

# BTI 2010 | Jordan Country Report

<b>Status Index</b>	1-10	<b>5.15</b>	# 77 of 128	
Democracy	1-10	4.02	# 97 of 128	➔
Market Economy	1-10	6.29	# 48 of 128	➔
<b>Management Index</b>	1-10	<b>4.44</b>	# 83 of 128	

scale: 1 (lowest) to 10 (highest)    score    rank    trend

This report is part of the Transformation Index (BTI) 2010. The BTI is a global ranking of transition processes in which the state of democracy and market economic systems as well as the quality of political management in 128 transformation and developing countries are evaluated.

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## Key Indicators

Population	mn.	5.7	HDI	0.77	GDP p.c.	\$	5056
Pop. growth	% p.a.	3.2	HDI rank of 182	96	Gini Index		37.7
Life expectancy	years	73	UN Education Index	0.87	Poverty <sup>2</sup>	%	3.4
Urban population	%	78.4	Gender equality <sup>1</sup>	-	Aid per capita	\$	88.2

Sources: UNDP, Human Development Report 2009 | The World Bank, World Development Indicators 2009.

Footnotes: (1) Gender Empowerment Measure (GEM). (2) Percentage of population living on less than \$2 a day.

## Executive Summary

Since 2007, Jordan has continued on a pathway of stable macroeconomic development, accompanied consolidation of authoritarian power on the domestic front. Bordered by an unstable regional environment with periodic outbreaks of violence in the Palestinian territories, in Iraq and the south of Lebanon, the country has nevertheless managed to stay away from violent confrontations with regional and domestic actors. Thanks, first and foremost, to the increasing role of King Abdullah II as a regionally and internationally recognized mediator, Jordan, much as in the era of the late King Hussein, extended its reputation as a safe haven within a conflict-prone region. The domestic political landscape was shaped by the increasing intention of the government and palace to sustain and extend its authoritarian grip over existing political actors. No major political reforms (such as introduction of a constitutional court, amendment of the electoral system, or an extension of other public rights or freedoms) were implemented. On the contrary, the introduction of a new party law streamlined the party system and reduced the number of officially registered parties. Municipal and parliamentary elections were held in July and November 2007, extending the influence of conservative palace-loyal Transjordanian elements at the expense of religiously inspired political actors such as the Islamic Action Front (IAF). Shortly afterwards, a new prime minister was selected by the king and, following another recent reshuffle, a new technocratic cabinet was appointed, which continued on the previously started track of economic reforms. The king also selected a well-known economic liberalizer as new head of the Royal Hashemite Court (diwan al-maliki). The IAF, the parliamentary arm of the Muslim Brotherhood in Jordan, withdrew from municipal elections, complaining of systematic irregularities. The parliamentary election, in which the IAF participated, was a serious setback for the Islamists, reducing their number of seats within the lower house, the Chamber of Deputies (majlis an-nuwab) from 17 to just six. An expected radicalization of the movement could not be observed. Instead, the Jordanian state intelligence service began negotiating a new informal equilibrium of mutual coexistence with the brotherhood. This process also led to the renewal of official contacts with the Palestinian Hamas

and its leadership residing in Damascus. After considerable debate over a major decline in oil subsidies at the beginning of 2007, the final implementation of the cut was postponed after the parliamentary elections, and implemented only in spring 2008. Partially because of this, inflation reached double digits during the first half of that year. The wages of public sector servants and the army were increased considerably at the same time, and cash assistance was given directly to some of the society's poorer rural strata. In addition, major efforts were initiated to build affordable housing areas, which will be preferentially given to state employees. In autumn 2008, Bassem Awadallah, the new head of the Royal Hashemite Court, and a loyal follower of King Abdullah, resigned after heated debates about his economic reform policies. The powerful head of the state intelligence service (GDI), the brother of the new prime minister, also resigned at the end of 2008 during the Palestinian-Israeli fighting in the Gaza strip, putting an end to a short period of direct talks between Jordanian state officials and the Palestinian Hamas. In similar fashion, the executive director of the semi-governmental National Commission for Human Rights resigned in April 2008, after being accused of overstepping the mark with respect to his opposition to the new civil society law.

## History and Characteristics of Transformation

After a period of active state-led economic development but political stagnation during the 1970s and 1980s, supported by considerable contributions of oil money from other Arab countries, the decline in world oil prices following 1982 dried up Jordanian state coffers. Commodity exports towards the Persian Gulf monarchies, transfers from Jordanian expatriates and Arab financial assistance decreased simultaneously. With the shock absorbed at first by the country's then-comparatively high foreign exchange reserves, the government started to increase trade and capital account barriers, and implemented an expansionary monetary policy. Eventually, the policies implemented proved contradictory, and showed only limited success. External as well as internal indebtedness increased. Foreign currency speculations and bad loans led to a serious crisis in the domestic banking system, with the third-largest Jordanian bank declaring bankruptcy in 1988. The eruption of the first Palestinian uprising (intifada) in 1987 was perceived by the late King Hussein as a threat to Jordanian claims on parts of the Palestinian territories, as the West Bank had been under Jordanian control from 1948 to 1967, followed by a civil war in 1970 – 1971 when the Jordanian army dispersed most armed Palestinian groups from Jordanian territory. One year later, Jordan officially disengaged from the West Bank, emphasizing the legitimacy of the Palestinian Liberation Organization (PLO) as the sole voice of a Palestinian nation. Today, Jordanian society is divided between Transjordanians (those whose families lived east of the Jordan River after World War I) and Palestinians (those whose families lived west of the Jordan River), bringing certain problems and cleavages between the factions, with a Palestinian majority that faces clear discrimination and negligence.

Intended as a political act, the disengagement from the West Bank considerably heightened the liquidity problems of the Jordanian economy. At the end of 1988 the central bank discontinued the allocation of foreign currencies toward the economy, and the Jordanian dinar (JD) was devalued. Supported by the IMF and World Bank, a comprehensive structural adjustment program was introduced, which included austerity and economic liberalization measures. Simultaneously, political liberalization was initiated as a means to contain public turmoil associated with the worsening of living conditions. In 1989, Jordan held its first nationwide parliamentary elections since 1967. Subsequent periods were followed by the abolishment of additional political restrictions. During the Kuwait war of 1990 – 1991, the late King Hussein took an economically motivated pro-Iraqi position (bolstered by the well-known Palestinian sympathies for Saddam Hussein) against the pressure of the international donor community, which broadly condemned the Iraqi invasion. Repeatedly bypassing the parliament, King Hussein proved to be the sole decision maker with power within the Jordanian political system. During the following years a number of restrictive adjustments were implemented, revoking previously implemented liberalizations. The introduction of the one-man, one-vote formula for parliamentary elections in 1993 was intended to favor traditional elements of Transjordanian origin at the expense of actors holding extremist ideological views or those with a Palestinian background. After the unilateral decision of the PLO to engage in a peace process with Israel and the signing of the Oslo Declaration in 1993, King Hussein no longer felt obliged to link a Jordanian peace agreement to an inter-Arab settlement of disputes with Israel. He eventually agreed upon a Jordanian-Israeli peace treaty in 1994. While the treaty helped spur economic assistance and financial aid, notably from the United States, the process of political liberalization slowed and was even reversed, due to widespread public opposition to the political and economic normalization of relations with Israel. King Abdullah's succession to the throne in 1999 was accompanied by a turn to further economic reforms, which was only later followed by a political reform agenda. Developing the domestic economic potential became a major policy priority and was considered to be of overarching importance in order to secure support by international bi- and multilateral donors. New development policies have been gradually implemented by a younger generation of mainly technocratic politicians, who have tried to dissociate Jordan's economic potential from its hitherto dominant link to the Arab-Israeli conflict. In the wake of the 2005 bombings in Amman, public opinion closed around the king and the country, and even the IAF spoke out strongly against these terror attacks. Since then, intelligence networks and security forces have been expanded, and pressure on the media and some opposition groups has been considerably increased.

## Transformation Status

### I. Democracy

#### 1 | Stateness

In principle, the state's monopoly on the use of force is established nationwide. However, periodic unrest in the country's southern regions has indicated that the state's authority may be threatened by some segments of the people living there. These segments have included tribal elements as well as Muslim radicals (as-salafiyun). The last such incident occurred in 2002 in Ma'an, and was countered heavily by security forces seeking to regain complete control over the area. But while the state's monopoly on the use of force has been reestablished, the economic and political problems that led to the outbreak have remained largely unresolved.

Monopoly on the use of force

All ethnic and religious groups enjoy equal rights before the law. However, there are restrictions for certain groups among Palestinian refugees. Their access to Jordanian citizenship depends on the date of their arrival in Jordan as well as their place of origin. Only Palestinians who fled to Jordan during the war of 1948 were granted full Jordanian citizenship. No Palestinian from Gaza can get a Jordanian passport, nor do refugees who fled in 1967 or later have access to Jordanian nationality. The government's reactions to public debates and critical comments on the issue of Palestinians in Jordan reveal fears and resentments on the part of the country's minority Transjordanian elite, which mainly consists of those whose families resided on the East Bank of the Jordan River when the British mandate of Palestine was established after World War I. In his third year in power, Abdullah II initiated a "Jordan First" (al-urdun awallan) public relations campaign with the intention of weaving all citizens, independent of origin, into a unified social fiber, bound by their sense of loyalty to their homeland. Shortly after the invasion of Iraq by a multinational force in 2003, the "Jordan First" campaign was informally abandoned. Later reform campaigns such as the "National Agenda" in 2005 and 2006, or "We all are Jordan" (kulluna al-urdun) in 2006, addressed the issue of nationality to a lesser degree, instead representing campaigns of interest coordination and aggregation among different factions of the country's elite. Even today, general doubts remain as to whether these public campaigns have been able to establish a Jordanian national identity among Palestinians that overwrites their Palestinian national sentiments.

State identity

As stipulated in Article 2 of the constitution, Islam is Jordan's state religion. The Hashemite family enjoys a distinct religious legitimacy because it traces its origins back to the house of the Prophet Muhammad. The Christian minority, which constitutes about 3% of the population, can exercise its faith freely and without intervention by the state. Members of the royal family credibly call for tolerance and respect between religions and actively support interfaith dialogue. However, Shari'ah law, which is applied in Jordan's personal status law, contains several clauses that discriminate against women, particularly in issues of inheritance, marriage, divorce and child custody. Several attempts to reform the personal status law have met with resistance from conservative tribal and religious elements in the parliament.

No interference of religious dogmas

The state has a differentiated administrative structure throughout the country. Legal decisions are widely enforced. However, the fact that these structures are centered in Amman, which functions as the most important hub for the allocation and distribution of resources, means that the capital is generally favored over rural areas. In addition, there are problems resulting from favoritism (wasta) exerted by the regime and the political elite. Positions within the state bureaucracy are generally awarded not according to personal qualifications, but to kinship or personal relationships. Irregularities regarding taxation or the distribution of funds are sometimes reported. This favoritism is related to one's proximity to key political decision makers. The Royal Hashemite Court constitutes a parallel administrative unit, which works directly under the king's guidance and (in addition to the state's bureaucracy) allocates resources. It is also said that the head of the Royal Court is deeply involved in preparing legislation and major decisions.

Basic administration

## 2 | Political Participation

General elections have been held regularly since 1989. However, they have only limited influence over the country's selection of leadership. The last municipal elections were held in July 2007. Manifold irregularities were reported on the day of election. This prompted a major opposition group, the Islamic Action Front (IAF, the parliamentary arm of the Muslim Brotherhood in Jordan), to withdraw shortly after voting began. Parliamentary elections in November 2007 resulted in a major loss for the IAF. Although a number of reform-minded candidates were allowed to run as candidates, they were prevented from winning in constituencies due to the intervention of the regime. Evidence of vote buying by winning candidates exists. The elections law, based upon temporary law, has never received the approval of parliament as required by the constitution, and is based on a single non-transferable vote system in which a voter may vote for only a single candidate. In addition, parliamentary seat distribution is heavily skewed in favor of rural citizens. Urban areas, in which most Jordanians of Palestinian origin live, are therefore

Free and fair elections

systematically underrepresented in elected state institutions. According to the constitution, the king is the head of state in a hereditary monarchy. He is not elected and can neither be dismissed nor controlled by elected representatives. The constitution grants him the power to rule without the consent of the elected chamber of deputies under certain conditions. Monarchs have made vigorous use of these rights in the past and will most likely continue to do so in the future.

In contrast to the palace, elected rulers have only restricted powers. The king has the right to appoint and dismiss the prime minister and selects the members of the upper house, the House of Notables (majlis al-‘ayan), and provincial governors. All judges are appointed by royal decree. The prime minister appoints the cabinet under the close supervision of the king. The lower house, the Chamber of Deputies (majlis an-nuwab), may dismiss the prime minister with a two-thirds majority vote. A new prime minister has to win a vote of confidence in the lower house. Occasionally groups of deputies threaten to withhold this vote. In response, the prime minister then needs to reshuffle his cabinet with the consent of the king in order to gain a majority. The parliament thus has restricted influence, given the necessary correspondence among deputies. It may put meaningful pressure on the executive branch of the government, but not on the Royal Court or the king.

Effective power to govern

Independent political and civic groups are given rights to associate, but only under increasing restrictions imposed by state institutions such as ministries or the intelligence apparatus. In 2005, an attempt by the government to dilute the activities of professional associations, recurring key players at the center of political opposition, failed after massive criticisms that were echoed by international organizations. A new party law passed the parliament in April 2007, and was heavily criticized by a number of small opposition parties. This law imposed new restrictions on the existence of all political parties in the country. In June 2008 an amendment to the public gathering law was passed that reduced from 72 to 48 hours the time frame in which anyone wanting to hold a political rally or public meeting must obtain official permission. If the responsible provincial governor does not respond within that period, applicants may go ahead with their demonstrations. In addition, legal restrictions that previously forced political parties and charities to obtain permission for routine meetings and activities were lifted. A first draft version of an amendment to the NGO law was discussed in spring 2008, passed the parliament in July, was signed by the king in September, and came into force in December 2008. This law allows increased control by state officials over the organizational and fiscal activities of international and domestic NGOs.

Association / assembly rights

The freedoms of opinion and of the press are in principle guaranteed by the constitution. This freedom, however, is subject to important restrictions. Journalists are not allowed to report on the king or the royal family without authorization. Reporting anything that could damage the state’s “reputation and dignity” is also strictly forbidden. These taboos are structurally ingrained and remain out of the

Freedom of expression

bounds for the media in both law and practice. As a result, self-censorship among journalists is widespread. In addition pre-censorship of newspapers, journals and publishing houses is allowed to a certain degree by law. Therefore media reporting is distorted and manipulated on a daily basis by state institutions, often in the name of state security. Television and radio broadcasting are subject to more control than printed media. English-language media enjoy greater freedom than Arabic editions. In September 2007, press law restrictions were extended to cover online publications. In October 2007 a former parliamentarian was sentenced by a state security court to two years in prison for criticizing government corruption on his party's website. Partly as an answer to Jordan's downgrade in Reporters Without Borders' "Press Freedom Index," the king in November 2008 publicly denounced any imprisonment of journalists in connection with their work.

### 3 | Rule of Law

As the head of state and main executive body of the state, the king holds the main elements of otherwise separated powers in his hands. He appoints and dismisses the prime minister, supervises the selection of cabinet members and has the power to convene and dissolve the parliament. During periods when the lower house is in recess, or has been dissolved, the king rules by royal decree. In addition, he names all judges, provincial governors and portions of the upper house. Separation of powers are therefore only minimally developed, and heavily skewed in favor of the executive and especially the king. Nevertheless there are other relevant players, such as the army and the intelligence community, tribal and conservative elements, as well as individual persons who separately wield certain influence in non-crucial issue areas or policy fields. However, this non-crown influence rests on extra-institutional and informal mechanisms, and ultimately depends on the tolerance of the king.

Separation of powers

The judiciary is formally established as a distinct entity and operates without major interference on minor issues, though it sometimes remains subject to political control. Its independence ends in instances when the political or economic interests of key figures with considerable political clout are at stake. In spite of promises made during the early 1990s, Jordan still lacks a constitutional court empowered to review the constitutional fit of disputed government decisions. Since 2005, State Security Courts (SSC) have gained increasing jurisdiction under the new anti-terrorism laws. SSCs consist of civil and military judges, all appointed by the king. Defendants possess no right to appeal. Only in cases in which verdicts exceed more than 10 years of imprisonment, or in which the death penalty has been imposed, is the Court of Cassation required to review these verdicts. SSC proceedings are only partially open to the media and the public.

Independent judiciary



Tribal law, even though officially abandoned during the 1970s, is still applied regularly on the local level. This narrows the jurisdiction of the state in some fields. Norms of tribal law have also influenced the state's legislation on a more general level, especially with respect to gender issues and honor killings. Apart from this, tribal law serves to some extent to alleviate of the judiciary's workload.

Corrupt officeholders are not systematically prosecuted under the law. Occasionally, cases of corruption are given wider publicity in order to have a deterrent effect. Informal mechanisms of favoritism (wasta) are a widespread social practice with roots in Jordan's tribal legacy. The negative effects of this are regularly subject to public debate. Surveys reveal that almost two-thirds of Jordanians believe that corruption exists in both the public and private sector. Corruption, favoritism and nepotism were named second, behind regional instability, in a list of important obstacles to democracy in Jordan, according to a survey by the Center for Strategic Studies at the University of Jordan. According to press reports the Anti-Corruption Commission (ACC) has looked into more than 200 cases of alleged corruption since its creation in early 2007. Between January and June 2008 it referred 20 cases to court.

Prosecution of  
office abuse

Civil rights are in principal guaranteed by law. Violations occur if deemed politically necessary and remained at an observable level during the period under review. A number of practical restrictions exist, including with respect to the freedom of assembly, press freedom, freedom of opinion, rights of defendants and the rights of migrant workers. Human rights organizations complain about arbitrary arrests, incommunicado detention and the use of torture in Jordanian prisons. During the last two years, a number of international NGOs have increasingly pointed to discrimination against female migrant workers. In its annual report in March 2008, the National Center for Human Rights (NCHR) noted critically that Jordan's regional governors detained more than 12,000 citizens without trial during the year 2007. Accused Islamists regularly point to the fact that they have been charged on the basis of pretrial statements made under physical duress.

Civil rights

#### 4 | Stability of Democratic Institutions

Even though some political actors are directly elected, as for instance members of the lower house, members of municipal councils and local mayors, these institutions exercise only limited political power. Within these constraints, electoral institutions are in principle able to fulfill their duties. However, the executive branch and especially the king are overwhelmingly more powerful than elected state organs. In addition, powerful parallel executive institutions exist which respond directly to the crown's wishes (in particular, the Royal Hashemite Court). Overall the authoritarian features of the political system outweigh its democratic elements. Since the parliamentary elections in November 2007, traditional and tribal elements have

Performance of  
democratic  
institutions

dominated the lower house, exercising an increasingly conservative influence in a range of domestic political and economic issues.

Existing democratic institutions are accepted superficially. Given the overarching tradition of informal rule and decision-making, as well as the dominant position of the king as a neo-patrimonial leader, there remain major doubts as to whether acceptance for the existing democratic institutions has been internalized by the Jordanian elite in any significant way. The dissolution of parliament between 2001 and 2003, as well as recent discussions about the function of political parties, show that major elements of the political system have been and might still be manipulated under certain circumstances in order to fit the monarch's perceived needs.

Commitment to democratic institutions

## 5 | Political and Social Integration

Jordan's party system is underdeveloped and weak. The Islamic Action Front (IAF, the parliamentary wing of the Jordanian Muslim Brotherhood) is the only political party with significant popular support. Leftist, communist and nationalist parties lack grassroots support within Jordan's society. Several tribal organizations which call themselves parties remain influential within the parliament, but lack programmatic and political attractiveness. These entities are regularly reconfigured by influential political figures building ad-hoc or short term coalitions aiming primarily at using tribal networks' influence to permanently protect the flow of resources toward local constituencies. Large numbers of citizens cast their votes according to tribal and kinship affiliations. Evidence of frequent vote buying exists. The party system went through a major transformation, initiated by the king and executed by the government, following April 2007. A new law governing parties required the mandatory re-registration of all political parties within one year. Throughout this process, parties had to prove membership of at minimum 500 individuals in at least five governorates. All party members were required to undergo a process of tightened security screening and registration by the state intelligence apparatus. In return, parties will receive regular government funding, while other fiscal sources, especially foreign funding and money given by professional associations, will be restricted. The new law also provides for the possibility of a political party's ban if it criticizes a friendly foreign country. During this process the number of political parties dropped from more than 30 to just 14 by spring 2008. While some observers see this as helpful in establishing a needed streamlining of Jordan's highly fragmented party landscape, a more representative electoral system, including a firm percentage threshold, would be more effective in this respect.

Party system

At a first glance, Jordan seems to have a relatively well-developed network of cooperative associations, which, however, are mainly concentrated in the country's capital Amman. In addition, a number of influential informal networks exist. These

Interest groups

networks, largely based on kinship and clientelistic ties, wield influence directly through members of the government, the Royal Hashemite Court, the intelligence community, parliamentary deputies or other influential figures. Associations' freedom of action is limited due to increasingly strict laws. Trade unions enjoy only very limited power. The most influential groups are 12 professional associations dominated by figures close to the Muslim Brotherhood. These organizations represent the backbone of opposition to consecutive governments. Their main points of criticism have been the government's positions toward the Palestinian-Israeli conflict, Jordan's support of U.S. foreign policies (except during the Gulf War of 1990 – 1991), and the implementation of liberal economic reforms. In recent years (in 2005 and 2008), major attempts by the government to further restrict the activities of professional associations have been prevented due to the concerted resistance of the concerned entities. In 2008, the public gathering law was liberalized in minor respects but remains relatively strict.

On average, 63% of Jordanians associate democracy with civil and political liberties, according to data from surveys conducted by the Center for Strategic Studies at the University of Jordan between 1999 and 2007. Jordanian citizens, according to the same source, rate the degree of democracy in their own country well above the level of democracy in other Arab states, though nearly 80% of respondents express some fear of publicly criticizing ruling politicians. The latter accords with comparative data from the Arab Barometer, which show that Jordan had one of the lowest rates of individual protest participation among Arab societies during the past few years. Overall, given the absence of reliable data, there remain major doubts over the degree to which Jordanians believe in a form of democracy which would fit under a Western idea of popular representation.

Consent to  
democratic norms

Although a considerable number of civil society organizations exist, pure numbers should not be construed as an effective tool of societal self-organization. Kinship and personal relations still constitute the main reference point for social organization in Jordanian society. Individual engagement is mainly confined to upper middle class people, and is restricted to the country's capital Amman. Activities of the Islamist movement are housed by the Islamic Center Charity Society, an influential umbrella organization that runs kindergartens, schools, community centers and hospitals throughout the country. In July 2007, state officials accused the Islamic Center of improper financial dealings, an issue which as of the end of this review period had not been settled officially.

Associational  
activities

## II. Market Economy

### 6 | Level of Socioeconomic Development

In the updated 2007/2008 Human Development Index (HDI), Jordan is assigned a value of 0.769 (rank 90 out of 179 countries). This is only a small improvement as compared to previous years (in 2004 and 2005, the relevant scores respectively 0.760 and 0.763). Taking a long term perspective (average changes between 1980 and 2006), Jordan improved with an average change of 0.139, only slightly above the general average over all countries of 0.112. The share of the population living on less than \$1 a day remained at a stable low level of 2%, and the level of people living on under \$2 per day stayed at 7%. The most recent Gini coefficient was 38.8, indicating a small increase of income inequality as compared to previous levels. A more detailed study conducted by the Center for Strategic Studies at the University of Jordan shows that the economic reform programs implemented since the early 1990s did not cause a considerable improvement in living conditions among Jordanian citizens. However, since 2002 the poverty rate has increased again, a problem that appears even more urgent when the roughly 800,000 Iraqi refugees that poured into the country are included in the poverty statistics.

Socioeconomic  
barriers

Economic indicators		2004	2005	2006	2007
GDP	\$ mn.	11411.4	12611.5	14839.1	<b>16532.5</b>
Growth of GDP	%	8.6	7.1	9.0	<b>6.6</b>
Inflation (CPI)	%	3.4	3.5	6.3	<b>5.4</b>
Unemployment	%	12.4	-	-	-
Foreign direct investment	% of GDP	7.2	14.1	21.7	<b>11.1</b>
Export growth	%	14.6	2.8	12.5	<b>0.8</b>
Import growth	%	20.5	17.2	3.5	<b>6.5</b>
Current account balance	\$ mn.	88.7	-2199.6	-1598.4	<b>-2776.2</b>

		2004	2005	2006	2007
Public debt	\$ mn.	7227.2	6877.7	7142.9	<b>7318.0</b>
External debt	\$ mn.	8066.2	7696.2	8000.1	<b>8367.7</b>
Total debt service	% of GNI	6.0	4.7	4.5	<b>4.4</b>
Cash surplus or deficit	% of GDP	-1.4	-5.1	-3.7	<b>-4.9</b>
Tax Revenue	% of GDP	21.0	24.4	24.9	<b>25.6</b>
Government consumption	% of GDP	21.3	19.5	20.1	<b>22.2</b>
Public expnd. on edu.	% of GDP	-	-	-	-
Public expnd. on health	% of GDP	5.0	4.8	4.2	-
R&D expenditure	% of GDP	-	-	-	-
Military expenditure	% of GDP	5.1	4.8	4.7	<b>6.2</b>

Sources: The World Bank, World Development Indicators 2009 | UNESCO Institute for Statistics | International Labour Organization, Key Indicators of the Labour Market Database | Stockholm International Peace Research Institute (SIPRI), Yearbook: Armaments, Disarmament and International Security.

## 7 | Organization of the Market and Competition

In recent years, Jordan politicians have given market competition strong emphasis, at least in speech. The country has long been one of the least regulated economies within the Arab world. Today the national currency is freely convertible, and trade and capital account restrictions are low. The overall business climate has improved considerably, as estimations of the Index of Economic Freedom reveal. However, the country's main large-scale businesses and trading companies are intimately connected to the palace or to members of the core elite. Many enjoy oligopolies or even a monopoly within their respective segments. The influence of the state sector is still high (government spending comprises 37.9% of GDP). Even though some large state enterprises have been privatized since 2006, several (state) monopolies in the field of transportation, mineral extraction and oil refinery persist. Official data on the informal sector does not exist. Unofficial studies estimate that informal economic activities may account for about 20% of the GDP and that the informal sector possibly employs about 25% of the national labor force.

A competition law was approved as a temporary regulation by the king in August 2002, and was endorsed by parliament in 2004. On paper, this measure prescribes price setting in accordance with market rules, and establishes a principle of free competition. In addition, a special court was founded to deal specifically with competition matters. There is no systematic evidence available indicating the degree to which anti-monopoly rules have been enforced since then. As in many other

Market-based  
competition

Anti-monopoly  
policy

Islamic countries, annual press reports reveal heated debates about rising prices before and during Ramadan, which points to a persistent competition problem within domestic food markets. Since early 2008, gasoline prices have been centrally determined and adjusted on a monthly basis by an interministerial committee.

Foreign trade regulations have been largely liberalized. Jordan's weighted average applied tariff rate was 10.7% in 2007, well below the average rates of most other Arab states, even though some nontariff barriers such as border delays, licensing agreements and quality controls remain in place and hinder the free flow of commodities. In 2000, Jordan joined the WTO. It signed free trade agreements with the United States and the European Union in 2001. The country is also a member of the Greater Arab Free Trade Area (GAFTA) and the Agadir Process, and in August 2008 it concluded a free trade agreement with Canada. In spring 2008, the export of some fruits, vegetables and eggs was banned in order to dampen rising food prices during the global food crisis.

Liberalization of  
foreign trade

The banking sector and domestic capital markets are well developed, differentiated, internationally competitive, and in compliance with international banking standards. The Arab Bank, one of the largest private financial institutes in the Middle East, dominates the domestic banking sector, accounting for about 60% of the country's total banking assets. In addition, there are 11 other commercial and investment banks, two Islamic banks and eight branches of foreign banks operating in Jordan. An anti-money laundering law was enacted and Basel II standards were recently implemented. Further administrative reforms by the central bank, aimed at supervision of the financial sector, have been successfully implemented, according to the IMF's 2008 Article IV consultation report. Due to these factors, the IMF is confident that possible banking sector risks appear manageable.

Banking system

## 8 | Currency and Price Stability

Maintaining a stable and appropriate inflation rate, and retaining the convertibility of the Jordanian dinar (JD), which is pegged to the U.S. dollar, are among the publicly recognized goals of Jordan's fiscal policy. The central bank is the main institution responsible for this aim. It is an independent institution, maintaining its autonomy even in potential crisis situations, as actual developments have shown. The fixed exchange rate is at an appropriate level, according to IMF estimates. Foreign currency reserves are high enough to offset short-term pressures on the dinar. In 2007, inflation started to rise, and reached double-digit levels due to the government's elimination of the fuel subsidy in 2008. However, interest rate differentials against the U.S. market were allowed to widen further, curbing inflationary pressure and credit growth. Parts of the adjustment costs on the household level were contained by public sector wage increases and the distribution of cash assistance to small farmers and poor families. During the final quarter of 2008, inflation rates had already begun to decline, reaching levels below 4%.

Anti-inflation /  
forex policy

Although there is growing confidence in the stability of Jordan's macroeconomic policies, it remains to be seen whether the past's preferences will translate into future resistance to the pressure of domestic lobby groups. The interruption of highly subsidized Iraqi oil supplies (going back to unpaid Jordanian exports during the Iran-Iraq war) following the U.S.-led invasion of Iraq in 2003, was immediately compensated for by the delivery of cheap crude oil from Saudi Arabia, Kuwait and the United Arab Emirates. However, this policy was cancelled in 2005. Since that time, it is believed that Saudi Arabia has paid for at least a portion of the Jordanian government's imports of crude oil at world market prices. Subsidized Iraqi oil supplies were resumed only in 2008, but at a much lower level than in previous years. Over the last decade, different governments have continuously expanded indirect taxation. Direct tax revenues are still low compared to OECD countries. Despite the fact that annual budget deficits have reached the 10% mark again, and pressures to increase state spending intensified in late 2008, the overall goal to disburden the budget remains a key identified government goal. The reduction of foreign debt levels has also remained a government priority, as shown by the \$2.4 billion debt buyback operation with Jordan's Paris Club creditors, finalized in March 2008. However, increasing state spending appears likely if inflation soars again, given the history of the state's social responsibility regarding key social groups in the army and the state bureaucracy. Late in 2008 the government issued plans to introduce a rigid link between public-sector wages and inflation rates for the years to come.

Macrostability

## 9 | Private Property

Property rights and the regulation of the acquisition of property are well-defined and widely respected. The government has further reformed certain regulations according to international standards, as the implementation of new legislation on intellectual property rights demonstrates. Some restrictions on property acquisitions by foreigners in sectors such as land transportation and security remain in place.

Property rights

Private companies represent the backbone of Jordan's economy. Though leaders have paid lip service to the privatization of state-owned companies since the mid-1980s, privatization started to accelerate only in the late 1990s. After an initial burst of activities, the pace quickly slowed, picking up again only in recent years. In 2005, the whole telecommunications sector was opened up to private investors. In 2006 the government sold its stake in the Jordan Telecommunications Company (JTC) to a number of foreign companies and investors, but also allocated 3% of the shares to the armed forces. In the same year a 35% stake in the Jordan Phosphate Mines Company was sold to the Brunei Investment Agency. In 2007 a number of electricity companies and 71% of the national air carrier (Royal Jordanian Air) were sold to different foreign investors.

Private enterprise

## 10 | Welfare Regime

The social safety net is only partly developed, and is widely fragmented: About 30% percent of Jordanian citizens lack health insurance coverage on a regular basis, while a general social insurance is given to employees in the formal sector. In addition, the military has its own social security system, so that health care is provided only for public sector servants and the military. Palestinian and Iraqi refugees are supported by international organizations, mainly affiliated with the United Nations. However, the government and the king not only have a strong commitment to key social groups in the public sector and the security forces, but also toward the poorer elements among rural Transjordanian citizens. The king declared 2008 to be the year of housing. Already in 2007, a number of larger projects aimed at constructing affordable houses for the lower and middle classes were initiated by the government, with the help of a number of investors from the Gulf Arab states. Civil servants were given soft loans to buy apartments in such areas. As part of the welfare regime, public sector wages, military payments and pensions have been regularly increased. In late 2008, the government announced plans to link public-sector wages to inflation rates. Poorer elements of the society have been supported by the provision of free school meals, the supply of free winter coats to primary school children, and one-time cash assistance payments. However, large numbers of the Palestinian population, even those who hold Jordanian citizenship, are excluded from these distributions. Poverty is widespread among this group, and also among some Iraqi refugees.

Social safety nets

The government provides some official compensation for gross social differences. There is no discrimination on religious grounds in education or in the public sector. Certain disadvantaged groups enjoy some form of state support, such as university applicants with a Bedouin background, for whom an affirmative action policy exists. Women are almost equally represented in higher education, and nearly half of Jordan's university students are now female. However, the percentage of women in the workforce remains low, implying that women do not enter the labor market in numbers corresponding to their success in education. In addition, a number of informal mechanisms play an overarching role. Kinship and family ties still dominate access to the labor market. Women and some ethnic and religious minorities are given priority seats in the lower and upper parliamentary houses. In the 2007 parliamentary elections, a record number of seven women gained seats in the lower house. In addition, an unprecedented number of ministerial portfolios have been given to women. Palestinians are largely excluded from obtaining public sector employment or joining the ranks of the army.

Equal opportunity



## 11 | Economic Performance

Inflation-adjusted economic growth slowed from 8.8% in 2006 to 4.5% in 2007, and reached about the same level in 2008. Future predictions expect a further decline of annual growth rates during the coming two or three years. Official unemployment rates are in the double digits (13.5% in 2007, 12.6% in 2008). Unofficial sources estimate true levels to be around 30%. Unemployment is widespread, especially among young Palestinians. Independent reports reveal that poverty levels did not decrease after the start of structural adjustment programs in the early 1990s. The budget deficit started to rise again during the period under review, and the trade balance remains highly volatile, though foreign currency reserves are high enough to buffer short term fluctuations.

Output strength

## 12 | Sustainability

Environmental issues are taken into account at the institutional level, but are generally subordinate to economic concerns. In December 2002, the government established a Ministry of the Environment, which remains part of the cabinet portfolio today. Air and water pollution are well-known phenomena in regions with high concentrations of industrial enterprises, including the industrial zones in Zarqa and Ruseifa, the Gulf of Aqaba, and the Jordan valley. Water mismanagement in the agricultural sector has contributed to a drastic decline in national water resources, which overwhelmingly come from the Jordan river. This is not only due to Israeli water usage, but also to a large extent due to the misuse of water by a number of influential Transjordanian families with close ties to the king and the government. The scarcity of water is one of the central environmental issues, with increasing relevance for the economic and demographic development of Jordan. Today the country is already among the world's five poorest countries in terms of water resources.

Environmental policy

Jordan ranks high internationally and in the Arab world in terms of access to and quality of education. The adult literacy rate (percentage of individuals aged 15 and older) between 1995 and 2005 was 91.1%, and the combined gross enrollment ratio for primary, secondary and tertiary education in 2005 was 78.1%. This is above all the other non-oil exporting Arab countries with the exception of Lebanon. In 2005, 4.5% of GDP was spent by the government on education. Higher education received 0.65% of GDP, which is low compared to OECD and other middle-income countries. Transfers to universities declined about 14% between 2004 and 2007. No data on national R&D spending is available, but press reports suggest that spending levels are low. Private schools outperform state-run schools in primary and secondary education, but several reports have stated that – somewhat surprisingly – state-run universities provide better service than private ones. The truth of that

Education policy / R&D

estimate cannot be either proven or dismissed here. To be sure, the demand for higher education at the country's eight state-run and more than 10 private universities has grown steadily in recent years. Overall, Jordan's policy of widespread education has successfully helped citizens obtain professional jobs in the oil-rich Arab Gulf countries.

# Transformation Management

## I. Level of Difficulty

Structural constraints on governance are high. Jordan's domestic market is small; the country is largely landlocked, with only minor access to the sea at the Port of Aqaba. It struggles with scarce water resources and periodic droughts. Large parts of the country are comprised by what is effectively wasteland or desert soil. Only small stretches within the Jordan River valley are usable for agricultural production. Urban areas are highly concentrated to the north of the country. More than two-thirds of inhabitants live there. Poverty, especially among Palestinians and in rural areas, remains high. Many of the best educated individuals in the labor force seek jobs in the oil-rich Gulf countries, causing periodic problems in finding enough professionals to fill jobs in the domestic economy and public sector. Informal mechanisms of favoritism (wasta) prevail within the political as well as the economic sphere.

Structural  
constraints

Civil society traditions are weak. The number of registered NGOs has increased tremendously since the beginnings of political opening in the early 1990s, but – in addition to the strict legal requirements imposed on civil society organizations – this rise primarily represents an upgrading of traditional forms of cooptation, interest articulation, the seeking of symbolic legitimacy and competition for domestic and international resources. Some of the most important organizations conducting development and welfare projects among the poorer segments of the society are connected to the royal family. Many of the remaining civil society organizations are dominated by kinship and clientelistic relationships, most often dependent upon a single figure or the support of one family. The only vital grassroots organizations are professional associations dominated by Islamist actors, which during the last 15 years have represented the primary opposition to a number of government policies.

Civil society  
traditions

While religious tensions are nearly nonexistent, Jordanian society is divided between Transjordanians (those whose families lived east of the Jordan River after World War I) and Palestinians (those whose families lived west of the Jordan River at the same time). The latter constitute the majority of the population in Jordan today. This division represents the fault line of a significant societal polarization prompting latent conflict that affects various areas of everyday life. Following the

Conflict intensity

violent confrontations in 1970 – 1971 between elements of the army loyal to the late King Hussein (the father of the current monarch) and the Palestine Liberation Organization (PLO), Transjordanians have been systematically favored over Palestinians within the public sector and the army. However, it is said that Palestinians have been more successful within the private economy. The current election law discriminates against urban areas, where most of Palestinians live. Many Palestinians, even those now holding Jordanian citizenship, seem to have become increasingly disillusioned with the current regime. Low voter turnouts in densely populated Palestinian urban areas during the last parliamentary elections in November 2007 point to this conclusion. However, no reliable data on this divide is available. To speak publicly about the status of Palestinians as “second class citizens” represents a line the regime will not allow to be crossed. During the period of review, confrontations with Islamists were largely non-violent, and contact between the government and these groups sometimes even reached a cooperative level. After heavy losses for the Islamists in the last parliamentary elections, state intelligence and the IAF leadership seem to have agreed upon a tacit understanding of coexistence. For instance, the government allowed large pro-Palestinian demonstrations, organized by the IAF, to take place in late 2008 and early 2009 as a form of protest against the Israeli military operations in the Gaza strip. Jordan hosts up to 800,000 Iraqi refugees according to an official estimate published at the end of 2007. Even though these are mainly middle- and upper-class people, who are increasingly active within the Jordanian economy, Iraqis have been blamed for rising real estate and food prices.

## II. Management Performance

### 14 | Steering Capability

Although the government, and especially the king, pursues the stated long-term goal of economic reform aimed at the establishment of solid economic growth and stability, true democratic reforms are not on the agenda. On a general level, the maintenance of power remains the overarching goal of the monarch and his cohorts. Recent changes in laws regulating civil representation point to the subtle broadening of the authoritarian state’s influence over the most vital parts of the society. Opposition forces have long agreed on the necessity for major political reforms, such as amendments to the electoral law, the establishment of a constitutional court, and an increase in parliamentary power. These and other reforms have always been elements of public campaigns such as the “Jordan first”

Prioritization

(al-urdun awallan) initiative in 2002, the National Agenda in 2005 – 2006 and the “We all are Jordan” (kulluna al-urdun) program in 2006 have shown. However, promises made in these contexts have never been on the list of genuine political priorities. External dependencies remain high. Large parts of the budget consist of direct aid and soft loans given by major international and regional powers. While increasing Arab aid seems to be related to intra-Arab rivalries and the maintenance of the regional status quo, Western and multilateral aid is conditional upon political liberalization, free-market economic reforms and the enhanced efficiency of bureaucracy. However, even if official project evaluations accentuate the achievements of implemented donor projects, progress in many areas was in fact slow, as a number of detailed reviews of aid-funded projects has revealed. This highlights the Janus-faced reality of externally funded reforms in Jordan: much is promised, in order to get much, but implementation is slow, ensuring that little is changed.

Even though a number of democratic reforms have been announced, and the term as such is part of the official rhetoric, used regularly by the king and his advisors, there has been no real democratization of the Jordanian political system. On the contrary, recent legislative changes and government actions (particularly the implementation of anti-terror legislation after the bombings of 2005, and amendment of the public gathering, press, and party laws since 2007) have restricted the freedom and actions of regime-critical actors. This has resulted in an enhancement of control over existing NGOs, a streamlining of the existing party system, the establishment of a parliamentary superiority of rural and traditional elements (mainly consisting of Transjordanian elements), and a shrinking of the influence of Islamist actors. On the surface, reforms aimed at establishing a market economy have been successful. Trade and capital account regulations have been liberalized, large state companies privatized, subsidies curtailed (in the period under review oil price subsidies were finally removed) and refocused away from flat rates to cash assistance for the most needy. In addition, macroeconomic policies, heavily influenced by the central bank’s duty to keep the fixed exchange rate relative to the U.S. dollar stable, have been successful in providing economic stability to the whole economy. However, structural problems persist which remain unaddressed by the government. There remain a number of oligopolies, as well as access barriers for new actors in several economic sectors. Moreover, the existing competition legislation does not seem to have been enforced equally at all times. Income differences within Jordanian society remain high and have increased since the dawn of the new millennium.

Implementation

The political leadership gives lip service to mistakes and failed policies, but real change is rare. In general, the government enforces its policies without leaving much room for compromise. The political system does not provide for institutionalized forms of conflict resolution. The leadership does not aim for broad

Policy learning

formal consensus-building, but relies on informally co-opting the country's key elites in order to assert its aims. If the decision-making process reaches deadlock, key political elites including the cabinet and the prime minister will be replaced by the king. A large number of families and groups are close to the palace, providing a pool from which the monarch is able to choose, if necessary. Learning from donors and international organizations takes place largely on the part of western-educated elements within the state bureaucracy. Some of this can be interpreted as efforts by leading technocrats to use new approaches and slogans from the international development community in their quest for renewed international support and aid. However, Abdullah II's foreign policy skills have proven deft enough to adjust and fine tune Jordanian foreign policy to the constantly evolving dynamics in a rather turbulent neighborhood.

## 15 | Resource Efficiency

Jordan is acknowledged among international organizations and donors to use resources relatively efficiently compared to other middle income countries. World Bank data from the Aggregate Governance Indicators place Jordan in the middle of the third upper quartile in terms of government effectiveness. Though a number of new institutions have been built and reform programs implemented under the guidance of international donors during the last few years (the most important innovation was the digitalization of portions of the customs and fiscal departments), there remain a number of shortcomings. In particular, Jordan's administration is mainly staffed with Transjordanians which are preferentially hired as public servants, even though Palestinians account for the majority of the country's population. Kinship still plays an influential role within the process of recruiting new state employees. Budget deficits have risen progressively since 2007. The government was seeking parliamentary support in order to adopt a supplementary budget for the year 2008.

Efficient use of assets

The government has tried to coordinate conflicting objectives and interest, but has been only partially successful in this task. In March 2008, a World Bank loan intended to improve capacity building and the implementation of the government's public sector reform strategy was cancelled by the authorities due to the inability to move forward on a cross-sectoral agenda. However, this points to a more general problem of policy coordination. Government agencies usually operate as separate islands, using different information technology systems, and without establishing joint-staff meetings at the different levels of the administrative hierarchy. The central and often only coordination body is the cabinet, which therefore must address and negotiate even minor issues.

Policy coordination

Some integrity measures, such as audits of state spending and the control of party financing, have been implemented during the last couple of years. In autumn 2006 an anti-corruption law was passed and promulgated. One year later an Anti-

Anti-corruption policy

Corruption Authority was sworn in, which reports directly to the prime minister. In 2007, a money laundering law was also enacted. In general, corruption is perceived as being widespread and commonplace. As press reports indicate, a number of formal inquiries took place during the period under review, but few convictions resulted. On a general level, access to information from government agencies on the part of citizens and media organizations is not comprehensively guaranteed, and the phenomenon of favoritism is still prevalent throughout society.

## 16 | Consensus-Building

Major political actors have differing views on the scope and direction of reform, and particularly the economic reform program. The privatization program was highly contested, and only gained momentum under the rule of King Abdullah. Parts of the elite continue to try to decelerate the pace and deflect the path of the king's economic reforms. The government has tried to co-opt these critics, and has made major concessions to the conservative tribal forces within parliament. Bassem Awadallah, who recently resigned as head of the Royal Court, might be interpreted as the most recent victim of these struggles between conservatives and elements favoring economic liberalization. The leadership avows its commitment to democratic reforms as well, but the degree to which major decision makers believe in a true democratic reform of the country is open to doubt. Political reforms to date have centered on the perpetuation of the status quo.

Consensus on goals

The only forces demanding true democratic change in Jordan are a number of intellectuals and marginalized groups, along with external actors. None of the relevant political decision makers seems to be interested in establishing a functioning democracy.

Anti-democratic  
veto actors

The political leadership neither reduces existing divisions in the society effectively, nor exploits or actively promotes them. However, the leadership has tried to reduce open and violent conflict between different groups through a mixture of repression and favoritism. No official conflict management process addresses the marginalization of Palestinians or the status of Iraqi refugees.

Cleavage /  
conflict  
management

The political leadership frequently ignores interests and requests on the part of organized civil society actors. The government and the king formulate their policies for the most part independently from this sphere of the political system. Instead, decision makers seek the approval of selected actors who are invited to discuss reform issues without being given real power. The emergence of a draft for the National Agenda in 2005 was probably the last prominent example of such a pattern. It was established by royal decree without parliamentary consultation or approval, in order to draft major political reform initiatives for the years to come. For most other issues, the government typically drafts new laws without a

Civil society  
participation

systematic consultation of civil society groups beforehand. Concerned civil society actors might then express their concerns through elected parliamentarians or influential figures. Only in the final stage do groups that have been excluded or marginalized try to lobby the Royal Court for their concerns, with the aim of influencing the king.

The political leadership does not address past acts of injustice and has not initiated any process of reconciliation. The Hashemite monarchy has headed the state since its foundation. Its power is to an important degree based upon the division between Transjordanians and Palestinians, the latter being in many aspects treated more like second-class citizens. Injustices committed against Palestinians, political opponents, prisoners or migrant workers are neither officially nor unofficially satisfactorily discussed, nor are victims officially compensated.

Reconciliation

## 17 | International Cooperation

The political leadership has been forced by economic constraints to work closely with the international donor community since the late 1980s. It has developed special relationships with the U.S. administration, which provides large amounts of military and economic aid directly to the public budget. European Union and other bilateral and multilateral assistance is at least formally committed to induce political change, but does not include projects of effective political change, even though some good-governance and capacity-building reforms in the area of anti-corruption regulations and e-government have been implemented.

Effective use of support

In the eyes of international donors, Jordan enjoys a good reputation for willingness to engage in economic and political reforms. Jordan has fulfilled most of the official reform conditions laid out by the World Bank and the IMF during the course of several structural adjustment programs. The king plays an important role in this respect. He publicly and informally highlights the neediness and willingness of the country to implement market-based reforms and those aimed at democratic development. However, failures to do so are often glossed over within evaluation reports, and major structural problems are ignored.

Credibility

Jordan plays an active role in the region within the limits given by its capacities and the political situation. It is a driving force behind a number of regional initiatives for good governance (e.g., anti-corruption regulations and e-government), and the king has been actively involved in seeking a solution of the Palestinian-Israeli conflict. Nevertheless, during the last few years, cooperation with regional partners has been made more difficult by the turmoil in Iraq (to the east), the Palestinian territories (to the west) and at the Israel-Lebanon border. In the period under review, Jordan substantially improved its relations with the Gulf countries, and received large budget grants and foreign direct investments from private and state

Regional cooperation



investors in the region. Jordan enjoys excellent political and economic relationships with Egypt. Relations with Syria have improved decisively, after a serious blow that took place in the spring of 2006 when Hamas activists allegedly smuggled weapons from Syria into Jordan. Jordan actively sought Syrian participation in the U.S.-sponsored Middle East summit in Annapolis. Relations between Jordan and Iraq also improved further. King Abdullah II visited Baghdad in August 2008, the first Arab head of state to do so since 2003. In addition, members of the Jordanian GDI – the national intelligence agency – opened direct talks with Hamas leaders in the summer of 2008, despite the king’s deep suspicion of this Islamist movement, the official attachment of Jordan to Mahmoud Abbas and his Fatah movement, and the refusal of close Western allies to speak with the winners (Hamas) of the 2006 elections in the Gaza strip. All together, King Abdullah II seems to have inherited his late father King Hussein’s abilities to negotiate the region’s tensions without being drawn into one or the other side of conflicts.

## Strategic Outlook

While economic progress slowed down considerably in 2008, Jordan has maintained a stable macroeconomic pathway of development. But how long can this last? The budget deficit has been on the rise since fall 2007, and will most likely increase further during the next years. A widening trade balance, due to shrinking sales on Jordan's biggest but crisis-ridden export market in the United States, and possibly also in Iraq and the Arab Gulf, will result in even larger current account deficits, which may no longer be covered by increasing foreign direct investment and workers' remittances. While foreign currency reserves are still high, and inflation rates have returned to single digits, a world economic crisis in tandem with low oil prices for several years may lead to a gradual loss of confidence in the dinar, today pegged to the U.S. dollar, in the context of rising state expenditures. With only limited capital-account restrictions in place, it seems possible that foreign and domestic investors could flee the dinar under such circumstances. In such a case, foreign currency reserves will dwindle, and the national currency would have to be devalued, abandoning the fixed rate to the dollar. This might be followed by the kind of disturbing political and social consequences that were observed at the end of the 1980s. In this scenario, much will depend on the central bank's steadfastness in keeping interest rates high. If this principle erodes, a new monetary and then fiscal calamity will be likely. If not, Jordan may steer clear of another state bankruptcy. Independently, Jordan has to put more effort into developing its export capacities. The introduction of qualified industrial zones (QIZ) after the peace accord with Israel, which provided exclusive access to U.S. markets for joint Jordanian-Israeli products, was a first step in the right direction, notwithstanding a number of major problems. This initiative should be followed by more comprehensive improvements in order to create an environment in which major parts of the existing Jordanian economy will be able to expand their production capacities after the world economy regains its former strength. The upgrade of existing export-oriented industrial clusters will also lead in the long run to a reduction of domestic unemployment. Moreover, Jordan's increasing dependence on external budget aid and credit is alarming. If donors lose the willingness to support the kingdom further, the government will be forced either to cut expenditures or to increase revenues drastically. While expenditure cuts may provoke social unrest, Jordan's domestic revenue base should be expanded. The introduction of the sales and later the value-added tax during the 1990s represented first successful steps in this direction, and should be followed by reforms of the corporate tax and eventually the introduction of a comprehensive personal income tax system.

King Abdullah II successfully managed to stay in power, retaining the loyal support of the army and the security forces. There is doubt that this will endure during the next couple of years. However, since the Amman bombings in 2005, the government has sought to increase its grip over the most active parts of society. Even though municipal and parliamentary elections were held in 2007, authoritarian features have gained ground in Jordan. The influence wielded by more traditional elements of the Transjordanian minority has once again expanded, while Palestinians are significantly less well represented within formal state institutions. This is an

issue of serious concern, and not only from a normative perspective. In the long run, underrepresentation may lead marginalized groups to pursue non-constitutional ways of making their voices heard. Therefore the king and the government should seriously consider ways of improving the representation of the majority of Jordanian citizens within the domestic political system. King Abdullah II, quite in the tradition of his late father King Hussein, has demonstrated his ability to work as a regional mediator on varying fronts. He has established himself as a reliable partner for other Arab states, as well as for major international powers. In the years to come, he will likely remain a most welcome point of reference for all actors involved in the efforts to look for lasting solutions for major regional conflicts.