

## JORDAN

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## #JordanStrikes

### Protests and Government Change in Jordan

**The protests in Jordan that began with a nationwide strike on Wednesday, May 30<sup>th</sup>, were the largest, most sustained in years, and were supported by a broad base of the population. Thousands of people organised on social media using hashtags such as #JordanStrikes. The protests were the immediate reaction to the Amended Income Tax Draft Law that was meant to address the kingdom's serious debt and fiscal deficit by increasing revenue through taxes. Yet, frustration had long built up in the population as the economy of Jordan has been in decline for years, living standards have decreased and prices for basic goods have risen dramatically.**

The protests, however, also acquired a political dimension as various segments of protesters were also calling for political reform. The protests resulted in a reshuffling of the government and former Prime Minister Mulki was replaced by Omar Razzaz, a Harvard-educated economist that people seem to view as a person of integrity and as a sincere reformer - socially, economically and politically. One of his first acts in office was the withdrawal of the Draft Law and the announcement of a new economic strategy focusing on reducing government spending rather than increasing taxes.

#### Economic Situation and Background

The economy of the Hashemite Kingdom of Jordan is in a dire state and economic challenges such as high unemployment and a stagnant labour market, high public debt

and huge current account deficits have been exacerbated by the regional turmoil and the arrival of an estimated 1.4 million Syrian refugees. In addition, Jordan is very dependent on foreign aid to balance its budget.

Jordan has suffered from a declining economy since the financial crisis of 2009. The country is resource-poor with a scarcity of water and energy. Jordan's wealth is relatively low and economic growth has been very slow. GDP grew by only 2% in 2017 and 2016, down from 2.4% in 2015<sup>1</sup>. The unemployment rate is at 18.3% and the labour market participation is extremely low with 40.2% in 2017<sup>2</sup>. Youth unemployment is above 37% and official statistics indicate that only 13.2% of women in Jordan are economically active.<sup>3</sup> The debt is at least partly a result of an expansionist fiscal policy by successive governments that had created jobs in the bloated public sector and had kept up subsidies for bread and other basic goods.

Jordan relies on grants and remittances from Gulf economies as well as on money from the EU, the US and loans from the IMF. Jordan was the recipient of an IMF loan in 2016, which is meant to reform the Jordanian economy and reduce the public debt. The aim is for Jordan's overall

<sup>1</sup>Moody's Investors Service, Credit Opinion on Jordan, April 17<sup>th</sup>, 2018. Accessed on June 19<sup>th</sup>, 2018:

<https://www.hbtf.com/en/TreasuryFinancialInstitutions/FinancialInstitutions/Lists/HBTFDocumentsInstance/Moody's%20Credit%20Opinion.pdf>

<sup>2</sup> Department of Statistics, 2017, Employment and Unemployment Survey.

<sup>3</sup> Jordan Times, June 11<sup>th</sup>, 2018. Accessed on June 24<sup>th</sup>, 2018: <http://www.jordantimes.com/news/local/jordan-needs-include-its-youth-job-market-politics-ngos>

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indebtedness to decline from about 94% of GDP to a safer level of 77% of GDP by 2021, by introducing reforms to bolster economic growth and gradual fiscal consolidation.<sup>4</sup> During the three-year extended arrangement, the kingdom was promised an amount equivalent to SDR<sup>5</sup> 514.65 million to support Jordan's economic and financial reform program. In return, Jordan committed to implemented austerity measures, slashing subsidies and raising the sales tax.

Consequently, in the past two years, Jordanians have experienced steep tax increases that have yielded \$1.4 billion in additional revenue.<sup>6</sup> In recent months, the government has implementing additional IMF-backed reforms that aim at reducing the government debt. In January, state media announced that exemptions on general sales tax were to be removed, raising tax rates from about 6% to 10% on many basic food items.<sup>7</sup> Additionally, the government raised special taxes on items such as tobacco and premium gasoline. Furthermore, only 10 days later, the subsidy on flour, which had been viewed as a basic part of the social contract between the government and the citizens, was eliminated thereby raising the price of bread by between 60 and 100%.<sup>8</sup> On May 1, a 13.3% increase in electricity prices for all

sectors and segments of the population was implemented.<sup>9</sup>

Economists expect the subsidy cuts and price increases to worsen the suffering of the poorer Jordanians. The people of Jordan have already suffered from the economic crisis, the high unemployment and the lack of opportunities. Earlier in the year, the EIU (Economist Intelligence Unit) ranked Amman as the most expensive Arab city and the 28<sup>th</sup> worldwide. Another factor that weighs on the economy and makes life more expensive for many Jordanians is the influx of Syrian refugees fleeing their war-torn country in recent years. The arrival of over 1 million new people in the country has exacerbated many of the pre-existing problems in Jordan's economy. There has been a 40% increase in water demand in the water-scarce country, a 30% increase in youth unemployment, and a 300% rise in rents in those towns and cities that are hosting Syrian communities.<sup>10</sup> Overall, the Draft Law came at a time when Jordanians had already seen a reduction of living standards and an increase in cost of living.

### The Income Tax Draft Law of May 2018

The Draft Law focused on three main aspects: improving tax collection, curbing tax evasion and boosting tax revenues. It was expected that these would increase by JD300 million annually. Furthermore, the law was expected to increase the percentage of citizens who would have been taxed from 4.5 to 10%.<sup>11</sup> The law would have lowered the taxable income for a family from \$34,000 to \$22,500 and for an individual from \$17,000 to \$11,200.<sup>12</sup>

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<sup>4</sup> International Monetary Fund, August 25th, 2016. Accessed on June 20th, 2018:

<https://www.imf.org/en/News/Articles/2016/08/25/PR16381-Jordan-IMF-Executive-Board-Approves-US-723-million-Extended-Arrangement>

<sup>5</sup> SDR = Special Drawing Rights, artificial IMF currency

<sup>6</sup> Middle East Monitor, June 6th, 2018. Accessed on June 21st, 2018:

<https://www.middleeastmonitor.com/20180606-jordan-to-push-imf-to-slow-reforms-after-protests/>

<sup>7</sup> World Politics Review, February 27th, 2018. Accessed on June 19th, 2018:

<https://www.worldpoliticsreview.com/trend-lines/24265/it-is-a-dire-situation-will-jordanians-bear-the-burden-of-economic-reforms>

<sup>8</sup> Reuters, January 26th, 2018. Accessed on June 22nd, 2018: <https://www.reuters.com/article/us-jordan-economy-subsidies-bread/jordan-ends-bread-subsidy-doubling-some-prices-to-help-state-finances-idUSKBN1FF2CP>

<sup>9</sup> Jordan Times, May 1<sup>st</sup>, 2018. Accessed on June 20<sup>th</sup>, 2018: <http://www.jordantimes.com/news/local/oil-energy-prices-increase-today>

<sup>10</sup> Middle East Institute, May 26<sup>th</sup>, 2016. Accessed on June 20<sup>th</sup>, 2018:

<http://www.mei.edu/content/article/jordan-s-syrian-refugee-economic-gamble>

<sup>11</sup> Al Jazeera, June 4<sup>th</sup>, 2018. Accessed June 23<sup>rd</sup>, 2018: <https://www.aljazeera.com/news/2018/06/jordan-protests-180604052840527.html>

<sup>12</sup> Ibid.

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Corporate tax rates would have been increased significantly, too. For banks, the tax rate would have risen from 35% to 40%, for mining companies, insurance companies and financial leasing companies from 24% to 40%.<sup>13</sup> Tax evasion, too, would have been tackled by the new bill and would have been reclassified from a misdemeanour to a felony, with increased penalties of imprisonment and fines. Losses due to tax evasion currently amount to about \$800 m a year, a figure which the law was meant to reduce. According to the rating agency Moody's, the new law would have enabled the kingdom to achieve a positive credit rating. According to the government, however, 90% of Jordanian citizens would not have paid taxes because of their poverty rate and family exemptions.<sup>14</sup>

The way the law was designed meant that it would have affected primarily the middle classes, with the poor for the most part remaining exempt from taxation.

#### Course of the Protests

The protests began with a sit-in and nationwide strike on Wednesday, May 30<sup>th</sup>, called upon by the Professional Associations Council in response to the 2018 amendments to the Income Tax Law, which had been endorsed by the government the week before. More than 30 professional associations, trade unions and societies, such as the Jordan Farmers Union (JFU), and the Jordan Bar Association (JBA), joined the protests, too. While initially, the people striking against the Draft Law were primarily the middle class, this quickly changed.

Thursday, May 31<sup>st</sup>, one day after the strike, a hike in electricity prices (23.5%) and fuel derivatives (between 4.5% and

5.5%) was announced.<sup>15</sup> This led to an intensification of the protests and broadened the spectrum of protestors. Instead of just being about the Draft Law, the changes of which would likely not affect the poor at all, the protests then became about the Jordanian people's frustration about the economic situation, the price rises, and the lack of opportunities more generally. As a result, a wide variety of people were protesting against the austerity measures of the government, not just those directly affected by the law. The protests took place across Jordan and were mostly peaceful, especially in Amman. However, the protesters also began to voice political demands. Criticism of perceived corruption of state officials (in many protesters' eyes one of the main reasons for Jordan's dire economic state) began to transform into calls for a more pluralistic political system.

A day later, on Friday, June 1<sup>st</sup>, in response to the protests which had gained momentum because of the announced price hikes, King Abdullah II ordered the government to freeze the new price increases for the current month. Late Friday night, a group of 78 lawmakers signed a memorandum late Friday night carrying their 'complete rejection' of the bill.<sup>16</sup>

On Saturday, June 2<sup>nd</sup>, protests continued for a third consecutive day despite the decision to cancel the price hikes for fuel and electricity. The Lower House speaker Atef Tarawneh announced that it had been agreed by the government and the Professional Associations Council to continue dialogue on the Amended Income Tax Draft Law, and to form a joint committee. At night, police reportedly fired tear gas and blocked roads in Amman to

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<sup>13</sup> Ibid.

<sup>14</sup> Ibid.

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<sup>15</sup> Jordan Times, June 3rd, 2018. Accessed on June 20th, 2018: <https://www.aljazeera.com/news/2018/06/jordan-protests-180604052840527.html>

<sup>16</sup> Jordan Times, June 3<sup>rd</sup>, 2018. Accessed on June 21<sup>st</sup>, 2018: <http://www.jordantimes.com/news/local/government-critics-agree-continue-dialogue-over-income-tax-bill>

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stop protesters getting close to the cabinet office. In provincial towns, there were also protests and in Maan, Jerash and Zarqa protesters burned tires on highways and there were clashes with police.

Subsequently, on Sunday, June 3<sup>rd</sup>, thousands of Jordanians protested for the fourth straight day and marched toward the Prime Ministry, demanding the resignation of Prime Minister Mulki and his government. While protests remained mostly peaceful, in some areas protesters reportedly burned tires and clashed with police.

At dawn on Monday, June 4<sup>th</sup>, Crown Prince Hussein visited the protest site outside the prime minister's office and spoke to the security forces, praising them for protecting the people that rightfully express their opinion. The King summoned Prime Minister Mulki over the anti-government protests and accepted his resignation. More than 50 MPs in addition to the demonstrators had called on Hani Mulki to step down.

Tuesday, June 5<sup>th</sup>, King Abdullah officially appointed Omar Razzaz, the former World Bank economist and Education Minister, as the new Prime Minister and ordered him to form a new government.

On Wednesday, May 6<sup>th</sup>, the Professional Associations Council held a meeting and took the decision to suspend the protests against the Draft Law in order to give the new government the opportunity to withdraw the bill. However, they went back on this decision less than an hour later as it had been received with anger by the protesters. As a result, they announced they would be going ahead with the protests until the bill was withdrawn.

Overall, there was a constant heavy police presence at the protests and at least 40 people were reported to have been arrested. However, especially in Amman, security forces emphasised that people were

welcome to demonstrate peacefully and the protestors themselves also made it clear that they were not against the security forces, but were protesting for their and their children's future, too.

**Actors**

Additionally, it is worth distinguishing between the different actors and groups of society protesting against the government, as the protesters were by no means a homogeneous group with the same goals. Rather, their interests temporarily aligned making it possible for the protests to gain such momentum and popular support. In terms of their demands, across the different groups involved, most protestors made it clear that they were not against the monarchy or the country of Jordan, but only against the performance of the current government. Many demonstrators thus waved Jordanian flags to show their patriotism and their loyalty to the royal family. What the protestors wanted was reform and real change rather than a simple change of government and they urged the government to revisit the entire economic approach and to find an alternative strategy that would allow for better and more stable living conditions in Jordan.

To distinguish between the different parts of society which were protesting together, one can argue that the strike and subsequent protests were a platform that allowed different segments of classes of society to express their different demands that intersected temporarily. The middle classes, while also having suffered due to the recent price hikes and tax increases, were primarily against the Draft Law. Small or medium capital owners that would be directly affected by a reduction in the purchasing power of poor or lower middle class people also protested the austerity measures. Poorer Jordanians that for years had been protesting the progressive abandonment of a protective social role by

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the state were also included in this protest and voiced their grievances against the government. Moreover, across society many people perceive the government as corrupt and as squandering their tax money rather than using it to invest in public services. The people are rather dissatisfied with the quality of public service provision in the kingdom and do not feel that the money that is taken from them is going to benefit them.

What made these protests different from other protests is how widespread popular support for them was and how they were supported by a cross section of society, rather than just one group. Previous protests were often organised by political parties or for ideological reasons. The fact that these protests are largely non-partisan makes it much harder to dismiss them.

Clearly, the role of the royal family needs to be stressed. While the king has the power to make the ultimate decisions on all major matters, he positions himself above domestic politics, as a unifying force for the country. He frequently has reshuffled governments in order to react to public concerns. The Crown Prince, too, worked to pacify the situation by showing that the monarchy takes the people's concerns seriously and praised them for expressing their opinions peacefully.

**Consequences and Future Outlook**

Firstly, the protests clearly caused a number of domestic changes in Jordan, the most obvious being that the government resigned and a new cabinet under Omar Razzaz was sworn in on June 14<sup>th</sup>. The new Prime Minister, Omar Razzaz, a Harvard-educated former World Bank economist, is reportedly better liked than his predecessor and enjoys more public support but he quickly was criticized after he appointed the new cabinet. Over half of the ministers of the previous cabinet had remained in office.

People feared this would limit the hope for reform. But Razzaz quickly announced that the Amended Income Tax Draft Law would be withdrawn and that a new law would be drafted after consultation with a broad array of social and political actors.

The Prime Minister has also announced that rather than increasing taxes to reduce the budget deficit, the government will cut spending by ministries and independent public agencies by JD150 million this year and will implement a series of projects to improve services as well as conducting a comprehensive review of the tax system. Moreover, there is a plan to open an online platform through which the people can submit suggestions and complaints to the government. Also, Razzaz has published a paper outlining the transformation of Jordan from a 'rentier state' that depends on foreign aid into a 'productive' nation, which gives hope that Jordan's dependence and constant budget deficits might eventually be reduced.

Furthermore, the protests were taken seriously by the regional and Western allies of Jordan. The kingdom is a vital island of stability and security in the region and of major geopolitical importance. Jordan, for example, plays a key role in the international fight against Islamic militants. As a result, the prospect of internal destabilisation due to the austerity measures worries its allies and led to a reaction. The fellow Arab monarchies Saudi Arabia, Kuwait and the UAE pledged \$2.5 billion for the next five years in support of Jordan's economy in response to the protests, in order to stabilise the economic and political situation of the kingdom. Qatar pledged \$0.5 billion support and offered 10,000 jobs for Jordanians in Qatar. Angela Merkel, on a recent visit to Jordan, announced that Germany will provide a \$100 million unconditional loan to the kingdom to help with the reform process.

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Overall, it is clear that despite the reshuffling of the government, the withdrawal of the controversial Amended Income Tax Bill, and the increased foreign aid, Jordan is still facing the same economic challenges. While the people have stopped protesting, there is an increased awareness and heightened pressure on the new government to improve not only the economic situation but also opportunities for political participation.