

Jordan's Economic Protests: Repackaging Reform

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Brief Analysis

A new government, delayed tax hikes, and extra Gulf aid can alleviate unrest for now, but such measures cannot mask the kingdom's fundamental need for unpopular economic reforms.

On May 30, nationwide protests broke out in Jordan against a proposed income tax law and rising prices on basic goods. Four days later, King Abdullah accepted Prime Minister Hani al-Mulki's resignation and appointed Education Minister Omar Razzaz to succeed him. Razzaz immediately pledged to withdraw the tax law and has begun consulting with the parliament, relevant parties, and unions on how to proceed. Yet while the demonstrations have receded, the incoming prime minister will still have to meet the serious challenge of addressing Jordan's unsustainable public debt—and, in the process, minimizing public outcry against painful austerity and revenue-generating measures.

The United States is already providing record assistance to Amman, and the kingdom's Gulf allies pledged an additional \$2.5 billion aid package to help mitigate the immediate financial pressures. The task now is to maximize the effectiveness of this new aid and help the Jordanian government renegotiate its commitments to the IMF.

PEACEFUL, NARROWLY FOCUSED PROTESTS

The demonstrations occurred in multiple cities, with the largest taking place outside the prime minister's office in Amman. A broad spectrum of Jordanians participated, including union members, students, and normally quiet

middle-class citizens. Yet the Islamist and leftist opposition parties that have traditionally organized such demonstrations were largely absent.

With a few exceptions, the protestors focused exclusively on domestic socioeconomic demands. They did not address foreign policy matters, including the Palestinian issue.

From the outset, the palace struck a conciliatory tone, and the king immediately instructed the government to freeze the price hikes. Later, in a meeting with journalists, he lashed out against underperforming and corrupt state officials, supported the public's right to protest, and invoked his late father by expressing solidarity with his "sons and daughters, the people of Jordan." On June 4, Crown Prince Hussein was dispatched to the site of the central demonstrations, where he urged the security services to "protect citizens...and let them talk and express their opinions."

Despite their large numbers, the demonstrators remained overwhelmingly peaceful over eight days of protests, apart from minor scuffles. Their chants focused on the government and its economic measures, mostly avoiding criticism of the monarchy. The Darak gendarme forces that kept watch over the protests likewise acted professionally, with no reports of serious injuries or widespread arrests. Both camps clearly signaled their peaceful intent—the demonstrators even cleaned up at the end of each day, and police offered them bottles of water.

ECONOMIC CAUSES

Although Jordan weathered the 2011 Arab Spring protests, the resultant regional unrest hit its economy hard. Even as Amman increased its already unaffordable public spending, the kingdom's fuel bill rose exponentially. The National Electric Power Company (NEPCO) plunged into massive debt following the loss of subsidized natural gas from Egypt, where the Sinai pipeline was shuttered after repeated terrorist attacks. Further shocks arrived in the form of war in Syria (which cost Jordan a major trading partner), instability in Iraq, and a refugee influx that required greater government spending.

In response, the Gulf Cooperation Council committed \$5 billion to Jordan in 2011, in the form of development aid and grants to be distributed over five years. Yet Jordan still had to borrow heavily from domestic and international markets to bridge its budget gap. When its credit rating fell, the United States stepped in and guaranteed \$3.75 billion in additional loans. To address the NEPCO deficit and other structural reforms, the IMF signed a \$2 billion standby agreement with Amman for 2012-2015, which the kingdom implemented successfully. The program required Jordan to eliminate fuel subsidies, which precipitated a contentious round of protests in late 2012.

Although such loans helped stabilize Jordan's current account, its debt-to-GDP ratio is now over 95 percent. Servicing this debt takes up more than 10 percent of Amman's \$13 billion budget and will continue to increase. In 2016, Jordan and the IMF sought to address these issues through a \$773 million program that extended to 2019 and required Jordan to impose additional taxes. The first of these measures finally took force this January: a 10-16 percent sales tax on popular consumer goods such as cigarettes and clothes. Amman also reduced subsidies on bread, which the IMF did not recommend. The kingdom tried to mitigate the impact on its most needy citizens via a cash-transfer program for the poor, but the plan allotted too little money for too few people and failed to offset wider public complaints.

It was in this context that the May 30 protests emerged. Although the draft income tax law would not have affected the majority of Jordanians due to its high income threshold, the measure was not explained well and was issued with no prior consultation.

POLITICAL CHALLENGES

Replacing prime ministers is a tried and true Jordanian approach to ensuring that unrest does not turn against the

monarchy. In many ways, Razzaz is a natural replacement. With a Ph.D. from Harvard and a career that spanned the World Bank and leading positions in the public and private sectors, he has developed a reputation as a technically capable reformer. It was his performance at the Education Ministry—where he presided over significant reforms in one of the kingdom’s most conservative, reform-averse institutions—that really raised his profile. Throughout that process, he proved to be an effective communicator within the bureaucracy and with the wider public, a skillset that the unpopular Mulki lacked.

These communication skills will be much needed in the coming period. Mulki’s image as an unengaging, aloof prime minister who did not consult with stakeholders during the drafting of the tax law added to the public discontent. It therefore came as little surprise when the king’s letter of designation to Razzaz specifically highlighted the need for public engagement.

Despite his merits, the incoming prime minister will be dealing with a public that has a deficit of trust in the government and will be skeptical of any new economic measures. Razzaz already pledged to withdraw the tax law, and the king instructed him to “undertake a comprehensive review of the tax system and tax burden, with a view to limiting indirect and regressive consumption taxes that do not differentiate between the rich and the poor.” Yet Jordan’s economic challenges will undoubtedly require unpopular taxes of one sort or another.

Moreover, while liberal, reformist elements among the Jordanian elite have welcomed Razzaz’s appointment, he will have to contend with an entrenched conservative power base that has stymied putative reform efforts in the past. This is particularly true of those in the bureaucracy, security services, and business elite who would be personally affected by tough reforms.

U.S. ROLE

The Trump administration **demonstrated its commitment to the strategic relationship with Jordan** (<http://www.washingtoninstitute.org/policy-analysis/view/the-jordan-exception-in-u.s.-foreign-assistance>) when it agreed to a five-year, \$6.375 billion aid package in February. And on June 11, Kuwait, Saudi Arabia, and the United Arab Emirates pledged a \$2.5 billion aid package during a summit hosted by King Salman in Mecca. The new funds will be distributed as a mix of direct budgetary support, central bank deposits, World Bank guarantees, and development projects.

The United States should support Jordan diplomatically during this sensitive period. The distribution of Gulf aid will take time, and Razzaz still needs to form his development and economic team. Once those officials are in place, Washington should work with them and their counterparts in Kuwait, the UAE, and Riyadh to ensure the pledged assistance goes toward programs that spur job creation and increased economic growth. U.S. officials should also encourage more Gulf aid if these initial programs prove successful.

Meanwhile, Washington should ask the IMF to extend Jordan’s current assistance program in order to give Razzaz time to design a clearer and more palatable tax system. Once he forms his government, the Trump administration should invite him to visit Washington to work with the IMF on a new timeline for obligatory tax reforms, as well as measures to improve the investment climate in Jordan. If necessary, the U.S. government can offer to temporarily replace the planned \$173 million IMF disbursement until the Jordanians get back on track.

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