir al-Rifai, of Palestinian origin, was criticized for his austerity policies and pro-business attitude.

⁴² Samir al-Rifai was replaced by Marouf al-Bakhit, who had already served as prime minister from 2005 to 2007. Marouf al-Bakhit is a representative of the old guard, a member of a powerful Jordanian tribe (Al-Abbadi) and former army general and ambassador to Israel and Turkey.

⁴³ The previous Friday, at least four people were injured, when leftists and youth activists, during a peaceful protest, were assaulted by groups of “thugs” with sticks and belts. Law enforcement officials were accused by the opposition of having sponsored those “thugs”.

⁴⁴ There exists a diversity of positions among East Bankers and within individual tribes. The rejection of an elected prime minister is shared by conservative one while some East Bankers favor a full constitutional reform with an empowered parliament and a fairer electoral law and others a new constitution that would empower the parliament. Young activists do not necessarily share the viewpoint of their tribe.

Hussein Park, in Amman. The call was different from the various political and youth groups protests as those youth group wanted to demonstrate, through songs and dances, its loyalty to the king as well as its support for the reform process without changes in the constitution.

On April 15, a Jihadist Salafists protest gathering several hundred persons calling for the application of Islamic law and the release of an imprisoned member ended in blood.⁴⁵ Clashes with government supporters, in which police participated, led to numerous police and demonstrators injured. Some demonstrators were arrested while others were charged with “carrying out terrorist acts,” “assault,” “rioting,” and “unlawful gathering”.⁴⁶

People continued to take the streets on Fridays with pro-establishment rallies intended to support the king’s reform effort as well as confirm the loyalty to the Hashemite ruling and with the pro-reform and opposition activists demonstrating their disagreement with various matters such as the proposed elections law, the release of jailed activists, the rise in fuel prices, the eighteen-year-old *Wadi Araba* Peace Treaty with Israel.

With the Muslim Brotherhood-led “Save the Homeland” rally, which was held on Friday, October 4, 2012 and gathered over 10,000 activists from across Jordan, it became clear that protests in Jordan were of a different nature. The declared objective was to speed up the reform process under the umbrella of the king and not to overthrow the incumbent regime. During this protest, considered as one of the largest demonstrations in the country since the launch of the Arab Spring with the participation of over 80 political groups, professional associations and popular movements, activists were calling for an acceleration of the reforms and more specifically for amending the constitution towards an elected government, for releasing the detained protesters and an attenuated role of security services in public life.

This description of the protests in Jordan since January 2011 reveals the failure to unite the Kingdom’s various protest movements. For instance, a protest held at the beginning of June 2012, where groups from across the political spectrum marched together to protest delays in democratic reforms and recent government decisions to raise electricity and fuel prices showed the lowest turnout in months, with some 3,000 Islamists, leftists and tribal activists in Amman.⁴⁷ Overall, these protests point to the difficulty for a structured opposition to emerge despite the creation of several coalitions such as the National Front for Reform.⁴⁸

3.2. Short term reactions

With the persistent popular pressure, spontaneous measures were taken with the objective of preventing the spread of violence. In a second step, the “Arab-uprising” opened a window to previously discussed reforms. It gave the king the opportunity to implement tentatively several reforms listed notably in the Jordanian National Agenda of 2005.

3.2.1. Rentierist measures

Immediately after the first protests, the regime decided to allocate two economic aid packages, totaling JD 390 million (US\$550 million). These packages were meant mainly to increase subsidies and raise salaries of public sector employees. Jordan rapidly reverted back to its familiar policy of energy subsidies, despite

⁴⁵ The Jordan Times, <http://jordantimes.com/zarqa-sit-in-ends-in-bloody-clashes>.

⁴⁶ <http://www.hrw.org/world-report-2012/world-report-2012-jordan>.

⁴⁷ The Jordan Times, <http://jordantimes.com/show-of-unity-fails-to-boost-numbers-at-friday-protests>

⁴⁸ This coalition of independent cross-communities reformists was created in October 2011. It is headed by the former prime minister and director of the General Intelligence Department, Ahmad Obeidat. It appears as closely aligned with the Islamist movement.

a recent deterioration in the country's public finances. Indeed, since 2010, the public debt is on the rise (67 percent of GDP in 2010, 71 percent in 2011) along with the budget deficit that reached 12.7 percent of GDP in 2011 (forecasted at 14.1 percent for 2012) while the public sector deficit (budget and autonomous agencies combined) reached 18.7 percent of GDP (21.1 percent in 2012).⁴⁹ Jordan is also confronting a deterioration of its external position with a massive reduction of foreign reserves.

The public sector deficit figure for 2011 includes the deficit of the national electricity company, NEPCO, evaluated at 4.9 percent of GDP and the petroleum subsidies for 2.8 percent. These energy subsidies are a direct consequence of the Arab Springs. The situation of the electricity sector that used to be in equilibrium started to deteriorate with the events in Egypt that led to a collapse in the supply of Egyptian gas in 2010 which worsened in 2011.⁵⁰ With respect to fuel subsidies, the protest of January 2011 gave a halt to the price adjustment mechanism put in place between 2008 and 2011, whereby the energy price was calculated every month to reflect international prices and freight allowance. This measure contributed to a substantial increase in the size of energy subsidies, at 7.7 percent of GDP for 2011 compared to about 1 percent in 2010 and 0.2 percent in 2009 (World Bank (2012b)).⁵¹

3.2.2. Cabinet reshuffling

This period is also characterized by a high political turnover with frequent changes in governments which weaken its credibility with regard to the reform process but turn out to be positive on the security side as these cabinet reshuffles answered at divergent positions in the opposition. To satisfy the more conservatives of the opposition, Marouf Al-Bakhit, a former prime minister with an extensive record in the security apparatus took office in March 2011. He was replaced in October 2011 with Awn Khasawneh, a diplomat and international judge who had served at the International Court of Justice who resigned six months later. The king then appointed Fayez Tarawneh, a former senator and Chief of the Royal Court. With the dissolution of the Parliament and according to the Constitution, Tarawneh resigned and Abdullah Ensour, a member of the Parliament was then appointed as prime minister in October 2012.

3.2.3. Greater mobilization of the international community

Foreign grants reached a record of US\$1.7 billion (5.9 percent of GDP) in 2011 (more than double the average over the previous five years) and the share of foreign grants in government revenues encountered a peak (22 percent). Few grants were received in 2012 until October (US\$250 million was transferred by Kuwait and an agreement was signed for US\$357 million in grants from the US). The grant received from Kuwait was a first payment as part of a pledge made by the GCC in December 2011 to provide Jordan with US\$5 billion over five years for development projects, which should boost grant levels in 2013. Kuwait, Qatar, Saudi Arabia and the UAE will each provide a quarter of these grants meant at funding specific projects agreed on.

3.3. Institutional reforms

Several measures affecting more particularly the judiciary and the political system were implemented in 2012. These initiatives, in addition to providing some answers to reform demand, secured the IFIs's support at least in the short term.

⁴⁹ World Bank (2012b).

⁵⁰ Jordan started to import natural gas from Egypt in 2003, through the Arab Gas Pipeline that supplies also Israel and Syria, at prices lower than natural gas prices at major markets. Due to several pipeline explosions that occurred in Egypt in the year 2011, Jordan received that same year only 24 percent of the contracted amount, which led to large price shock (World Bank (2012b)).

⁵¹ In addition to cash subsidies from the Government to energy companies, these figures include non-cash subsidies in the form of Government sovereign guarantee to the state-owned power company NEPCO and outstanding unpaid fuel bills.

3.3.1. *The judiciary*

Jordan is classified as a civil law country, a legacy of the Ottoman domination.⁵² The Jordanian judiciary faces several crucial issues recognized as such by the involved actors such as the lack of independence from the executive, the inappropriate system of recruitment, the inefficiency in the handling of cases despite several foreign-funded technical programs such as the US aid financed Rule of Law Project.⁵³ Broadly speaking, the modern judiciary in Jordan suffers from the tribal clout so that economic actors often prefer arbitration to untrusted courts.⁵⁴

A major reform concerning the judiciary is the establishment in the year 2012 of a Constitutional court to monitor the constitutionality of laws and regulations. The court replaces a high tribunal for the interpretation of such laws that was headed by the speaker of the Senate and widely considered less than totally independent. The question that is raised now is how this court, gathering nine judges appointed by the king, will deal with existing laws and royal decrees. For instance, the political law referring to the attribution of parliamentary seats according to groups like Christians, Chechens, Circassians and Bedouins, which openly displays some discrimination between Jordanians, might conflict with the Constitution as the latter states that “there shall be no discrimination between Jordanians on the grounds of race, language and religion”.

3.3.2. *The political process*

As seen previously, the main criticism of the electoral system is the one man-one vote system introduced in 1993, which leads to a distorted representativeness with an over-representation of predominantly East Bank, rural Jordanians and under-representation of predominantly Jordanian-Palestinian urbanites.⁵⁵

The year 2012 was marked with several political reforms aiming at improving the political process. These reforms constitute a tentative opening of political institutions. The adopted amendments to the constitution are the following: the establishment of an independent commission to oversee elections instead of the Ministry of Interior that was previously in charge of the electoral process; all electoral contestations referred to the judiciary instead of Parliament; the limitation of the government’s ability to issue temporary laws during the absence of Parliament, a practice that governments exercised at will in the past.

The main task of the Independent Elections Commission was to organize the coming elections according to the best international standards. Also an educational role was granted to this commission for the new statutory election process to be understood by the voters. The new Elections Law adopted a mixed-system under which each voter has two votes, one vote at the district level (according to the prevailing system of one man-one vote) and another vote designated for a 27-seat list at the national level. Under the same law, anyone can form a list of candidates, with each list containing at least nine names, and the parties and political groups that field candidates for the national list decide the order of candidates. This system was designed so as to encourage party-based politics. However, 82 percent of the Lower House seats are filled according to the prevailing unpopular one man-one vote system. Interestingly, the system of national lists was supported by political liberals and was one of the propositions of the National Agenda.

⁵² Although Jordan experienced a British Mandate, the British heritage over the legal system is restricted.

⁵³ <http://www.usaid.gov/jordan>

⁵⁴ The tribal clout over the judiciary is highlighted in Appendix B. Recently, Orange Jordan, following the renewal of its 2G licence with the Telecommunications Regulatory Commission (TRC) at a considered prohibitive price, threatened to resort to international arbitration in the US, even though it has filed lawsuits at the Higher Court of Justice and the Amman Court of First Instance (The Jordan Times, “Orange threatens int’l lawsuit over 2G licence fees”, May 10, 2014.)

⁵⁵ Although no official figures exist, an estimated 60 to 65 percent of the Jordanian population is of Palestinian origin, and 40 percent is affiliated to one tribe or another.

The Independent Elections Commission oversaw the first parliamentary elections since the Arab uprisings in January 2013. Around 56 percent of voters went to the poll and the elections resulted in a pro-regime assembly. Out of 150 seats, 113 of them were won by loyalists and 37 were won by Islamists and other critics of the regime. These results gave rise to a number of dissatisfaction. Some argue that the system of national lists served “tribalism” more than political parties and that it aims at weakening any coalition. At the center of the debate figures the number of seats allocated through this system (27 seats while the opposition wanted half seats of the Parliament), the high number of lists running for the elections as well as the method of calculating the national list winners which led to the allocation of the 27 seats to 22 lists with each of them winning at most three seats.⁵⁶ The Islamic Action Front who boycotted the elections called for revisiting the national list. Some dissatisfaction also emerged between tribes as several riots and tribal clashes have been reported in cities like Irbid, Salt and in Karak governorate, denouncing unfair results. These incidents were settled peacefully through tribal conflict resolution mechanisms as the authorities have allowed tribal justice to operate in place of the civil law in inter-tribal conflicts.⁵⁷

According to Muasher (2013) who headed the 27-member National Agenda committee of 2005, these institutional reforms are positive but not sufficient “to convince Jordanians of the seriousness—and the sustainability—of the reform process”.⁵⁸ A dynamics of institutional transformation must be implemented which involves the gradual increase of the number of parliamentary seats allocated to party lists in each electoral cycle, an institutional check on abuse, and an evolution towards a merit-based society.

4. On the rise of impersonality in Jordan

In this section, we propose to characterize the undergoing transition process in Jordan through the lens of the social orders conceptual framework (North et al. (2009, 2012)), with an emphasis on impersonality (Wallis (2011)). This conceptual framework aims at linking economic and political behaviors in a society to the possibility of internal violence. After a brief overview of this conceptual framework, we shall demonstrate that personal relationships, which are still prevalent in Jordan, are a by-product of the state formation. Tribalism and *wasta* failed to construct an inclusive Jordanian identity and contributed towards the compartmentalization of the political and economic spheres. However, with the “Arab Springs” events, it seems that Jordan has embarked on a transition process towards open access. Advancing the rule of law, improving access to private and public organizations, redefining the role of the Monarchy and changing the nature of public revenue appear as top priorities for the authorities.

4.1. The social order conceptual framework: an overview

According to North et al. (2009, 2012), one can distinguish two kinds of social orders: limited access orders and open access orders. This distinction relies on three dimensions: violence, impersonality and perpetuity.

In open access orders, violence potential is consolidated with the state having the monopoly over the control of violence. Impersonality or impersonal relationships prevail in the sense that policy benefits are delivered on an impersonal basis. Impersonality pervades open access societies, in law, markets, education, religion, politics and the delivery of public services. Perpetuity refers to the ability to form organization, whether political or economic, as well as to the nature of the state. It is related to the organization of the power structure.

⁵⁶ According to the system of national lists, the minimum number of votes for a list to secure one seat in the Parliament is 45 thousand. And winners are determined by dividing the total number of votes (1.4 million) by the number of lists that competed in the polls (61).

⁵⁷ The Jordan Times, “Post-election riots contained via tribal mediation”, January 27, 2013.

⁵⁸ Cf. <http://www.carnegieendowment.org/2013/01/28/reform-in-jordan-after-vote/f6fg>.

Among these concepts, the notion of impersonality benefited from clarifications by Wallis (2011). To personal relationships, he prefers the terminology of anonymous relationships with “social identity, the group, organization, tribe, city, etc. that an individual is identified with” being a key element of anonymous relationships. In limited access orders, relationships are personal/anonymous in the sense that individuals do not necessarily know each other personally but social identity is known (an individual identified with a tribe or a family name, for instance). Social identity is not part of impersonal relationships. As stressed by Wallis (2011), “impersonal relationships only occur in societies that are capable of creating and sustaining an *impersonal identity of “citizen” or “resident”* that applies equally to a large number of people.” Observe however that those two concepts of citizen and resident are deeply different as residents are often disqualified from citizenship rights⁵⁹, and conferring a citizenship is the recognition of the individual’s membership of a state.

In contrast, in limited access orders, violence potential is distributed. Limited access orders are highly personal as they fail to deliver policy benefits on the basis of objective, impersonal criteria. Organizations and more particularly political institutions are not perpetually lived in the sense that they depend on the identity of the ruler and the most powerful groups.

North et al. (2009, 2012) argue that limited access orders –the currently dominant form of social order – emerge as a response to the threat of internal violence. At the core of this social order are the privileges/rents granted to powerful individuals or groups for them to have an incentive to cooperate with the ruler. This distributive strategy is facilitated by the personal basis of limited access orders whereby individuals and groups are treated differently.

For market reforms to succeed and for the transition from a limited access order to an open access order to start, North et al. (2009) identify three doorstep conditions: the rule of law for the elite (or impersonal relations among elites), the creation of a perpetual state (or the state as an impersonal organization) and the political control of the military. Institutional changes which open access to economic and political organizations and to the application of rights are signs that transition is in motion.

Personal/anonymous relationships still pervade the Jordanian society, be it in the design and application of the law or in the functioning of the labor market. It is also evident in the political sphere with the practice of allocating seats to the Parliament according to religious or ethnic affiliation. Those personal relationships materialize in particular through the practice of *wasta* or favoritism along family, tribal, community or kinship lines. Rentier state and *wasta* are interlinked. *Wasta*, as the social mechanism that determines allocation decisions in society, economy, and politics, is a vector of the patronage system under which the allocation of resources is determined and facilitated by the personal relationship with the power structure, which predominates over labor, personal capacity or merit. As we shall demonstrate, the predominance of personal/anonymous relationships in Jordan is a by-product of the particular path to state-formation taken by the country since the British Mandate period, namely a rent-driven state formation reinforced by the tribal structure of the society.

4.2. *On tribalism and state-formation in Jordan*

Jordan displays a unique path to state-formation in the Middle East, with the centrality of tribes and the incorporation of tribalism into the political order. As underlined by Alon (2009), the institutional configuration that prevails in modern Jordan dates back to the period of Feisal’s (the third son of Sharif Hussein of Mecca) ruling of the Jordan Region from Damascus that contributed to the reactivation of the Ottoman institutional architecture. Quoting Alon (2009): “The two-odd years [1918-1920] preceding

⁵⁹ In Jordan, as in most countries, there is a clear distinction between a citizen and a resident. Residents hold a residency card that has to be renewed every year and which is a source of revenue to the state. If this status allows to benefit from reduction in tourist sites, residents have no “political rights”.

Abdullah's arrival and assumption of power in Transjordan had a considerable effect on the establishment and development of modern Jordan. [...] Though failing to maintain an effective administration, these two political frameworks [Faisal's government and the British-supported local governments] did uphold various government institutions, most of which they had inherited from the Ottomans. They ran a skeleton administration complete with local bureaucrats, tax collectors, courts and a police force, all of which meant that Abdullah's government did not have to start from scratch. This institutional configuration became the nucleus of the young Emirate.[...] This period and these governments helped instill and validate the notion of a central authority among the local population."

But this period is also crucial regarding informal institutions with the resurgence of the socio-political tribal order that prevailed before the Ottoman ruling. Faisal implemented a tribal policy or a policy of rapprochement with local leaders or tribal heads: Hamad bin Jazi of the Huwaytat, Mithqal al-Fayiz of the Bani Sakhr, shaykh Rufayfan al-Majali, and leader Awda Qasus of Karak's Christian tribe, among others. Subsidies and honorary titles were distributed to secure the leading shaykhs' allegiance. The Transjordanian population became more and more integrated into the state with shaykhs collaborating with official in return for a payment. In a way, Faisal contributed to the inception of a rentier state.⁶⁰

With regards to the local governments' period, quoting Alon (2009): "These governments were an outgrowth of local reality, namely the product of deep-seated local identities, which led to the re-emergence of local chieftaincies under strong leaders. These chiefs seeking to strengthen their position were intent upon mobilizing their tribes and striking alliances, a local phenomenon characteristic of periods of uncertainty and weak government.[...] The years 1918-1921 witnessed the mobilization of Transjordanian society, which manifested itself in a return to arms, an increase in the shaykhs' financial and military power, and the resurrection of tribal chieftaincies, which now controlled the whole of the country."

In 1921, the British realizing the difficult task of governing the region through local governorates and under the real threat of losing control of the region, decided to adopt an alternative form of indirect colonial ruling. After consulting Middle East experts, among them G. Bell and T. E. Lawrence, Winston Churchill, the newly appointed Colonial Secretary, decided during the Cairo Conference of March 1921 to offer the throne of Iraq to Faisal and the Emirate of Transjordan to his brother Abdullah, the second son of *Sharif* Hussein of Mecca, who had gain the support of local leading shaykhs.⁶¹ With this decision, the Hashemite ruling of Transjordan was incorporated into the British mandate in Palestine, with the arrangement that this Arab province of Palestine would not be part of the Jewish national home which was to be established west of the River Jordan.

4.2.1. *The Organic Law of 1928*

Under the British supervision, Emir Abdullah initiated a process of state-building with the development of political and economic institutions, resulting in employment opportunities. The institutional base was from Ottoman inspiration. With the promulgation of the Organic Law in 1928, Emir Abdullah designed the institutional framework of Transjordan. With respect to the judiciary, legal pluralism was officially established with an architecture of the judiciary composed of three categories of courts: civil courts (Courts of First Instance and Magistrate Courts and Courts of Appeal) dealing with criminal and civil matters, religious courts (Sharia courts, Sharia courts of appeal, Religious Community Council courts) for matters of personal status and tribal courts (and Tribal court of appeal) for certain tribes. This organization of the courts was complemented with an institution dealing with the issues on the

⁶⁰ Under Faysal, courts were reactivated and several disputes among tribes were settled, in particular the reconciliation of the Bani Sakhr and Bani Hasan (Alon (2009)).

⁶¹ Abdullah had settled in the area of Ma'an in November 1920 to prepare an attack on the French in Syria.

interpretation of laws and regulations, the *Diwan Khas*. As to political power, although limited by the law, a Legislative Council was settled in 1929 and elections were held in April of the following year. The Election Law took into account the social fabric, with a distinction between settled tribes and nomadic and semi-nomadic tribes. Finally, several governmental departments were put in place such as the financial department to implement the tax system, the land department for implementing the land program, the health department and the security department with the police and armed forces (Abu Nowar (2006)).

4.2.2. *Captain Glubb, the Desert Patrol and tribal customary law*

Captain Glubb, known as Glubb Pasha, is also an important figure with respect to the formation of the institutional framework.⁶² After joining the Arab Legion in 1930, he created a new force, the Desert Patrol, composed of tribesmen from the famous tribes such as the Huwaytat and the Bani Sakhr. With this aristocratic force, where priority was given to sons of shaykhs, Glubb managed to control almost exclusively the desert. The phenomenon of tribes raiding on each other, mostly prevalent in the southern parts of the region, was thus curbed by Glubb's forces. Glubb was also a fervent supporter of tribal customary law. He was for a gradual introduction of the principle of punishment inflicted by the state, characteristic of the western vision of conflict resolution, without the abolition of compensation which is a principle that governs tribal law. He was convinced that the shaykhs, especially Hamad bin Jazi of the Huwaytat and Muhammad bin Zuhair of the Bani Sakhr, were the most appropriate persons to adapt the customary law to the western bureaucracy environment. With the 1936 Tribal Law, tribal courts were institutionalized and civil cases between tribesmen were to be tried by shaykhs. However, state bodies were involved in tribal justice with, for instance, the Arab Legion in charge of the execution of the verdict. Also, the governor has the possibility, in addition to compensation, to put a culprit in jail for up to one year. The tribal judges were chosen jointly by the government and the Emir.⁶³ In 1939, Glubb became the successor of Peake at the head of the Arab Legion (the actual Jordan Royal Army) and participated in its transformation from a police force into a military force capable of maintaining peace and order. It was said to be the best trained force in the Arab world.

Overall, the British Mandate period contributed to the expansion of the state and a relatively smooth integration of tribes and tribal culture into the state. It contributed to the emergence of a tribal power elite: some tribesmen were serving in the Arab Legion while others were landowners. They benefited from health services and their children were educated in state schools, which would facilitate their access to jobs in the coming governments. These benefits were financed to a great extent by the British subsidy and by a portion of the British customs revenue. Quoting Alon (2009): "Tribal shaykhs became officials of the state. Many were rich and influential, could mediate for their kin in government circles and remained the prime interface between the government and their fellow tribesmen. Shaykhs themselves belonged to a state elite cultivated and organized by Abdullah". Tribesmen would continue to staff the military and bureaucracy for many years. Abu Dayeh and Naganuma (2009) confirm that the power of the state in Jordan has been linked to the tribes since the early days of Islam, in a constrained way or in a supported way. They conclude that over the years, tribes have played the role of a safety valve for change and stability in Jordan.

4.2.3. *The Nationality Law and its evolution*

Regarding formal institutions, the enactment of the Nationality Law, alongside the 1928 Organic law, greatly participates in the process of state-formation in Jordan.⁶⁴ Inspired by the British law, its original version stipulates that nationality is established through paternity or residency and conditions for the loss

⁶² Alon (2009).

⁶³ Under the High Commissioner Harold MacMichael, the Tribal law was even generalized to all tribes.

⁶⁴ Before this law, matters related to the question of nationality were governed by the Ottoman laws.

of nationality are also mentioned. As argued by Massad (2001, chap1), the nationality law is “important not only for its foundational regulation of who is a national and who is not, but also for its ever-continuing role in reorganizing the nation’s temporal, spatial, and corporeal borders”. This law has been amended several times.

In the 1930s, Arab refugees were welcomed and naturalization was granted rapidly. Any person who had resided in the country for at least one year was entitled to Transjordanian nationality, at the discretion of the prime minister and under several conditions (residency, good character and knowledge of the Arabic language). Many Syrians and Turks were naturalized between 1935 and 1938. Under the 1928 law, no restrictions on citizenship rights were applied to naturalized Jordanians (Abu Nowar (2006)).

Following the 1948 war against Israel and the annexation of the West Bank to Jordan, Palestinians who chose to resettle in Jordan were granted the Jordanian citizenship: as the 1949 addendum to the 1928 Law of Nationality stipulates, “all those who are habitual residents, at the time of the application of this law, of Transjordan or the Western Territory - administered by the Hashemite Kingdom of Jordan, and who hold Palestinian nationality, are considered as having already acquired Jordanian nationality and to enjoy all the rights and obligations that Jordanians have” (article 2). As Transjordanians, they were put in a position of competition and managed to obtain high ranking jobs in the public administration and state-owned firms.⁶⁵

4.2.4. On Jordanian nationalism and tribal identity

However, with the loss of the West Bank in 1967, a new wave of Palestinian refugees and the growing activity of Palestinians guerrillas on the Jordanian side contributed to the emergence of a nationalistic/patriotic feeling among the Transjordanians. These nationalistic feelings accentuated after the 1970-1971 “Black September” civil conflict which saw a confrontation between the Jordanian Armed Forces and the Palestinian guerrillas, and which ended with the latter’s expulsion to Lebanon.⁶⁶ This civil war marked a turning point in the path of state formation with a process of exclusion affecting Jordanians of Palestinian origin. The long term result of this civil war is a communal division in the labor market, evident today, with the private sector dominated by Jordanians of Palestinian origin and the public sector dominated by Transjordanians/East Bankers (International Crisis Group (2012)).⁶⁷

The 1970s are also marked by the promotion of Jordanian nationalism based on a tribal identity as a reaction to the Israeli declaration that “Jordan is Palestine”. The newly-constructed Jordanian identity consisted in nationalizing tribal identities, making the Nabatean site of Petra and the “Bedouin” the icons of Jordanian identity (Al-Mahadin (2007)).⁶⁸ The official abolition of the Tribal Customary Law in 1976 served the same purpose. As argued by Alon (2009), this abolition served “to create a general, unified,

⁶⁵ Under Hussein’s rule as under Abdullah I’s rule, several members of East Bank and Circassians families such as the al Rifai and the al Mufti families, joined the political elite.

⁶⁶ The PLO (Palestinian Liberation Organization) was created in 1964 and their unpopular practices (kidnapping, regulation bypassing, ...) threatened the stability of the political regime in Jordan.

⁶⁷ The Transjordanians/East Bankers refer to Bedouin and semi-nomadic tribes as well as settled Jordanian tribes of East Bank origin. If no official statistics on tribes exist, at the beginning of the 21st century, out of 5 million people, around a quarter would be Bedouin and semi-nomadic tribes, and settled Jordanian tribes of East Bank origin would amount to 30 percent of the population (bin Muhammad (1999)).

⁶⁸ Al Mahadin (2007) points out that the history of Jordanian national identity has been one of great ruptures. He identifies three periods of distinctive identity formation: 1921-1951, with the denigration of the Ottoman ruling and the Hashemite descent at the forefront; 1951-1970, with the construction of Jordanian identity as a holy land with the appropriation of sites in the West Bank; and post 1970, with the reconstruction and institutionalisation of the Bedouins.

and hopefully unifying, tribal identity as part of the newly constructed national identity”.⁶⁹ This Jordanian identity is closely associated with rural Jordan, with the tribe and tribal loyalty rather than citizenship being the principal focus of the relationship between the state and the individuals, and with tribal law continuing to exist and to supersede civil and criminal law at times.⁷⁰ This contributed to the strengthening of the role of social identity, based on tribal affiliations, as a vector of personal/anonymous relationships.

This tribal/rural identity has been relatively absorbed by urbanites. As underlined by Kassay (2011), “when a Jordanian is asked where he comes from he cites his tribal origin even if his family has been resident in Amman for generations”. “When people are introduced socially in Jordan, they immediately ask each other a series of questions in which one seeks to place the other geographically, tribally and in rank within the tribe or extended family.” The tribal organization of the society is indeed entrenched, with non-tribal ethnic groups also redefining their community as a tribe. For instance, a joint-tribal council was settled by the Circassians and the Chechens who migrated under the Ottoman period.⁷¹ At the beginning of the 21st century, as emphasized by bin Muhammad (1999), Jordanian society is more than ever organized according to tribal structure as the consciousness of belonging to a tribe (in a broad sense) and behaving according to its rules is very present in people’s mind.⁷² Social identity based on tribal affiliations matters.

The “tribalisation” of the institutions of the state was also manifested in the 1980s with the amended Nationality Law of 1987 whereby, for the first time in Jordan’s history, restrictions on the citizenship rights of naturalized Jordanians were introduced. According to Article 6, “a person who acquires Jordanian nationality through naturalization is considered Jordanian in all aspects except that he cannot occupy political and diplomatic positions and public positions that are specified by the Council of Ministers, and he cannot become a member of Parliament until at least ten years had elapsed since his acquisition of Jordanian nationality. He also does not have the right to nominate himself to municipal, village councils or to vocational unions until at least five years had elapsed since he had acquired Jordanian nationality” (Massad (2001)).

With the Arab springs, the frontiers of national identity have recently been adjusted. A constitutional amendment (to Article 75) passed in October 2011 put additional restrictions on who can be eligible to power as it states that “no person can become a deputy, senator, minister or a high-ranking official if he/she holds dual nationality”. In compliance with this amendment, several senators submitted their resignation while some ministers relinquished their non-Jordanian nationality.⁷³ Finally, it is worth noting that in its most recent version, the Citizenship and Nationality Law still prohibits Jordanian women from

⁶⁹ The expression ‘*al-ashirah al-ourdowniyah al-wahidah*’ (the unified Jordanian tribe) introduced by the late King Hussein and still in use under King Abdallah II illustrates the resurgence and persistence of tribalism (Kassay (2001)).

⁷⁰ See Appendix B.

⁷¹ In 1878, the Jordan region experienced a wave of immigration from Caucasus with the settlement of Circassian farmers around Amman. Fleeing from Russian persecution of Sunni Muslims, the Turks encouraged Circassians to settle by distributing government land to the immigrants and granting them tax concessions. In an *a priori* unfriendly environment, the Circassians by sealing alliances gained mutual respect and contributed to the development of large farms and to the modernization of agriculture and trade with the introduction of large-wheeled carts, into an area previously used by Bedouins for pasture. At the beginning of the 20th century, in order to facilitate the pilgrim traffic and the Turkish military control, the construction of the Hijaz railway linking Damascus to Medina provided job opportunities to this recently settled community and encouraged new influx of Circassians migrants.

⁷² The Circassian community is estimated at 200,000 people who are represented along with the Chechens by three Lower House seats (The Jordan Times, “Circassians to protest against selection of Sochi as 2014 Winter Olympics venue”, September 28, 2011).

⁷³ See The Jordan Times, “More senators quit over dual nationality”, October 7, 2011. <http://jordantimes.com/more-senators-quit-over-dual-nationality>.

passing their nationalities to their foreign husbands and children which complicates the life of numerous mixed families. Indeed, those who are considered as non-citizens face obstacles in acquiring several rights such as residency, employment, public education, and healthcare.⁷⁴

Overall, the “tribalisation” of the state institutions and national identity are pronounced in Jordan. If it has contributed to the stability of the regime, it has also sustained the practice of historically rooted favoritism or *wasta*, the vector of the patronage system. *Wasta*, as a social norm, reinforces the personal/anonymous nature of relationships in the society. The reform process, incepted in 1989, has exacerbated the role of informal institutions (tribalism and *wasta*) by extending them to the private sector (economic incentives provided under a patronage framework).

4.3. On *wasta* and the reform process

Wasta is a widespread phenomenon in the Arab world.⁷⁵ Cunningham and Sarayrah (1993) provide the following definition of *wasta*: “*Wasta* may mean either mediation or intercession. It denotes the person who mediates/intercedes as well as the act of mediation/intercession”.⁷⁶ *Wasta* may be viewed as a tribal legacy. It is based on values similar to tribal values – loyalty, commonality and reciprocity (Loewe et al. (2008)). *Wasta* as mediation is an important component of the traditional way of resolving conflict in tribal societies whereby a person, usually an elder respected man of honor, was designated as the *waseet* (middleman) and was in charge of handling the negotiation process between the parties involved in the conflict so as to achieve reconciliation (Antoun (2000)).

4.3.1. Why does *wasta* exist and persist?

With the particular path to state formation followed by Jordan, where tribes were put in a position of competition for jobs and resources and the resurgence of tribalism, *wasta* as intercession grew in importance. *Wasta* as intercession involves one person who is intervening on behalf of another to obtain an advantage for the latter. Intercessory *wasta* is used for instance to obtain a job, a scholarship, an admission to university, a diploma, an administrative document, a tax reduction, to access loans, health services or cash assistance from the National Aid Fund, etc.. *Wasta* serves as a vector of the patronage system. Put into the tribal context where loyalty to the tribe prevails over loyalty to the state, a tribe member who manages to obtain a position of influence will serve as a *wasta* and will favor his tribe.

Barnett et al. (2012) propose to apprehend *wasta* in the context of the theory of transaction costs as initiated by Coase and Williamson which provides some justification on the existence of the firm as a mode of organizing production.⁷⁷ In their simple analytical analysis, they consider that the tribe corresponds to the firm and that *wasta* is a preference for production within the tribe. They illustrate that the level of activities covered by *wasta* depend on the marginal benefits of within-tribe *wasta* and on the cost of using *wasta* considered as “the opportunity lost from engagement with extra-tribal parties”. The message they deliver on *wasta* is rather positive: “Our conjecture is that *wasta*, like any long-standing social custom or institution has evolved (and continues to be used) in Arab societies because it is

⁷⁴ In 2014, a ministerial committee was formed to discuss the “service-related privileges” to be granted to children of Jordanian women married to foreigners (The Jordan Times, “Panel discusses rights of children of Jordanian women married to foreigners”, April 14, 2014).

⁷⁵ According to El-Said and Harrigan (2009), *wasta* is a form of social capital.

⁷⁶ If the Arabic word *wasta* (as intercession) more broadly designates the practice of favoritism along family, tribal, community or kinship lines without distinction, the western vision of the phenomenon is captured by two distinctive words: nepotism and cronyism. Nepotism operates when a person favors or grants patronage to relatives, whether in government or business. When favoritism or patronage is granted to long-time close friends or business associates, it is referred to as cronyism.

⁷⁷ See, e.g. Williamson, O., 1989. Transaction costs economics. In: Schmalensee, R., Willig, R. (Eds.). Handbook of Industrial Organization. Amsterdam: North Holland, p135-182.

generally perceived within these societies as a construct that provides better solution to a set of social problem and resource allocation issues than could be achieved by alternative institutional arrangements”.

This approach implicitly assumes that an alternative institutional arrangement to *wasta* exists and is common knowledge. This might not be the case in developing countries. First, as documented in Loewe et al. (2008), the perception of *wasta* by the Jordanian population is not uniform: some find it unfair for those who do not have good connections, others legitimize the use of *wasta* while others at the extreme consider *wasta* as a form of corruption. However, most of them underline the close link of *wasta* with traditional values and social norms and see the use of *wasta* as “integral part of the Jordanian culture”. Second, according to the people interviewed, the *wasta* solution is imperative as there is a (perceived or real) lack of alternatives.

The stagnant economic situation might feed into the persistence of *wasta*. When the economic situation deteriorates, the search for a *wasta* solution intensifies. Family or kin associations which burgeoned during the 1990s in both urban and rural areas took part in the building of a social network within which *wasta* can be expected. According to Baylouny (2006), these family or kin associations constitute a new form of organization as they are founded on a shared identity and regroup all economic class and sectors. They are headed by a new young elite working in the government or the private services sector with private access to the power structure. These cooperatively funded associations play an economic role as they provide welfare services for the lower and middle classes as well as job opportunities and other services such as low or zero-rate loans. They are registered either as charities or cooperatives and have access to state development plans. These kin associations constitute a private form of social insurance as they pool and redistribute resources to supply a variety of welfare services. In this case, *wasta* is close to an insurance mechanism, it is a way of coping with uncertainty. These kinds of associations participate to the development of a family identity that could be potentially inclusive.⁷⁸

4.3.2. *The negative impact of wasta on state-business relations*

In their empirical study conducted in Jordan in 2006, and based on interviews with different stakeholders in state-business relations (representatives of foreign and local firms of diverse sizes located in Amman and Zarqa, public sector representatives from all ranking level and various experts), Loewe et al. (2008) conclude that the use of *wasta* has also negative impacts. Intercessory *wasta* is a source of unfairness and inefficiency in state-business relations. Furthermore, *wasta* discourages private investment.

Their study confirms that *wasta* plays a dominant role in the recruitment and promotion in the public sector. It is so because “MPs, ministers, and other influential figures exert pressure on the public administration to employ their supporters.” Otherwise stated, *wasta* prevails in the public administration because the power structure has recourse to it. Public employment is considered as a patronage measure to secure the position of the incumbent power structure. A direct consequence of this public recruitment policy is the overstaffing of the public sector and its ensuing poor productivity. Entrepreneurs surveyed blamed the unqualified and unmotivated government employees as well as the excessive division of labor – with each employee confined to a specific task – for their difficult relations with the authorities. Overstaffing and the extreme distribution of labor tend to slow and complicate administrative procedures, thus hindering economic activity.

⁷⁸ Baylouny (2006) provides the example of a Jordanian family who joined with a Palestinian village to create a family association in 1995. The leaders found that they were members of the same tribe. In the past, part of the tribe has settled in Kerak, Jordan, while others went to a village in Palestine, near present-day Jaffa. Some members of this association consider they are Jordanians while others feel they are Palestinians, but with the association they consider themselves as relatives.

Wasta also undermines the rule of law by affecting the legislative framework and its implementation. Seventeen percent of entrepreneurs surveyed complained about the meager quality of the legislation which leaves room for arbitrary interpretation. The legislation is influenced by *wasta* to the extent that laws are conceived by people in position of influence who serve as *wasta*. There is thus an inclination to design the legislation so as to serve the interests of the network of the power structure rather than the general interest.

How can these problems of inefficient public administration and weakened rule of law be circumvented? The entrepreneurs' reaction depends on their "*wasta* endowment". The well-connected entrepreneurs have no better choice than to make use of their *wasta*⁷⁹ and by the same token, to try to circumvent legislation. The less well-connected find an advantage in spending money and time to strengthen their *wasta* instead of investing in improving their competitiveness. While those poorly-connected have to just grin and bear it.

4.3.3. How to combat *wasta*?

The empirical study conducted by Loewe et al. (2008) reveals that *wasta* is an economic activity *per se* which provides some benefits but entails also some costs. Those costs and benefits depend on the "*wasta* endowment". The well-connected people can derive great benefits at relatively low, close to null costs. The less well-connected can obtain some benefits, provided sufficient investment in a *wasta*. Those without connections can find it prohibitively costly to invest in a *wasta*, so they do not resort to it. The practice of *wasta* is indirectly linked to the level of revenue as well-connected people are usually wealthy people.

If something is to be initiated against *wasta*, it should certainly be targeted at the group for which the cost is the least that is the well-connected people or the elites. Here, we are back to the doorstep condition of the rule of law for the elites or impersonal relationship among elites mentioned by North et al. (2009). What are the tools available to a regulator? The economic activity of *wasta* will become less attractive if costs are increased or benefits diminished. Introducing an anti-*wasta*, anti-nepotism law could increase the cost, but this law might not be applied. Improving the quality of the legislation could reduce revenues (the rents obtained by powerful people would diminish but their position would be secured), but this is only possible in a context of greater political opening.

A change of behavior among elites can be expected if exogenous factors threatened their position, in a credible way. Such a threat translates into a discontinuity in the revenue function that would drop to zero in case of realization. The perspective of such a drop in revenues could be an incentive for the well-connected people to be sparing with their use of *wasta*. In that case, however, well-connected people face a prisoner's dilemma situation. Individually, everyone is better off using *wasta* if the others also use *wasta* as long as the threat is not carried out. If this threat is credible in the sense that there exists a non-null probability that it could be carried out, well-connected people would be worse off in the *wasta* situation, and refraining from using *wasta* can become a dominant strategy. A change of behavior will only occur if the elites share the same concern with respect to the threat – that it is credible – and agree on a code of conduct.

Rather than combating the practice of *wasta*, Cunningham and Sarayrah (1993) suggest directing *wasta* towards governmental effectiveness and economic growth by treating intercessory *wasta* as a guarantor: "The guarantor would assume responsibility for ensuring effective performance from a *wasta* client. If necessary, the guarantor would play the traditional mediator role between the aggrieved organization and

⁷⁹ According to Loewe et al. (2008), "64 percent of the interviewed public sector employees declared that *wasta* was helpful for speeding up administrative procedure".

the person accused of performing ineffectively”. These authors advocate a return to mediation *wasta*: “Turning *wasta* back to its origins and employing the *wasta* principle of mediation as a pre-emptive quality control mechanism can generate both effective performance and societal harmony”.

This latter option has not been considered by King Abdullah II who seems to be committed to fighting *wasta* and reforming the public sector. In his letter of designation to Prime Minister Abdullah Ensour in October 2012 (just before the application of the new Electoral Law), the king commented explicitly on *wasta* and favoritism on two occasions. First, when addressing the issue of the public administration: “We also direct the government to embark on sincere efforts to launch an integrated matrix of checks and balances in public service, to include specific mechanisms for appointments and promotions, especially in top posts, so as to better build capacity and retain talent, uphold the principles of transparency, justice and equal opportunity and fight *wasta* and favoritism”. Second, in reference to the implementation of policies: “It could be useful to agree on a charter to enhance the system of integrity, transparency, accountability and the rule of law, guarantee justice and equal opportunity and combat *wasta* and favoritism”.⁸⁰

To conclude, tribalism and *wasta* can be envisioned as a by-product of state-formation in Jordan. They play a part in the preservation of personal/anonymous relationships between the state and society. While these personal relationships may have contributed to the stability of the regime, they also reinforced the rentier nature of the state and contributed to the diversion of funds intended for development. With the “Arab springs” uprisings, these personal relationships are no longer sustainable. The development of impersonal relations among elites or the rule of law for the elite is more than ever on the agenda, as is the transition to a “perpetual” state.

4.4. Jordanian Spring and the transformation of the State

As highlighted, protests in Jordan are of a different nature: they demand specific reforms, without calling for the overthrow of the king. More recently (by the end of the year 2012 and after the January 2013 elections), more targeted protests can be observed raising matters as diverse as the growing violence on university campuses (May 2013) or the reclaim of Jerusalem and the holy sites (June 2013). In July 2013, for the first time since the inception of the Arab uprising, no rally was held in Amman during the holy month of Ramadan, while dozens of activists gathered in the southern towns of Mazar and Tafileh to denounce rising prices.

The uprisings have initiated a process of renegotiating state-society relations. This process started with a redefining of the power structure through political opening and improvement of the institutional framework. A new social contract is currently under construction based on characteristics prevailing in nation-states. A change in the nature of revenue also seems to have been initiated. Under the pressure of IFIs, several measures were taken with respect to subsidies and public revenues.

4.4.1. Ensuring the survival of the monarchy

The king has recently adopted a line of conduct that aims at delivering the message that the monarchy in Jordan is adaptable in the sense that it is compatible with different conceptions of political life. The tentative political opening implemented in 2012 gave the king the opportunity to display his readiness to withdraw from a politically active role. The king clarified the posture of the monarchy and the role of the

⁸⁰ We have considered here the issue of combating *wasta* from above. People might opt for another option, namely Islamic movement. As a tribal concept, *wasta* has nothing to do with Islam. Interestingly, some youth in Jordan see political Islam as a way of combating *wasta*. (<http://www.nytimes.com/2008/12/23/world/middleeast/24voices.html?adxnnl=1&adxnnlx=1401706991-kqy8p68ywopN07amcJ4aRA>).

Parliament, in a second discussion paper published on January 16, 2013.⁸¹ He announced the choice made of a more democratic appointment of the government with a parliamentary government system in mind. Indeed, since the January 2013 elections, the designation of the prime minister is based on consultations with the majority coalition of parliamentary blocs (or on consultations with all of the parliamentary blocs in case no clear majority emerges). The designated prime minister in turn consults with Lower House blocs to form the new government and agree on its program.⁸² In February 2013, Abdullah Ensour was selected, after consultations carried out by Fayez Tarawneh, the Chief of the *Diwan*, with MPs. The first cabinet was formed a month later and reshuffled in August 2013. This more democratic appointment of the government can be seen as a first step towards depersonalized monarchy and the creation of a “perpetual” state.⁸³

In the third discussion paper⁸⁴, the king explains the roles of the monarchy, the monarch and citizens in the changing political environment. It should be noted that the concepts of citizen and citizenship have recently been introduced to the Jordanian population. Indeed, since Emir Abdullah proclaimed himself as King Abdullah I of Jordan which marks the inception of the monarchical system, the population was referred to as subjects rather than citizens with the loyal dimension that it possesses. At the Automobile Museum in Amman dedicated to the late King Hussein, one can read the following description of the population of Jordan in the year 1953: “Hussein’s *subjects* include 687,300 Arabs of eastern Palestine and old Transjordan, many of them nomads and 465,700 refugees who fled from neighboring Israel in 1948.” With the political project envisioned by the king and communicated to the population through the three discussion papers published in 2012 and 2013, one can note an evolution of the concept of citizenship. If it has been considered mainly as a legal status granting protection by the law (as inspired by Roman law) since the inception of the Jordanian State, with the Arab uprisings, it is slowly moving towards the participation in the formulation and execution of laws. As described in Rousseau’s *Contrat Social*, the active participation of the population in decision-making ensures that individuals are *citizens* and not *subjects*.⁸⁵ With respect to the monarchy and the monarch, the king stresses that “The Hashemite Monarchy will remain forward-looking and as monarch I will maintain my role as a unifying leader to prevent polarisation in our society and to protect Jordanian values”. With the release of the fourth discussion paper in June 2013⁸⁶, the era of personalised monarchy, with loyalty centered on a personality seems to be over. The word “loyalty” is cited once and with respect to the country, “What is important to emphasise here is that disagreement and constructive opposition [...] are among the greatest ways in which a citizen can show loyalty to his or her country”.

Interestingly, nowhere in any of the documents released, reference is made to the tribal heritage of the country. The words are carefully chosen: the monarch refers to “citizen”, to “Jordanian values”, “national unity”, “pluralism”, “openness”, “tolerance” and “moderation”, “public interest”.... With respect to Arab culture, he mentions “honour” and “respect”. Likewise, the word *wasta* is never mentioned. However, in the second discussion paper, the king tackles the parliament and government about the underlying personal relationships using words as “opportunism”, “pressure”, “favouritism”: “It is the solemn duty of Parliament to enact legislation in the best interest of the country, and also to hold the Government to account for its decisions. Parliament, in turn, is accountable to the citizens who elected its members.”

⁸¹ See http://kingabdullah.jo/index.php/en_US/pages/view/id/248.html.

⁸² Before the New Electoral Law of 2012, the council of ministers, led by a prime minister, was appointed by the king, who may dismiss other cabinet members at the prime minister's request.

⁸³ We refer here to the second doorstep condition identified by North et al. (2009) for market reforms to succeed, namely the creation of a perpetual state (or the state as an impersonal organization).

⁸⁴ Cf. http://kingabdullah.jo/index.php/en_US/pages/view/id/249.html.

⁸⁵ Rousseau, J.J., 1977. *Du contrat social. Précédé de La Démocratie selon Rousseau* (par Jean-Pierre Siméon). Paris : Seuil.

⁸⁶ Cf. http://kingabdullah.jo/index.php/en_US/pages/view/id/253.html.

Among the responsibilities MPs must fulfill figures that they must “work with the government on the basis of objectivity, not opportunism. To fulfill their public duties, the two branches of government must have a working relationship that is free of pressure and appeasement. The focus must be on the public interest alone. This is essential in the consultation process that leads to the designation of the prime minister, the formation of the Cabinet, and its programme. To ensure that this and other processes are not held hostage to pressure, appeasement, and favouritism, parliamentary blocs and political parties have a major monitoring role”.

With respect to the role of parliamentarians, the king also addresses the issue of jobs in the public sector as a measure of patronage: “Far more constituents can be served, far better and for far longer, when an MP endorses and contributes to policies and programmes that alleviate unemployment and poverty, and acts vigorously and transparently to create local development and jobs, rather than when an MP pressures a government official to give some constituents a public job.”

In the fourth discussion paper, the king announces the launching of *Demokrati*, the Democracy Empowerment Programme, financed by the King Abdullah II Fund for Development, designed so as to entail a cultural evolution.⁸⁷ The objective of this program is to enhance the role of civil society and encourage active citizenship by going “grassroots to lay the building blocks for a democratic culture that guarantees a tangible bottom-up change”. The king calls for a new kind of civil society organizations “whose goal is to help build peaceful civic and political engagement across society, but it will not support political parties”.⁸⁸

In short, the king is moving towards instilling an “open access order” identity and culture, which contrasts with the position he adopted during the early part of his reign which was closer to his father’s public discourse and personalized monarchy.⁸⁹ This does not go without confrontational situations between tribes and the Monarch. For instance, when tribal loyalty is challenged by government decision, tribal mobilization is by and large relatively fast. Recently, the appointment of Walid Obeidat, as Jordanian Ambassador to Israel entailed a lively reaction of his tribe, one of the largest and most important tribe in the north of Jordan. Many of its members have served in high-ranking positions in the Kingdom, including Ahmad Obeidat the now leader of the National Front for Reform who served as a minister of interior and prime minister at the beginning of the 1980s. Members of the new ambassador’s clan tried to thwart his appointment by pressuring him not to accept the position. Failing to do so, they declared public mourning: seven Jordanian villages near Irbid, where members of the Obeidat tribe live, entered a state of public mourning just hours after he presented his credentials to Israeli President Shimon Peres, on October 17, 2012. In a short interview to the Jordanian news site *Sout el-Balad*, Walid Obeidat emphasized, “The decision was made by the state, and what the state decides, must be carried out.”

For the building of an open access order culture, the king restates the place of the tribal culture and structure of the society, with the tribe remaining a symbol of values, allegiance and a safeguard for security, stability and the rule of law. For instance, commenting on the recent resurgence of violence on university campuses, he declared: “Our culture and authentic tribal structure do not accept violence. We are all sons and daughters of tribes from various backgrounds and origins, whether the *Badia*, villages,

⁸⁷ Cf. http://kingabdullah.jo/index.php/en_US/initiatives/view/id/107.html.

⁸⁸ Currently, existing civil society organizations in Jordan are closely monitored by the state (administrative control and regulation), so that they appear more as an instrument of state social control than a mechanism of collective empowerment (see, e.g. Wiktorowicz (2000)).

⁸⁹ On King Hussein’s public discourse with respect to tribalism, see Layne (1994).

cities or refugee camps⁹⁰... This is the most important source of our strength, national unity and our society's security and stability." He also stresses the compatibility of the tribal culture with the rule of law: "There was never a day when tribe and family were reason for chaos, violence or breaking the law, as some who have no knowledge of the true definition of tribe and nature of tribal society claim".⁹¹

4.4.2. *On the transition from a rentier state to a production state: tackling the problem of increased energy subsidies and declining tax burden*

As recommended by the IFIs and so as to secure the foreign aid, fiscal consolidation measures are furthered while some efforts are also mentioned with regards to the ability to extract revenues from society.

Fuel and electricity subsidies have contributed to a significant increase in public debt, which reached 76 percent of GDP in August 2012. The overall fiscal deficit for 2012 is estimated at JD 1.45 billion which amounts to 6.5 percent of the GDP (IMF (2013)). Given the recent rise in the energy bill, the government successfully implemented in 2012 a reduction in energy subsidies with successive price increases on oil derivatives and electricity.⁹² The monthly pricing adjustment mechanism on fuel products, suspended since early 2011, resumed in January 2013. In June 2012, an increase in electricity tariffs was decided with certain sectors (bank, telecommunication, water pumping, hotels, ports, large industries and mining) more particularly targeted and limited changes in the household tariffs.⁹³

The residual lifting of fuel subsidies and reduced LPG subsidy, implemented in November 2012 by the government, was complemented with a compensatory measure consisting of the provision of a direct monetary payment to low and medium-income Jordanians.⁹⁴ According to the IMF (2013), in case of an increase in oil price, 70 percent of the population would benefit from this cash transfer. This measure was part of a broader vision to develop targeted redistribution with several measures taken recently to protect poor and middle-income households such as the reform and expansion of the existing social safety nets, upgraded food subsidy program, and the new social security law of 2010. In this regard, the role of the National Aid Fund, the institution dedicated to targeted cash transfer distribution established in 1986, has been reinforced with increased funding and broader scope.⁹⁵

With the regional turmoil, the targeted subsidy approach, recommended by international donors, has put the government at risk of losing the support of the power structures. As expected, this measure was accompanied with a wave of protests and riots all around the country, from all income-levels of the

⁹⁰ The *Badia* corresponds to an area of the Hashemite Kingdom of Jordan which "extends to the east of the western mountain series aligned to the east of Jordan Valley, and it is located on elevations between 700 and 1100 meters above sea level" (<http://www.badiafund.gov.jo/en/node/310>). This area, where economic activity is currently limited, covers 80 percent of the total area of the Kingdom.

⁹¹ http://kingabdullah.jo/index.php/en_US/news/view/id/10955/videoDisplay/1.html.

⁹² Several studies demonstrate that benefits from these subsidies are accruing more to the rich than to the poor so that this measure stands as a costly mechanism for welfare purposes. And in addition to being highly inequitable, these subsidies divert public spending from more productive use (See, among others, Fatouh and El-Katiri (2012)).

⁹³ Only the tariffs of residential consumers with a monthly consumption level of 600 kWh and above were increased.

⁹⁴ "Each individual of a household that consists of six members or less and whose income is less than JD800 a month or JD10,000 a year will receive JD70 in compensation of the hike in prices", PM Ensour in The Jordan Times, "Fuel prices up after subsidies removed, decision triggers protests", November 13, 2012. This compensation occurs if the oil price is above \$100 per barrel.

⁹⁵ For the year 2012, the fund distributed a total of JD7 million a month to 87,836 underprivileged households (The Jordan Times, <http://jordantimes.com/national-fund-allocates-518-new-monthly-aid-payments>).

population (among others the Jordan Bar Association and the Jordan Medical Association).⁹⁶ But this time, the government refused to revert back on its decision.

The targeted subsidy approach regarding fuel contributes largely to the reduction of expenditures forecasted for 2013. Additional expenditure measures concern the cut in military spending (0.6 percent of GDP from its 2012 level) as well as reduced spending on land acquisitions. Public authorities have announced that public pension eligibility as well as fuel compensation cash transfer will be defined more tightly.

On the revenue side, since the beginning of 2012, several tax exemptions were removed, such as the sales tax exemptions on international roaming phone calls and on hotels and the tax cut on real estate transactions. Consideration is also being given to increasing rates on air tickets, luxury goods, and alcoholic and tobacco products. Other fees, which do not enter as tax revenues, have also increased such as resident fees, money transfers to overseas fees, work permits, visas and vehicle licenses. Overall, at this point, these revenue measures more specifically affect non-citizen and high-level incomes, and are concerned with forms of indirect taxation.

As underlined by Schwarz (2008), direct taxes collection under autocratic ruling is generally poor as it relies heavily on a widespread voluntary compliance by citizens and an efficient and legitimate bureaucracy. The Jordanian government demonstrates some efforts in this regard. A revision of the income tax law that envisages, among others, a reduction in the personal income tax threshold and an increase in the top personal and corporate tax rates to 32 percent and 35 percent is with the Parliament. Improving the functioning of the tax department is also under consideration with an emphasis on commitment control systems to prevent the occurrence of arrears (IMF (2013)).

A flourishing private sector is crucial to direct taxes collection. As we have seen, private sector dynamics in Jordan is a political issue, making open politics crucial to the expansion of the private sector. The tentative political opening entailed by the Arab Springs provides a window of opportunity to decompartmentalize private and public sectors. Hind Al Fayeze, a Bedouin woman from the *Badia* who ran in the elections several and finally got elected to Parliament in 2013, expresses interesting sentiments in this respect. Hind Al Fayeze comes from an affluent traditional and tribal family, she is well educated and her cousin Faisal Al Fayeze, served as a prime minister from 2003-2005. Other members of her family have high-ranking jobs in the public sector. She calls for change so that prosperity and political influence are more widely shared with the members of her tribe. To persuade Bedouins to participate in the private sector is her declared goal. In an interview to the National, she declared: “My mission is to make a change, [...] to open their [Bedouins] eyes, to tell them it’s time to give up on the government jobs”.⁹⁷

Fiscal consolidation in Jordan is, further, complicated by the continued Syrian crisis. The accelerated inflow of Syrian refugees in Jordan put the economy, the society as well as the infrastructures of Jordan under extreme strain. Since the outbreak of the Syrian civil war in March 2011, according to the authorities, over 580,000 Syrian refugees have sought refuge to Jordan. According to the UNHCR, as of April 2013, 408,268 would have sought refuge in Jordan out of which 345,110 are registered, making Jordan the largest recipient of Syrian refugees. Approximately 291,000 refugees live in urban areas, while

⁹⁶ Local prominent economists were also divided upon the measure of lifting subsidies: if Fahed Fanek supported the targeted subsidy approach to ease budget squeeze, Yusuf Mansur agreed that there was no efficient way for target subsidies (The Jordan Times, “Proposed subsidy system receives mixed reactions from pundits”, December 6, 2011).

⁹⁷ <http://www.thenational.ae/news/world/outspoken-jordanian-hopes-to-lead-her-fellow-bedouin-to-prosperity#ixzz2iRH4r96O>.

around 117,000 are living in camps.⁹⁸ For instance, in the city of Ramtha, 90 km north of Amman, close to the Syrian-Jordanian border, the Syrian refugees amount to 50 percent of the local population.⁹⁹ With a relatively young migrant population, the educational and health systems have been under pressure as well as the labor market with an increase of informal employment. According to a statement released by the Jordanian government, the cost of hosting the refugees across Jordan in 2013 has been estimated to \$851 million. Even though a large part of this cost is covered by the international community (humanitarian assistance through UN agencies, donors and more particularly the GCC), the Jordanian budget is still affected through educational, health and security expenses notably. For 2012, the authorities estimate spending of 0.7 percent of GDP on refugees.¹⁰⁰ The Syrian crisis also affects adversely Jordan's trade: exports and imports with Syria declined by 22 percent and 37 percent respectively compared to 2011. Transit trade to Turkey, Lebanon and Europe halted which contributed to an increase in the costs of trade (alternative shipping routes, heightened security concerns). Also, with foreign aid on the rise – around US\$3 billion of total grants for the year 2013, with GCC grants representing 84 percent, and US\$1.5 billion loans provided by the international community –, public revenue diversification associated with the process of transition to a productive state might not show itself immediately in national accounts.

5. Conclusion

Jordan has been classified as a middle-income developing country over the past thirty years. As many other Arab countries, whether oil-rich or oil-poor, the quest for development has been elusive with low per capita income growth compared to some other regions such as East Asia or Latin America. In this paper, we argue that the personalized system for resources allocation - “personality-based” informal rules (tribalism, *wasta*) as well as the personal approach to formal rules (constitution, judiciary, political system)-, by supporting a patronage system rather than pro-growth and pro-innovation policies, are determinants of Jordan being caught in the middle-income category. Climbing the income ladder requires public policies that are designed and implemented in an impersonal way. In the case of Jordan, open economic policies that, in particular, allow for a reallocation of labor from the public sector to the private sector are essential to overcome the middle-income trap.

Although economic growth in Jordan has waned with the internal and regional instabilities, the latter provide a window of opportunity for the Kingdom to implement institutional reforms supportive of a transition path to an open access order. The “Arab Spring” events have put pressure on the power structure to advance the rule of law, and on the Monarchy to create a perpetual state. A new social contract is currently under construction based on a depersonalized monarchy and characteristics of nation-states. However, as culture is directly involved, it might take some time for changes to penetrate the society as a whole.

Tribalism in Jordan, as a cultural phenomenon as well as a characteristic of power structure, is still very predominant and affects an important fringe of the Jordanian society nowadays. The reinforced “tribalisation” of the public sector by the end of the 20th century led to a social divide (the East Banker/Jordanians of Palestinian origin divide), as well as an economic divide (the segmentation of the labor market with a Transjordanian public sector and a Jordanian-Palestinian private sector). Tribalism also affects the judiciary and undermines the rule of law. Tribalism has taken part in the slow development of the country not because it prevented the development of the private sector but because the private sector is being kept in check.

⁹⁸ CARE Jordan (2013).

⁹⁹ The Jordan Times, “Gov’t, UN launch platform to support refugee host communities”, September 11, 2013.

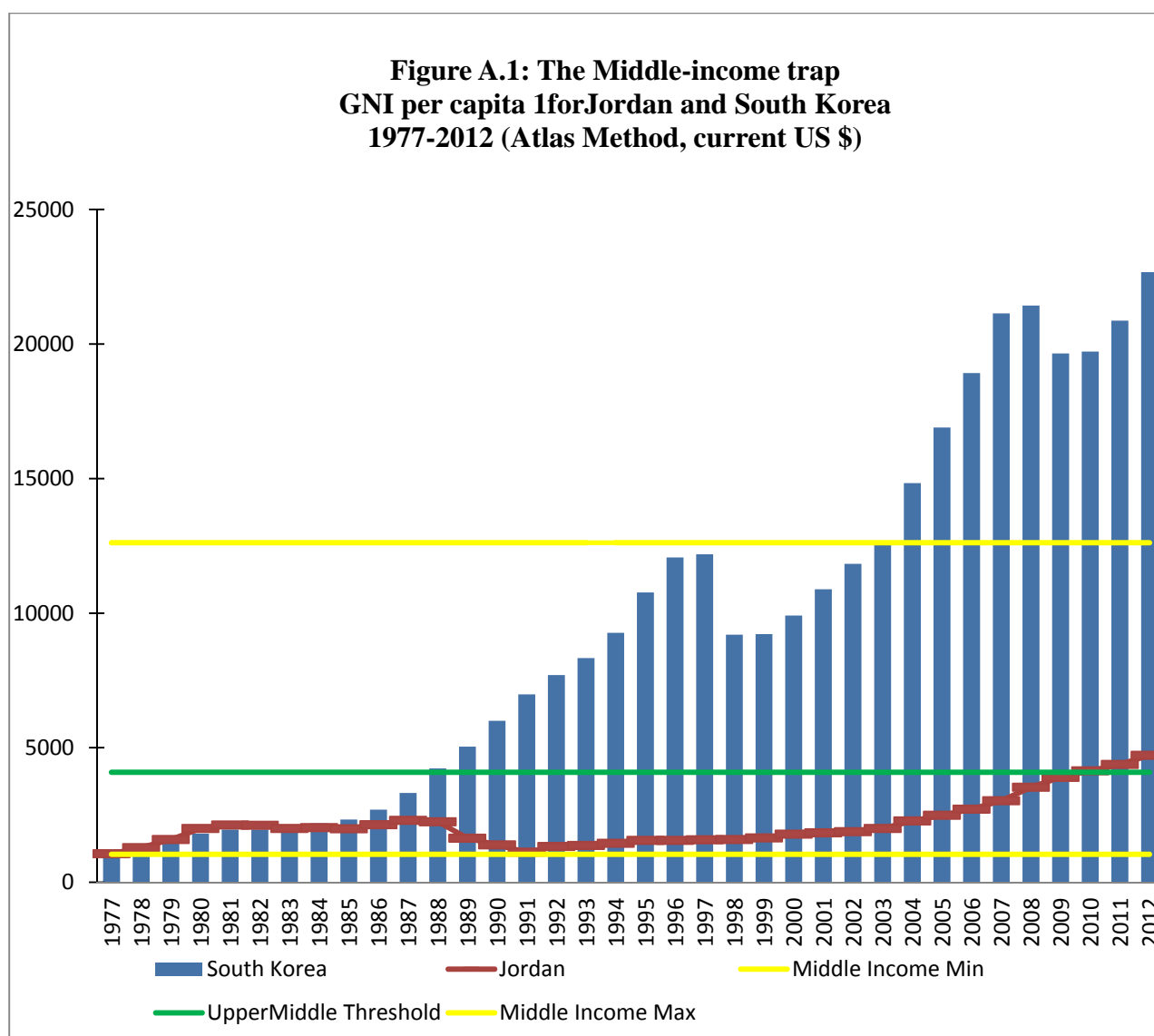
¹⁰⁰ IMF (2013).

Jordan is also embarking on a transition process from a rentier system to a production state with several measures taken, under pressure from IFIs, with respect to subsidies and public revenues. However, only open politics and a flourishing private sector can give rise to serious public revenue diversification. It goes without saying that Jordan's economic takeoff is in need of deepened economic and political reforms. If we have highlighted here the importance of institutional improvements for revenue diversification, the relationship is far from being causal, leaving room for further research on the analysis of the impact of revenue diversification on institutional quality.

The task remains commensurate. Clearly, the unsettled Palestinian question complicates the implementation of the "detrification" of the public sector as well as the opening of political institutions and economic policies. The position of the authorities with respect to the Palestinian issue is in favor of a two-state solution with the establishment of an independent, sovereign and viable state on Palestinian territories based on the 1967 lines with East Jerusalem as its capital. In his book published in 2011, the king confined his vision for the future of the economy: "My dream is that we will link the economies of Israel, Palestine and Jordan in a common market - patterned on Benelux in western Europe. We could combine the technical know-how and entrepreneurial drive of Jordan, Israel and Palestine to create an economic and business hub in the Levant. The potential for joint tourism is massive, as is that for foreign investment. [...] But such visions of economic cooperation are a mirage in the absence of political leaders with the courage to make peace."¹⁰¹

¹⁰¹ King Abdullah II of Jordan, (2011). *Our Last Best Chance: The Pursuit of Peace in a Time of Peril*. London: Penguin Books.

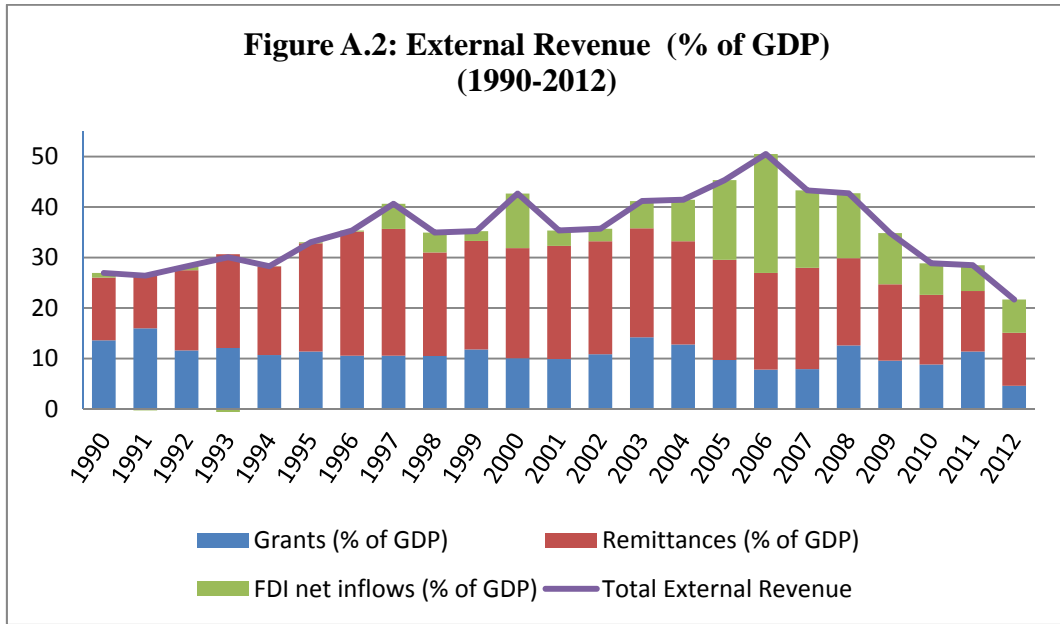
Appendix A: Economic Trends¹⁰²



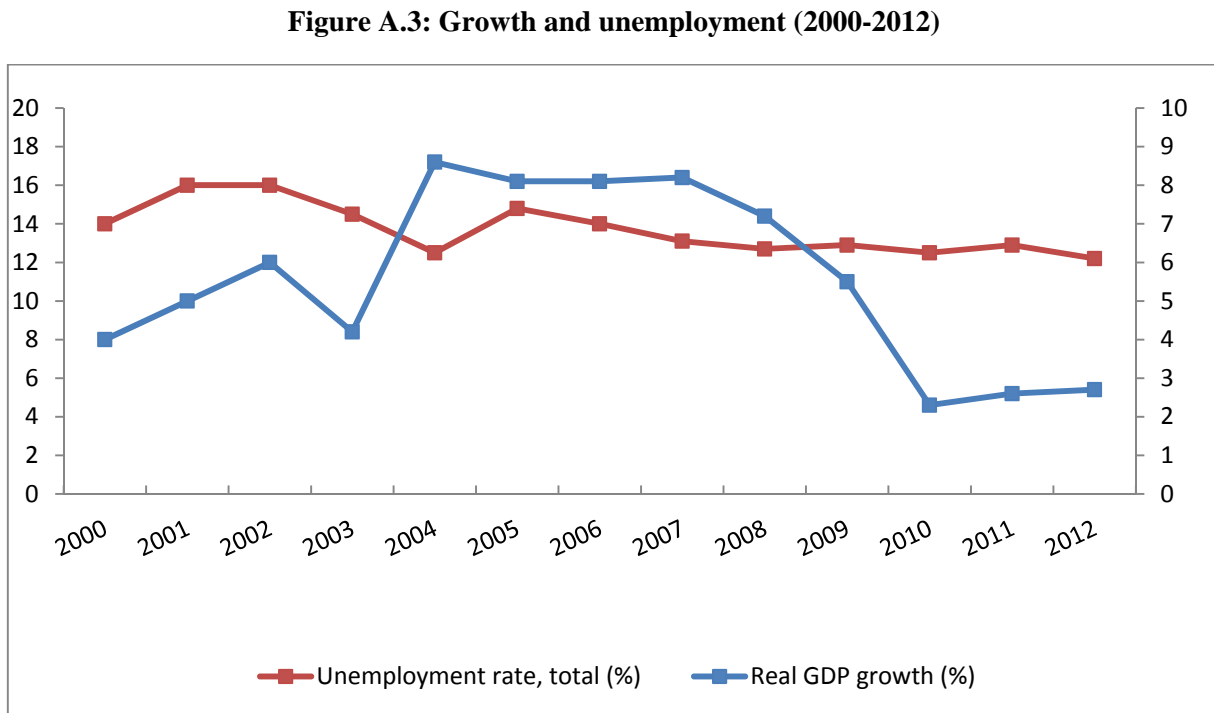
Source: World Development Indicators. For 2012, middle income min=\$1,036; middle income max= \$12,615; upper middle income threshold=\$4,085. The comparison with South Korea provided in this figure is motivated by several similarities shared by the two countries in the 60s and 70s: a relatively small economy, with limited natural resources, colonial experience, extended foreign assistance and security threat. In addition, South Korea is considered as a developing country that succeeded in its transition from a natural state to an open access order where impersonality prevails.¹⁰³

¹⁰² In this Appendix, we refrain from giving some institutional or rule of law indicators as those are quite recent (insufficient data) and are relatively biased towards *de jure* institutions rather than *de facto* ones. On the issues of rule of law measurement, see Voigt (2012).

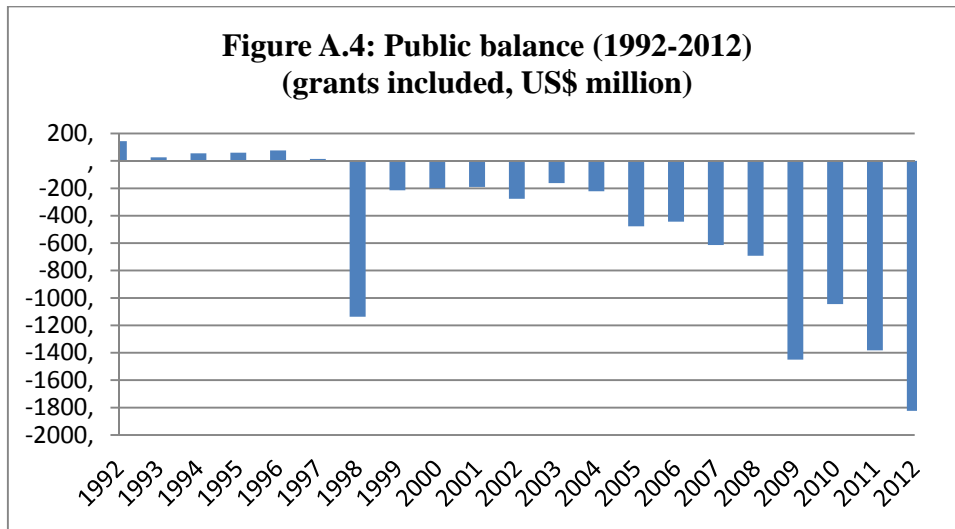
¹⁰³ For an institutional approach to South Korea development, see Mo and Weingast (2012), You (2012) and Kim (2013).



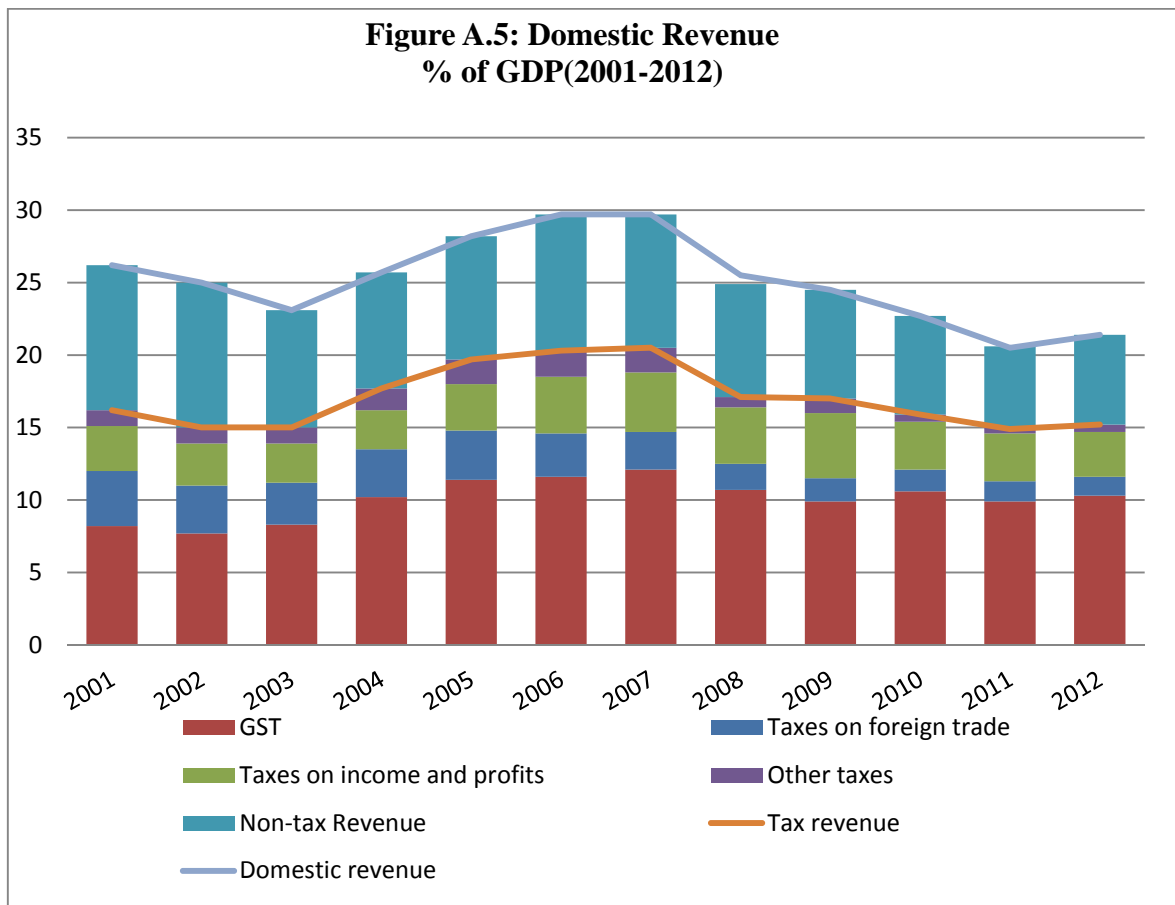
Source: World Development Indicators and IMF Country Report (for the year 2012, prelim.).



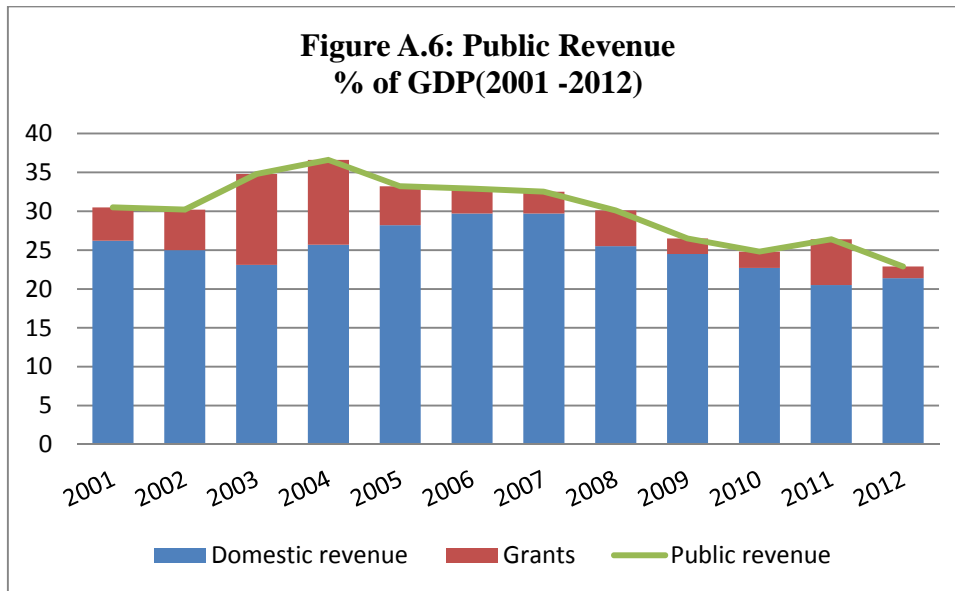
Source : Central Bank of Jordan (except for years 2000 to 2003, World Development Indicators).



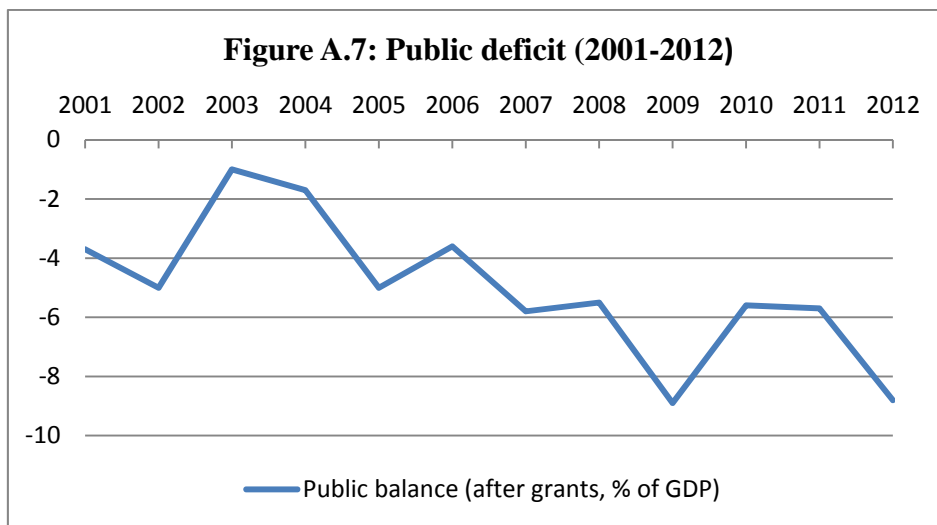
Source: Central Bank of Jordan.



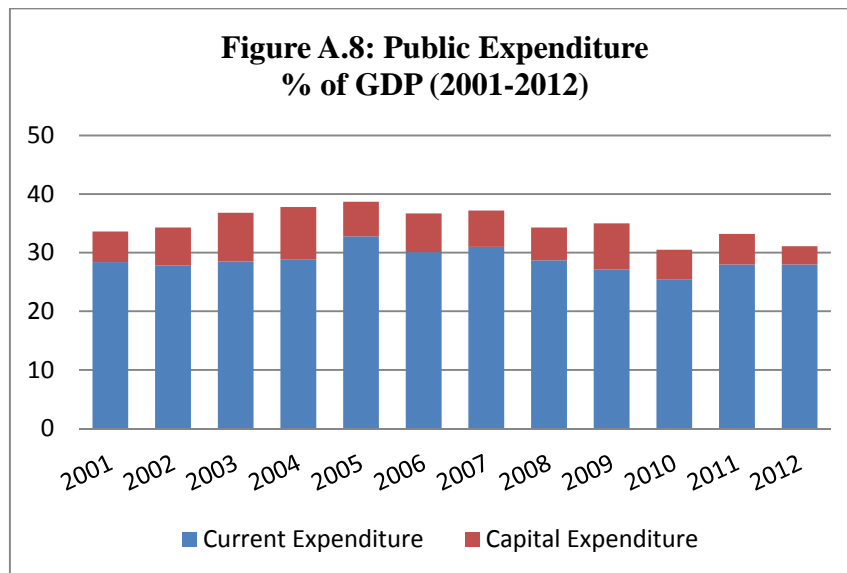
Source: IMF, diverse country reports (Prelim. for 2012).



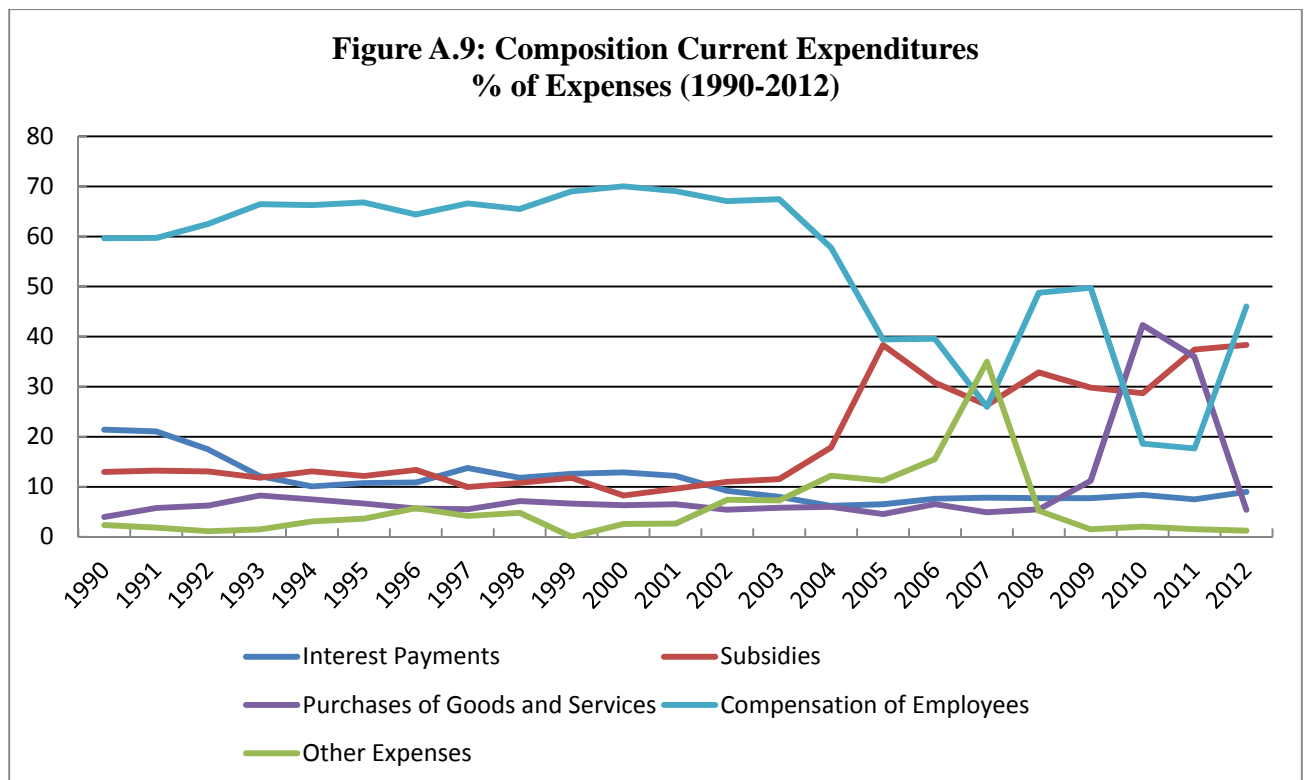
Source: IMF, diverse country reports (Prelim. for 2012).



Source: IMF, diverse country reports (Prelim. for 2012).



Source: IMF, diverse country reports (Prelim. for 2012).



Source: World Development Indicators, World Bank.

Appendix B: *The tribal clout over the judiciary*

The criminal procedure, and more broadly the practice of the judiciary, in Jordan is highly influenced, when not replaced, by the custom in several places. Otherwise stated, there is a relationship between the Jordanian civil system and the tribal custom with respect to dispute settlement, although tribal courts were officially abolished in 1976. As such, tribal customary law (*qanoun asha'iri*) constitutes another non-state channel access to justice.

As explained by Furr and Al-Serhan (2008)¹⁰⁴, in criminal matters, the Jordanian law recognizes two rights: a public right (*Al-Haq al'am*) and a personal right (*Al-Haq Al-sakhzay*). The public right is satisfied when a person is convicted in the state system. And giving one's private right up through the custom (tribal conflict management) leads the courts to decide on a reduction of the penalty to the minimum required by the state (e.g., from death penalty to imprisonment). On its side, the tribal system in settling disputes recognizes two rights: the right of the state (*Al-Haq al-dawlah*) and the tribal right (*Al-Haq Al-ash'iri*).¹⁰⁵

The tribal peace settlement (*sulha*) plays an important role. For instance, civil justice is used to reach a *sulha* agreement as the following extract of an article published in The Jordan Times illustrates: "A 33-year old man on Monday reportedly turned himself in to police shortly after killing a man and his mother on the Zarqa highway, official sources said. The victims, aged 39 and 62, were crossing the Zarqa highway late Sunday night when the perpetrator hit them with his vehicle, Public Security Department (PSD) Spokesperson Lt. Col. Mohammed Khatib said.[...]The driver, he added, is currently in custody pending further investigation into the incident. "He will be imprisoned until he reaches a tribal settlement with the family," Khatib added."¹⁰⁶

A tribal settlement (*sulha*) usually involves the parties' extended family, the police and the governor of the region, all of them signing the conciliation which describes the conflict settlement and the will of forgiveness and the reached compensation. In case of a murder or honor crime, the tribal settlement may include the traditional Bedouin legal practice called '*al-jala*'. This practice, arranged by the elders, consists of punishing the offending party and his close relatives, morally as well as physically, by forcing them to leave the community where the crime was committed and live in another tribal territory that has been traditionally or historically seen as enemy territory, or is unfamiliar. However, with the almost complete settlement of tribes, this practice is more complicated to implement.¹⁰⁷ Also, in case of honor crimes, the tribal settlement might consider the wedding of the aggressor with his victim as a solution to restore the honor of the family.

In practice, the judiciary strengthens the custom as civil and criminal courts attach importance to a *sulha* agreement, influencing decisions for instance about detention and sentencing. The tribal conciliation will be attached to the file case and judges will use it to reduce the sentence.¹⁰⁸ For instance, article 308 of the

¹⁰⁴ Furr, A., Al-Serhan, M., 2008. Tribal Customary Law in Jordan. South Carolina Journal of International Law and Business 4, 17-34.

¹⁰⁵ Al Oudat, M., Alshboul, A., 2010. Jordan First: Tribalism, Nationalism and Legitimacy of Power in Jordan. Intellectual Discourse 18.

¹⁰⁶ The Jordan Times, "Hit-and-run driver turns self in", May 29, 2012.

¹⁰⁷ See Alibeli, M.A., Kopera-Frye, K., 2011. Tribal Law and Restoring Peace in Society: The Case of '*Al-jala*' in Jordan. International Journal of Business and Social Science 2, 46-51.

¹⁰⁸ Art. 97 to 100 of the Penal Code describe the possibilities of reduced sentences (confession, *sulh'a*, ...).

Penal Code stipulates that a criminal marrying the victim (a conciliation that would involve beforehand an arrangement according to the custom) is exempted from the penalty.

Some articles of the Penal code are also highly influenced by the custom. For instance, honor crimes such as rape are not considered as crimes per se but rather as a family stake. And reduced sentences are often implemented in these cases. According to article 340 of the Penal Code entitled “excuse in murder”, a man who catches his wife or one of his female relatives committing adultery and kills her can benefit from a mitigation excuse. Also, according to article 98 of the same code entitled “fit of fury”, a man who commits a crime in a state of fury, so long as the victim was engaging in an unlawful or dangerous act, can benefit from a reduced penalty.

Finally, a trial could well be displaced by a *sulha* agreement reached by the parties and reported to the authorities. This is typically the case according to article 308 as if a marriage contract is concluded between the perpetrator of the crime and the victim, any pursuit shall be stopped. And if a judgment was issued in the case, the execution of penalty shall be suspended.¹⁰⁹

With respect to the enforcement of private contracts, for instance in commercial and financial activities, the method of conflict resolution is generally stipulated in the contract binding the parties with a preference given to arbitration. Arbitration is also extensively used in contracts involving foreign parties. As described by AlJazy (2008), Jordan is the first country to have issued a legislation with respect to arbitration with the enactment of the Palestinian Arbitration Law of 1933 replaced by the Jordanian Law on Arbitration of 1953 influenced by British law. In response to the needs of the business community and in accordance with international standards of commercial arbitration, Jordan legislation on arbitration recently experienced some significant changes with the adoption of the Jordanian Arbitration Act in 2001.¹¹⁰ These reforms allowed to circumvent the potential problems of legal pluralism and absence of independent judiciary on foreign investment incentives as figures on FDI inflows in the years 2000s translate.

¹⁰⁹ For instance, according to authorities, from January to June 2013, 95 percent of rapists avoid punishment after they married their victims (The Jordan Times, “95% of rapists go unpunished under disputed Penal Code provision”, October 3, 2013).

¹¹⁰ AlJazy, O., 2008. Arbitration in Jordan : From Old to New. Journal of International Arbitration 25, 219-229.

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