

**"Loyalty vs. Voice:" What explains the divergent attitudes of the
business elite toward democratization?
The Case of Jordan**

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Abstract:

This thesis aims at examining the determinants of business elite behavior toward democratization. The literature on state-business relations and business elite political behavior shows a wide variability on how, when, and why the business elite support authoritarianism or democratic transitions. Some theories expect that the business elite could support democratic transitions in the absence of a prudent management of the economy, and with the decline of rents provided from the state. Also, some literature suggests that the business elite could support democratization in case they did not have concerns about possible populist movements. Within this context, this thesis examines the impact of “state-dependency” and “fear” on business elite behavior toward democratization. The Jordanian case is a most likely case that could inform us how business elite would behave in a context of declining rents, and poor economic performance and governance. Hence, the thesis will be trying to answer the research question: why did in the context of poor economic performance and governance and the decline of rents in Jordan the behavior of Jordanian businesses to support democratization vary? Why did some Jordanian businesses support democratization, while the other remained loyal to the illiberal incumbent?

To answer this research question, I conducted five semi-structured interviews with Jordanian business elites to investigate under what conditions they will be more probable to push for democratic reforms or vice versa. Moreover, I analyzed official documents like Jordanian banks annual reports, the social security investment fund annual reports, government fiscal data, press releases, policy papers, and academic research papers.

The thesis finds that that when a sector enjoys a higher level of dependence on the state, in addition to a higher level of fear from populist movements they become less pro-democratization and more loyal to the authoritarian regime. On the other side, low level of

dependence on the state, and a low level of fear predicts that a business would be more pro-democratization.

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List of Abbreviations:

ACC – Amman Chamber of Commerce
JSF – Jordan Strategy Forum
SSC – Social Security Corporation
SSIF – Social Security Investment Fund
CBJ - Central Bank of Jordan
FTA – Free Trade Agreement

1. Introduction:

The role of business elite behavior¹ – or as other scholars call them the bourgeoisie or the oligarchs – is essential to understand regime types, democratic transitions, the persistence of authoritarianism, and many other political and socioeconomic issues. The relationship between business elite political behavior and regime type is reciprocal, but the direction of the causality is conditioned by political regimes. In full-fledged democracies and autocracies, regime type determines business elite political behavior and strategies. In democracies with a functioning government that effectively enforces the rule of law and maintains a high level of transparency, the business elite uses legal methods like lobbying and engaging with legislators to influence policymaking. In authoritarian regimes, the business elite either become part of the ruling elite to protect their interests (Pleines 2019), or they completely exit the market (Wong 2012).

In hybrid regimes, business elite have more room for maneuvering between voice and loyalty to the governing political regimes, whether to support the persistence of a particular regime type or its transition to another type, as they have the highest political autonomy under such regimes (Pleines 2019). Thus, in hybrid regimes, business elite political behavior and tools could range between complete alliances with the authoritarian regimes and engaging in crony capitalist behavior. Or, on the other side, they could be supporting political change through financing and engaging with democratizing political powers.

¹ By political behavior or attitudes of the business elite, we mean the actions, intentions, opinions, and the position of the business elite toward a certain political regime whether autocratic or democratic.

Indeed, political behavior of business elites in the hybrid regimes can vary. Historically, there have been many cases where the business elite played a role in influencing democratic transitions or bolstering autocratic regimes. In Brazil and South Korea, the business elite played a vital role in influencing regime change toward full democracy. On the other side, in cases like Indonesia, Singapore, Syria, Hong Kong, and Egypt, the business elite had a role in bolstering authoritarian rule. In Egypt, the business elite engage in parliamentary elections to "extract rents via both legitimate and illegitimate channels" (Blaydes 2008). Hence, in this case they are becoming part of pseudo democracy of an authoritarian regime instead of being democratizers. Similarly, the business elite in Hong Kong is "over-represented" in the legislative council where they can extract rents and influence policymaking (Wong 2012). Yet, when you go higher on the ladder of authoritarian and hybrid regimes like some of the oil-producing Arab Gulf monarchies, the business elites follow a "wealth defense" behavior where they become part of the ruling elite and provide full support to the authoritarian regime to protect their wealth and advance their interests (Pleines 2019).

Contemporary research suggests several conditions that could make business support democratization. State-business relations literature and the rentier states theory expect that with the decline of rents and the decline of economic performance in hybrid regimes, business elites will push for democratization as they need to influence policy making through democratic institutions. In particular, Bellin (2000) suggests that declined "state-dependency" of businesses due to the contraction of rents or the failure of authoritarian regimes public policies, would lead business elite to be more pro-democratic reforms.

However, in some countries, businesses are not becoming systematically involved in advocating for democratization despite the decline of their state-dependency.

Furthermore, there are variations in business behavior within one country, as business community is frequently heterogeneous. Business political attitudes and strategies could be divergent even if they were operating under the same political regime. In other words, they can behave differently towards the same political regime, depending on country and business specific characteristics. The Jordanian case is one of them.

Jordan, as a rentier state and a hybrid regime could provide many valuable answers to research questions on state-business relations in hybrid and rentier states. This thesis will mainly be aiming to answer the research question: why did in the context of poor economic performance and governance and the decline of rents in Jordan the behavior of Jordanian businesses to support democratization vary? Why did some Jordanian businesses support democratization, while the other remained loyal to the illiberal incumbent?

Jordan as a hybrid regime, is an important case that could enrich our understanding on how the business elite behavior could vary in the context of hybrid regimes. As Jordanian business community consists of heterogenous groups, this thesis will be distinguishing between business elite in Jordan depending on their sector of operational activities.

This thesis will contribute to this debate by examining what drives the political elite to contribute to either democratization or to authoritarianism. This will be done by examining under what conditions in authoritarian rentier states the business elite support democratization. In fact, the thesis will examine the impact of “state-dependence” of businesses, and “fear” of populist movements on the business elite political behavior in authoritarian rentier states. This behavior will be defined in terms of “loyalty vs. voice.”

To answer this question, this thesis will be following a qualitative data analysis approach. I will be analyzing government documents, business associations reports, events of collective action, in addition to conducting interviews with business elites in Jordan. This approach will allow me to do in-depth analysis that would lay the ground for future qualitative and quantitative studies on state-business relations in hybrid regimes and rentier states.

As a result, this thesis will contribute to the rentier state literature by explaining why the decline of the rentier state policies did not uniformly lead the business community in Jordan to push for democratic reforms. Moreover, it will be contributing the literature of state-business relations in authoritarian states. As a rentier state with a hybrid regime, Jordan could provide many valuable answers to research questions on state-business relations in hybrid and rentier states. Mainly, the declining state-dependency of businesses in the last decade, people aim of democratization, and the preferential treatment of certain business sectors over others, allows us to see how such a situation could lead business elite to be democratizers or not.

The following sections of this thesis are organized as the following: the second section presents the relevant literature on state-business relations and business power. The third section presents the theoretical framework of this thesis. The fourth section shows the analysis. Finally, the conclusion and the future research venues are presented in the fifth section.

2. Theoretical Review:

2.1. Business elites: who are they?

The study of elites has always attracted the attention of sociologists, historians, economists, and political scientists. These interests go back to the nineteenth century. The writings of Gaetano Mosca, Vilfredo Pareto, Robert Michels, and Max Weber contributed to what we now call the elite theory (Higley 2010, 161). In general, elites are individuals or groups of individuals – minority - who enjoy a certain kind of superiority over the majority of the society. This superiority is manifested in political power, economic power, education, and intellectuality.

Nevertheless, what makes these groups of people considered "elite" is their ability to affect policies and people's everyday lives through the superior characteristics they enjoy over society. It is not enough to be highly educated or wealthy to be classified as elite. These characteristics must be combined with the ability to influence and shape public policy. Thus, the elite combine resources and influential power (Reis and Moore 2005; Hoffmann-Lange 2007; Yamokoski and Dubrow, 2008; Lopez 2013).

(Hoffmann-Lange 2007) sets three main methods for identifying elite; "the reputational method, the decisional method, and the positional method." The reputational method is based upon expert opinions on who is the most influential members of a community. The decisional method identifies elites by tracking policies and see who the most influential people were in shaping them. Finally, the positional method identifies the elite as the people who hold leadership positions in public or private institutions "of national relevance" (Hoffmann-Lange 2007).

Elites are usually divided into political and economic elites. Political elites could be defined – in general terms – "as persons who, by virtue of their strategic locations in large or otherwise pivotal organizations and movements, can affect political outcomes

regularly and substantially" (Higley 2010, 163). Similarly, they could be referred to as "persons with the organized capacity to make real political trouble without being promptly repressed" (Higley 2010, 163). Regarding economic elites, they are defined as the "people who control the principal financial and economic structures". These are also divided into state economic elites who manage state-owned financial and economic resources and "business elite" who manage privately owned financial and economic resources (Kukolev 1997).

Furthermore, the business elite could fall into various sub-groups. For example, they could be bankers, owners of large fortunes, industrial owners, and industrial executives (Barton 1985). Similarly, they could also be divided into "export-oriented and internal-market businesses, industrialists and land-owners" (Pelfini 2014). However, these subdivisions or subgroups depend on the nature of the economy and the country's economic model under investigation.

2.2. Business elite interests, powers and behavior:

In general, business elites are rational actors who optimize their use of the "resource power" they enjoy. Among many sources of power, the business elite enjoys the so-called "material power²." This form of power is considered the "power resource that stands out among the other forms" (Winters 2014). Thus, in his understanding of the power of the business elite, Jeffery Winters argues that the business elite can employ their material power to attain other power sources. For example, they can use their wealth to mobilize the masses or bargain – or even buy – those in political offices. Similarly, they can influence the people political choices by investing in media or funding political parties. Yet, as rational actors, (Winters 2014) outlines that business

² Power resource theory outlines five main sources of power, namely: "formal political rights, official positions (both inside and outside government), coercive power, mobilizational power, and material power" (Winters 2014).

elite does not always use their power. In fact, business elite sometimes use more passive forms of power manifestation. Sometimes, they "possess tremendous power capacities and yet never display them," because others will not provoke the powerful to act (Winters 2014). For example, governments are usually considerate of businesses reaction to taxation policies if they are high contributors to the government tax revenues. Also, business elite can be free-riders, so they benefit from other actors who could fight political battles for them (Winters 2014).

In his book, 'Oligarchy,' Winters describe the political power of business elite – he calls them Oligarchs³ - as follows:

"Oligarchs can rule, but there is no necessity that they do so. In addition, because ruling is not an element in what constitutes an oligarch, the absence of oligarchs in ruling roles has no effect on the existence of oligarchs and oligarchy. Oligarchs are actors defined by specific power resources they possess and control."

Therefore, business elite and oligarch's engagement with politics is not out of interest in politics. Rather, political actions of business elite are a result of main interest of either wealth protection or wealth accumulation. Wealth defense is the need of business elite to protect their wealth from either confiscation measures from the poorer classes in a democratic or revolutionary setting. It can be also the defense of wealth from an autocratic takeover or even autocratic populist policies (Winters 2011; 23). On the other side, wealth accumulation is considered as the protection of wealth by trying to avoid redistribution either from below or above.

Moreover, with the context of business elite rationality, Albert O. Hirschman's theory of 'Exit, Voice, and Loyalty' provides a logic for understanding how business elite could

³ This thesis see business elite as oligarchs and vice versa as long both enjoy sufficient power that allows them to have a significant impact on public policy and politics.

behave under the decline of state efficiency and governance. (Hirschman 1970) outlines three main responses to the decline of state efficiency in delivering efficient outcomes or a satisfactory environment for businesses⁴. First, if the cost of staying in the arrangement is high and not fixable by voicing dissatisfaction, then a business can exit the economy and end move business operations to a more competitive environment. Second, dissatisfied businesses – or business elite – can protest the situation and "thereby force improved quality or service" (Hirschman 1970: 30). Thus, voice choice can substitute exit if things are fixable. Voice is referred to as "any attempt at all to change, rather than to escape from, all objectionable state of affairs, whether through individual or collective petition to the management directly in charge, through appeal to a higher authority with the intention. of forcing a change in management, or through various types of actions and protests, including those that are meant to mobilize public opinion" (Hirschman 1970: 30). Finally, 'Loyalty' is where "an individual member can remain loyal without being influential himself, but hardly without the expectation that someone will act or something will happen to improve matters" (Hirschman 1970: 78). Thus, business elite behavior could be explained by these three categories. Yet, as rational actors, the choice between these three options is dependent upon the costs that a business could incur embracing one of them.

2.3. Determinants of business elite behavior

Business elite political behavior variates depending on many variables. These variables can be divided into two main groups: state-related variables and business-related variables.

⁴ Hirschman introduced a general theory that applies to firm costumers, state citizens, and businesses in their operational environment.

Regarding state-related variables, state policies and the political context in which businesses operate have an explanatory power of business elite political behavior. For example, studying businesses' attitudes toward democratization in "Late-Developing countries," (Bellin 2000) argues that the business elites are "contingent democrats." That is, business elite support for democratization is contingent on two main variables, "state dependence and "fear." "State dependence" is the extent to which the profitability of the private sector "is subject to the discretionary support of the state."

This framework introduced by (Bellin 2000) was later adopted by other scholars and had an explanatory power of businesses' attitudes toward democratization in many cases. In Turkey, for example, (Başkan 2010), the Turkish business elite who had Islamist attitudes became more "sympathetic to democratization" to maintain their business interests in a democratic society. In other words, (Başkan 2010) shows an example of business that supported democratization due to their ability to expand within a democratic system without being dependent on the state. This conclusion was also reaffirmed by (Gumuscu 2010). Nevertheless, the Turkish ruling party – the AKP – could reverse this dynamic using the same factor of "state dependency." That is, the AKP used patronage policies to turn business elites with Islamist attitudes "into dependent clients after assuming power through state patronage" (Esen & Gumuscu 2020). Thus, the "state dependency" variable had an explanatory power under two scenarios: Turkey's democratization and later the democratic regression of Turkey. This strand of literature falls directly in line with this thesis aim, where "state dependence" could explain the patronage practices followed in rentier states and authoritarian regimes.

Also, "fear" helps us to understand why business elite might be hesitant in supporting certain democratic reforms or regime change. At the same time, "fear" is the extent of threat caused by the mobilization of the poor segments of society in democracies against the interests of businesses which increases businesses concerns over "protecting property rights and securing the long-term profitability of its investments through the guarantee of order" (Bellin 2000). They could fear redistributive measures by populist movements, or even authoritarian practices. Thus, fear might apply to both democratic and autocratic contexts.

Similarly, research evidence from China shows that the "asymmetric mutual dependence" in a state-business relationship in China reduced the private sector bargaining power vis-à-vis the state. Employing patronage benefits or repressive punishments through tax exemptions and punishments, the Chinese local government could constrain the bargaining power of the private sector (Zhang 2019). Thus, we can infer from the above discussion that "dependence" on the state resources and "fear" from populist movements that can takeover in democratic systems have an explanatory power of what motivates or constrain business elite support for democratization. In other words, if we would apply the principle of the rationality of business political behavior discussed earlier, we find that businesses interest or disinterest in politics stems from the basic fact that businesses need to minimize cost and maintain or increase profits.

On the other side, business-related variables like business interests, business history, sector, industry, capital, competitive and comparative advantages, cultural background of the business elite, and networks with other businesses; shape business elite behavior as well.

To understand how the variables mentioned above shape the political behavior of the business elite and their attitudes toward democratization, we have first to understand that even though the definition of business elite entails common characteristics shared by this group of people, – which distinguishes them from the rest of the society. Still, this group of people is heterogeneous. Business elites differ in their attitudes and behaviors due to many factors that include cultural background, ethnicity, social class, elite recruitment method, business sector, values, age, gender, and many other factors. For example, studying the American business elites' economic attitudes, (Barton 1985) found that these attitudes differ among business elites depending on their cultural backgrounds. For example, he finds that the Catholic and Jewish business elite had more liberal economic attitudes than Protestants. Also, (Barton 1985) finds that membership in national policy-planning organizations is strongly associated with economic liberalism among the business elite in the United States. This could also have implications on the political attitudes toward a more liberal or conservative government.

Regarding corporations, investigating the drivers of political behavior similarities between major corporations in America, (Mizruchi 1989) finds that membership in the same industry, geographical proximity of the headquarters, market constraints, and common relations with financial institutions were positively correlated with the similarity of "political behavior between firms".

Similar to the United States, business elites in other countries were described as being heterogeneous groups. In India for example, the business community is described as too plural, heterogeneous, and insufficiently mobilized to articulate a consistent set of

class interests and value" (Kochanek 1987). This heterogeneity led to conflicted interests – between the older industrial families and the new entrepreneurs - regarding the liberalization of the Indian economy that took place between the 1960s and the early 1980s (Kochanek 1987). However, this liberalization process led to having even more pluralistic Indian private sector. Hence, as the Indian private sector became more diverse and pluralistic. The heterogeneity pushed the Indian private sector to prefer a more democratic system despite the "reinvention of a patronage-based relationship between business and the state" (Chandra 2015).

After conducting a cross-national analysis in Latin American countries, (Cárdenas 2020) found that there is a positive relationship between business elite networks cohesion and redistributive policies, where "networking among business elites can have an unexpected 'redistributive' effect on society." Yet, this relationship is not "linear correlational." This relationship shows that the "fear" of business elite could bring them together to support certain policies before being exposed to riskier policies adopted by other groups.

More broadly, in the context of competitive authoritarian regimes, (Pleines 2019) examined the role of business elite across 65 competitive authoritarian regimes in influencing political transitions "from competitive authoritarianism and towards either full authoritarianism or democracy." He found that business elite do not have a significant impact on political regime change "as they are tightly integrated into the ruling elites."

To sum up, business elite are rational actors who are mainly driven by their business interests. Therefore, their political behavior is a calculated behavior that leads them to choose between autocracy and democracy depending on what maintains the sustainability of their businesses. Moreover, business elites are not homogeneous. That

is, despite their calculated behavior, yet, this behavior might vary on the micro-level depending on business specific characteristics.

2.4. The contextual environment of business elite behavior change:

Economic liberalization in general, and especially in the context of rentier states is supposed to have a significant impact on business elite political behavior. In fact, economic liberalization implies a decline of privileges and state patronage provided to the business elites. Thus, liberalization in rentier states implies declined dependency of the business elite on the state. Accordingly, this leads to a predicted change in business elite behavior. Within this context, many scholars have highlighted the fact that "state dependence" have a determinantal impact on the business elite political behavior (Bellin 2000; Lang and Tenbücken 2006; Başkan 2010; Gumuscu 2010; Zhang 2019; Esen & Gumuscu 2020; Rosenfeld 2020).

For instance, in Saudi Arabia as the government joined the WTO and started to adopt some economic liberalization reform measures in the early 2000s "Elements within the business elite were unhappy with the framework [...] Much of the business elite lacked confidence in the ability of their companies to withstand competition in an open market" (Niblock 2007). However, ministers improved direct communication with business elites as a way of co-opting them. Therefore, a declined protection – a sort of state dependence – led the Saudi business elite to voice their dissatisfaction.

Similarly, in Kuwait, the business elite have employed their political influence to reverse and slowdown the economic diversification and liberalization policies adopted by the Kuwaiti government. This behavior is defined by the "rent-seeking" and "self-interested" behavior of the Kuwaiti business elite "which stem from the very nature of a rentier system-based private sector" (Nosova 2018). However, due to the high level

of dependence of the private sector on the state in these countries, "the business elites are unlikely to become drivers of political reform" (Kamrava et al. 2016).

Within the same context, (Greenwood 2008) shows that Arab "entrepreneurs continued support for authoritarian rule in the Middle East and North Africa is related to the high incidence of regional conflicts, entrepreneurs' fear that democratization will empower Islamist parties seeking to reverse economic liberalization."

Within the same context, in the past two decades, the decline of rents for some of the middle eastern states (e.g., Jordan & Egypt) necessitated some neoliberal reforms by the countries affected. These reforms included the decrease of governmental subsidies provided to the private sector, decrease of tax exemptions and raising new taxes, minimizing foreign trade barriers.

These reforms aimed mainly at the reduction of costs incurred by governments during the rentier era. Also, to establish a productive private sector that would leverage these states in their transition from being rentier to being productive states.

From the perspective of the private sector, these reforms entailed higher cost of doing business, and a higher exposure to foreign competition. Accordingly, this was accompanied with new ways of negotiation between the business elites and the state, declining investor confidence in the government, and a rise of popular unrest on the people side.

Accordingly, rentier state theorists (like: Mahdavy 1970; Beblawi 1987; Brumberg 1992; Glasser 2001) liberalization policies like increasing the openness of the economy, imposing new taxes, and elimination of subsidies would lead the private sector to engage in democratic politics and push for more democratization as a way to influence economic policymaking. This hypothesis is referred to in the literature under two main theories; the "Rentier State Theory" and "Democratic Bargains Theory" (Carroll 2003).

However, some semi-rentier states that witnessed economic liberalization and a marginal political liberalization did not witness a tangible change in state-business relations. On the contrary of the mentioned theories, the Jordanian business elites differed in their reactions, these reactions were variant between being loyal to the regime, defecting, or in sometimes exiting the market.

3. Research design:

3.1. Research Questions and Hypotheses:

This thesis will be trying to answer the research question: why did in the context of poor economic performance and governance and the decline of rents in Jordan the behavior of Jordanian businesses to support democratization vary? Why did some Jordanian businesses support democratization, while the other remained loyal to the illiberal incumbent?

As mentioned earlier, Jordan is a semi-rentier state that has been going through liberalization measures throughout the last thirty years. In addition, Jordan have been suffering from a declined state capacity during the last decade due to the turmoil in the middle east after the Arab Spring. Thus, the Jordanian state lost its ability to secure a competitive business environment for the Jordanian business elite. Therefore, endangering their profitability and wealth. Thus, we expect that the Jordanian case would be a most likely case of businesses being more vocal about reform in Jordan on both the political and economic fronts. This voice is predicted by two main factors; lower “fear” of political change, and lower “state-dependency” by the private sector. Hence, this thesis will be testing two main hypotheses:

H1: The higher the dependency of the business elite on the state the lower the support of businesses for democratic reforms.

H2: The more fearful the businesses from populist movements the lower their support for democratic reforms.

These variables (state-dependency & fear) are derived from (Bellin 2000) hypothesis of business elite being contingent democrats. She proposed that the higher businesses

dependence on the state and the higher the level of their fear from popular unrest, the less supportive they will be for democratization and vice-versa.

3.2. Research Variables:

As mentioned earlier, the thesis will be investigating the determinants of business elite political strategies. These strategies will be measured by (Hirschman 1970) businesses reactions to state policies, loyalty, and voice. Hence, my dependent variable will be the political attitudes of business elite toward democratization. It will be a categorical variable that includes two main values "Loyalty" and "Voice".

"Loyalty" is referred to as businesses support to the current political status quo in Jordan without pushing for significant political reforms. "Voice" is the act or intention of supporting democratic reforms that would change the current status quo. This would be indicated by Hirschman's definition of voice which is referred to as "any attempt at all to change, rather than to escape from, all objectionable state of affairs, whether through individual or collective petition to the management directly in charge, through appeal to a higher authority with the intention. of forcing a change in management, or through various types of actions and protests, including those that are meant to mobilize public opinion" (Hirschman 1970: 30).

On the side of independent variables, this thesis will examine the impact of the declined private sector state-dependency on business elite political attitudes toward democratization. This variable was first introduced by (Bellin 2000) as a proxy for the private sector's "dependence on the state in terms of dependence on subsidized inputs, protected markets, and cronyistic relations with state elites." Therefore, I will be tracking whether some businesses were dependent on state support or special treatment through providing tax exemptions, subsidies, getting government tenders, or even

through easing business transactions for business elites. Also, I will take in consideration businesses political ties to the governing regime and the extent they benefit from it.

The second independent variable – “fear” - was also introduced by (Bellin 2000). This variable measures to what extent businesses are fearful from populist movements that could takeover in a democratic system leading to higher taxes or any policies that would affect business profits sustainability. Similarly, it measures businesses fears from disrupting political events that could create operational risks for them.

3.3. Data collection methods:

The study follows a critical qualitative approach and combines it with cross-referencing quantitative data and firsthand insights collected from published reports. By critical qualitative approach we mean that this thesis will be following an approach that is “questioning, investigating and challenging” the issues related to power and authoritarianism in state-business relations. This method will allow me to understand the “cultures, beliefs, and values” of the Jordanian private sector with regards to democratization and authoritarianism. To answer the questions mentioned earlier, I conducted five semi-structured interviews with Jordanian business elites to investigate under what conditions they will be more probable to push for democratic reforms or vice versa. Moreover, I depended on official documents like Jordanian banks annual reports, the social security investment fund annual reports, government fiscal data, press releases, policy papers, and academic research papers. The following table shows the exact data sources that I used to measure my research variables.

TABLE 1: DATA SOURCES

	Variable	Data Sources
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Dependent Variable	Voice Vs. Loyalty	<ol style="list-style-type: none"> 1) Interviews with business elites. 2) Published statements by business elites that indicate voice or loyalty.
Independent Variables	State-dependency	<ol style="list-style-type: none"> 1) Government public finance data (investments in different sectors, debt from local banks, subsidies, and tax revenues). 2) Social Security Investment Fund investments in the banking and industrial sector. 3) Businesses leaderships and their social connections to the state. 4) Interviews with business elites.
	Fear	<ol style="list-style-type: none"> 1) Interviews with business elites. 2) Published statements by business elite and business associations.

3.4. Case Selection:

This study will be comparing different cases of business elites to examine what drives the difference of business elite in their support to the democratization of authoritarian regimes in rentier states. Mainly, the study compares the attitudes toward democratization between the Jordanian banking sector and the Jordanian industrial sector. Thus, this research will help us in understanding why business elite political behavior and attitudes towards democratization variates. Different sectors might have different political preferences depending on the nature of their sectors and their business needs. Therefore, we cannot depend on the literature that deals with the business elite as a homogenous community as (Bellin 2000 & Pleines 2019) did. As mentioned earlier, these approaches was not able in helping us why business elite did not support democratization in cases where we expect they will. Thus, focusing on the micro-dynamics of business sectors is important in understanding business elites' attitudes toward democratization. The Jordanian case shows variation in different sectors political attitudes, and this thesis will be analyzing this variation.

3.5. The study timeframe:

This study will focus on the post Arab Spring era. The regional conflict in the middle east after the Arab spring had a significant impact on the Jordanian economy which pushed the Jordanian government to follow harsh economic policies that included elimination of subsidies, raising taxes, and reducing exemptions. Moreover, after 2011, Jordan started to feel the impact of the rapid liberalization that took place in Jordan between 1999 and 2010. Thus, the post Arab Spring era (after 2011) would show us a how weak economic performance and liberalization would affect business elite attitudes in Jordan.

4. Empirical Analysis:

4.1. The context:

Within the context of hybrid and authoritarian regimes, rentier states follow policies of business elite co-optation through rent distribution or selective political representation. Therefore, business elite political strategies differ depending on the level of privileges they receive and the level of political influence they could have over these regimes – state dependency.

Rentier states are the states where the state mainly and extensively depends on external rents to finance its local needs. They include countries like Saudi Arabia, United Arab Emirates, Iran, Iraq, Kuwait, Qatar, Algeria, Libya, and other Latin American and African countries.

In general, rentier states are rich with natural resources like oil and gas. These resources allow these states to have authoritarian regimes that can co-opt elites through rents distribution. These rents are distributed in the form of production and consumption subsidies, tax exemptions, increasing access to low-cost credit facilities, government tenders, and exports and imports special rights licenses. Moreover, these states are generally characterized by large public sector employment, high levels of subsidies, and low levels of taxation. These provisions allow these regimes to play a "tit-for-tat" game with the business elites. This game entails that the business elite receive privileges that allow them to sustain their profits. Hence, these businesses follow a political behavior that is more loyal to the ruling political regime. In some cases, they become an integral part of the existing regime due to cronyistic relations with state elites.

The same dynamic also applies to semi-rentier states that also depends on external rents – mainly foreign aid and remittances – to secure the loyalty of business elites.

However, in the recent years, the fiscal capacity of many these regimes started to decline due to the fluctuations of oil prices or the decline of foreign aid inflows in the case of semi-rentier states. Hence, they started to follow economic liberalization policies to reduce the financial burdens incurred by their governments and to give a higher role for the private sector in promoting economic growth. This implied less privileges for the private sector elites in terms of rents; which would motivate the business elites to push for democratic reforms that allow them to influence economic policy making – according to rentier state theorists. In rentier states that witnessed some economic liberalization measures like in Saudi Arabia and Kuwait the business elite where not comfortable with these measures, however, they were co-opted by the ruling regimes. In India, the traditional business elite that used to depend on state resources opposed liberalization measures (Chandra 2015; Kochanek 1987).

However, in some cases the business elite support for democratization is less clear and it follows more passive ways due to certain country specific characteristics. The case of Jordan is one of these cases, where different sectors have different attitudes and where state-society relations could impact the way businesses looks at political change. In general, survey data shows that businesses in Jordan are dissatisfied with the current economic situation in the country and the government performance, however, they are not active in promoting political reform. This thesis will add to the literature of business elite attitudes toward democratization by examining the Jordanian case and trying to explain why the Jordanian business elite did not become promoters of democracy despite their dissatisfaction with their government.

4.2. Voice Vs. Loyalty:

4.2.1. History of State-Business relations in Jordan at a glance:

Historically, state-business relations in Jordan were characterized by fluctuations between having close ties and the marginalization of the private sector. In the early years of the Emirate of TransJordan that was established in 1921, the Jordanian business elite had close ties with Emir Abdullah of Jordan. The relationship between the Emir and the Jordanian business elite was based on exchanging benefits. They used to fund his palace budget, while he gave them access to the government and state resources. Later, after Jordan obtained its independence from the British in 1946, state-business relations in Jordan gained new momentum. Between 1946 and 1970, state-business relations took a developmental nature. Katherine Blue Carroll describe it; "benevolent-paternalistic," where beside providing several types of tax exemptions, the state engaged in "negotiations with the elite merchants, offering them monopolies, financial assistance, and protection in exchange for their participation in industrial projects" (Carroll 2003: 29). However, with the violent clash between the Palestinian militias and the Jordanian regime in the 1970s, the Jordanian state took a dominant role in the economy for security and political reasons. This state domination of the economy led to a new era of private sector marginalization and selective favoritism. However, this state domination was challenged later by an economic crisis that hit Jordan by the end of 1980s. This crisis led the Jordanian government to follow economic liberalization policies after 1989. These policies aimed at giving a higher role to the private sector to promote economic growth. The policies included the elimination of subsidies and privatization of publicly held corporations. This liberalization took a rapid manner after king Abdullah succeeded his father king Hussein in 1999. King Abdullah was a modernizer. This modernization included a rapid liberalization, joining the WTO, and

a higher role for the private sector in promoting growth and making policies. However, these policies were challenged by the global financial crisis in 2008, the Arab Spring in 2011, and the local contexts of corruption, cronyism, clientelism, and tribalism. These contextual issues combined with the liberalization of the Jordanian economy, announced a new phase of state-business relations in Jordan. Many businesses became dissatisfied with the poor economic situation, while other benefited from the status-quo. Consequently, state-business relations became more complex.

Understanding this context is important to grasp the working and the dynamics of the business-state relations in Jordan. Within the mentioned context, the following analysis will explain how state-dependency and fear affected the business elite loyalty to the authoritarian states-quo in Jordan. For more detailed historical overview of state-business relations, check appendix A.

4.2.2. Understanding The Nature of Jordanian Business Elite Voice and Loyalty:

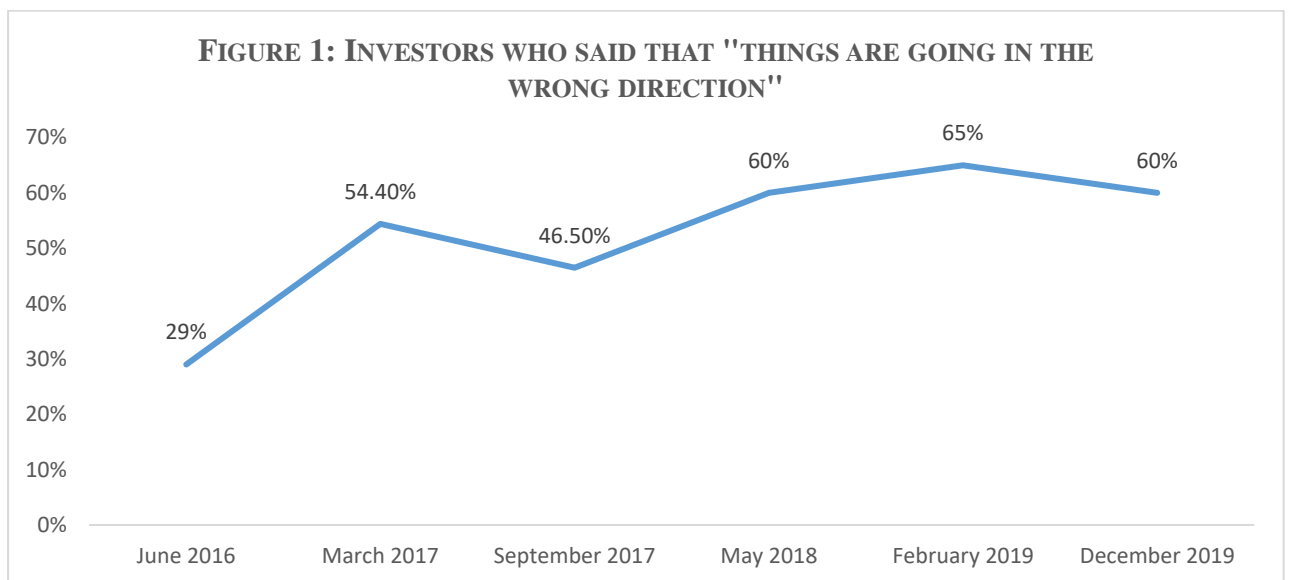
Until the start of economic liberalization in Jordan, in 1989, the business community in general was loyal to the political regime. This can be explained by two main reasons; first, the business community was less diverse and vibrant due to the dominant role of the state in the economy. Second, the business community enjoyed strong relations with the monarchy that enabled them to be coopted by rents. Therefore, at that time, the Jordanian business elite were not concerned about operating under a closed authoritarian regime.

However, with the start of economic liberalization after 1989, the rapid liberalization after King Abdullah assumed the throne, and more importantly after the economic deterioration in the post-Arab spring Era; business elite dissatisfaction increased.

In the past few years, the Jordanian business community became more vocal about their dissatisfaction with the situation in Jordan. According to the sixth wave of the

'Jordanian investor confidence' survey published by Jordan Strategy Forum in 2020, 60% of business leaders in Jordan that the overall situation in Jordan is going in the wrong direction (JSF 2020). Figure 1 shows that there was an increasing level of Jordanian business leaders saying that things are going in the wrong direction in Jordan. In the same survey, 68% of the respondents said that the business environment in Jordan is discouraging. When they were asked why, 28% of them referred to "the high taxes," and 20% referred "the complicated procedures and instability of regulatory environment." Although, these are not political complaints. Still, they remain as dissatisfactions with public policy in Jordan, that result from politics in the first place.

FIGURE 1: INVESTORS WHO SAID THAT "THINGS ARE GOING IN THE WRONG DIRECTION"



Source: Jordan Strategy Forum "Investors Confidence Survey" (2016-2019).

In general, business elite in Jordan does not use political tools like the parliament or political parties to voice their satisfaction. They usually voice their dissatisfaction through passive ways or through their direct connections with executive policy makers. Similarly, they use business associations such as the chambers of commerce and industry, the Jordan Strategy Forum, the banks association, and other organizations to influence policy making. However, the impact remains limited as they do not have

influence on the regulatory process through the parliament. In the following subsections, I provide an analysis of the levels of voice and loyalty of both the industrial sector and the banking sector in Jordan.

4.2.2.1. The Industrial Sector:

The Industrial sector can be considered as one of the most active sectors in voicing their dissatisfaction in Jordan. Industrialists have been vocal about many issues including trade policies, fiscal policy, and the overall business environment. In one of the meetings conducted by the Jordan Strategy Forum in 2019 to discuss the outcomes of the London Conference of Donors⁵, Iyad Abu Haltam, a Jordanian Industrialist was very critical about the government performance in handling the economy. In the presence of the minister of planning and international cooperation, the minister of finances, the minister of digital economy, the minister of state for investment affairs, and the attendance of some royal court officials and donor countries ambassadors, Mr. Abu Haltam expressed his "concern about the government negligence of the industrial sector." For Abu Haltam, economic growth should not be about FDI attraction, its about "how to grow a micro company to be small, then medium, and then large," yet, Abu Haltam explicitly told the government in that meeting that he is "confident that many local investors are considering moving out of Jordan." In this meeting, Mr. Abu Haltam expressed an increasing trend of dissatisfaction among the industrial sector in Jordan. The investor confidence survey by the JSF shows that increasing trend. In the sixth wave of the survey, when asked about their intentions to move their businesses out of Jordan, 23% of the investors in the Industrial sector in Jordan said they are thinking of moving out.

⁵ A conference that was conducted by the British government to assist Jordan with international aid to meet its economic challenges and to deal with the refugees crises.

Beside being critical about the overall situation in Jordan, the industrial sector also focused on specific issues like the unfairness of the bilateral and the multilateral FTAs that Jordan signed with other governments. For example, the continuous criticism by the Jordanian industrial sector for Jordan's FTA with Turkey, led the Jordanian government to cancel it in 2018 (Turkpress.co 2018). One of my interviewees who works in the chemicals industry outlined that the Jordanian industries are facing unfair competition.

"The FTAs have intensely harmed the local industries, when you allow some products to enter the market from Saudi Arabia or the UAE, you are basically exposing the Jordanian products to an unfair competition with subsidized products⁶"

Additionally, fiscal policy is one of the main issues that the Jordanian industrial sector voice their dissatisfaction with. Again, in another meeting organized by the JSF to discuss the government's fiscal policy, many of the industrial sector leaders criticized the inefficient fiscal management of the energy sector and Amman's municipality. A leading industrialist outlined:

"The competitiveness of the Jordanian industrial sector is being challenged by costs of electricity. In the industrial sector we pay for the inefficiency of electricity production, waste, stolen electricity, and poor subsidies. [...] Do you think it's the interest of the poor to kill the competitiveness of our local industries?! This will create more poverty!"

Similarly, when the government proposed a controversial income taxation law in 2018, the chamber of industry in Jordan did not hesitate in voicing its dissatisfaction with proposed law. The chamber considered the law "unjust." Also, the chamber stated that such a law "does not indicate any does not guarantee a convenient investment climate" (Jordanzad.com 2018).

⁶ Interview with a Jordanian industrialist who works in the chemicals industry.

Yet, despite being voiceful with criticizing the government's economic policy in Jordan, the industrial sector was more passive in criticizing authoritarianism in Jordan and how the country is run politically. In an interview with a Jordanian industrialist who employs more than 6000 people in Jordan, he told me that "the private sector developed apathy toward politics in Jordan, because they don't want any headaches with the state. They tried a lot, and it didn't work, and they don't want to try again to not hurt their businesses." When I asked the same person why they don't form or engage in political parties, he responded that "the system does not allow you."

Similarly, another industrialist told me that the "the genuine reformers in Jordan are frustrated," because of national situation. He adds that on the personal level he does not want to engage with politics; "Personally, I put my effort in my business. I don't want to get close to the sphere of politics in anyway or any capacity, because people like me will only lose in this sphere."

At the same time, the industrial sector in Jordan aspire to see political openness in the country. "Political and economic reform have to go in parallel," one of my interviewees stated. Likewise, another industrialist highlighted the importance of political reform in Jordan describing democratic politics as an "enabler of the private sector." He elaborated:

"Political reforms matter very much for the business environment, especially having political parties. We need parties that have economic strategies built on evidence-based studies. Parties that can recruit people who really care about the nation's interests. We also need parties that can support officials who have the right approach. Also, we need better representation for the people and interests in the parliament."

Therefore, we can see from interviews with leading industrialists in Jordan, already published reports, and public statements, that the industrial sector is becoming more vocal and enthusiastic about democratic reforms.

4.2.2.2. The Banking Sector:

The banking sector can be compared as the most loyal sector to the government and the political regime in Jordan. This is inferred from to main facts. First, the banking sector is the least critical to public policy in Jordan. Second, beyond taxes and lending, the banking sector is a main financier and partner of the Jordanian government development initiatives. This sector is a governmental partner in several development funds that aims to promote entrepreneurship and startups. For example, five of the major Jordanian banks are main shareholders – owning 26.6% - in a company owned by the central bank of Jordan that aim to provide credit guarantees for startups and the promising industrial and commercial organizations; "The Jordanian Loans Guarantee corporation (JLGC)." Similarly, as the government lacks the fiscal capacity to fund mega PPP projects. The government of Jordan represented by the 'Social Security Investment Fund' signed an agreement with the Banks Association to establish an investment fund that "aims to invest in infrastructure projects and mega development projects" (Jordan investment commission 2020). Even in times of crisis, the banking sector is the first to help the government of Jordan. When the COVID19 pandemic erupted, the Jordanian government established a relief fund to that investors can contribute to, the aim of the fund was to support those who were economically harmed by the lockdowns. The fund received donations from 15 banks in Jordan that amounted around 26.8 million Jordanian dinars, these donations constituted around 28% of the overall donations received by this relief fund.

On the policy and regulations level, the Banks Association annual reports shows a high level of coordination between the banking sector and the Jordanian government on the policies relevant to the sector. Similarly, the statements of the sector leaders are mostly positive about the government policies. In a meeting with the minister of justice in 2014

to discuss the judicial procedures for the banking sector, the chairman of the banks association Bassem Al-Salem stated that such a meeting comes as a result of the association's "belief in the government seriousness in to solve all the obstacles that faces the different sectors and the economy as a whole" (ABJ annual report 2014). This positivity in addressing the government continues when the association deals with the central bank, the ministry of finance, and other government association. For example, in its different reports, the banks association is constant in describing the monetary policy in Jordan as "robust and prudent."

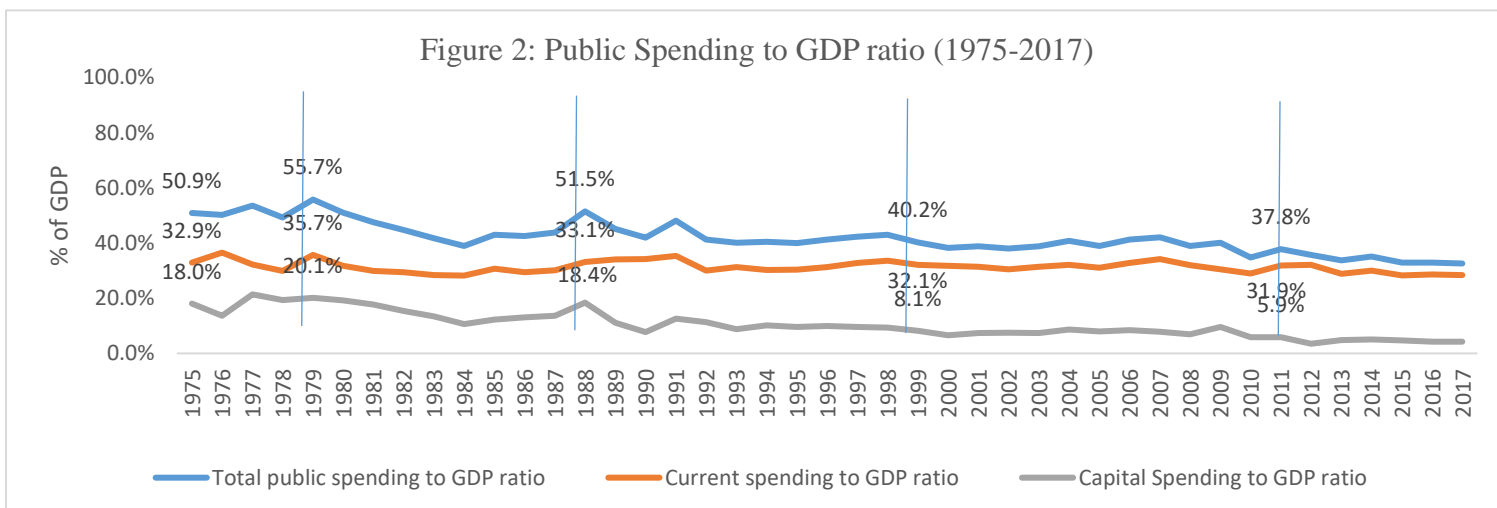
Thus, the banking sector in Jordan shows a consistent pattern of being loyal to the Jordanian government and its policies, with almost non-existent criticism to public policy in Jordan.

4.3. State-dependence:

As mentioned earlier, Jordan was found as a rentier state. This rentierism was reflected in a rentier social contract that shapes state-society relations in general, and state-business relations in particular. Business elite were always co-opted through the distribution of rents in the form of subsidies, tax exemptions, and government tenders. Therefore, the Jordanian private sector developed overtime to be state-dependent. However, this dependency started to decline gradually with the decline of state capacity in Jordan due to the decline of foreign rents, economic liberalization, and the poor economic performance due to the regional turmoil in the post-Arab-spring era. Figure 2 shows how governmental spending declined during the different eras mentioned earlier. For instance, the average total public spending in Jordan declined from 47.5% of the GDP during the rentier era (1975-2017), to 39% in the ten years that witnessed the implementation of the "social and economic transformation program" (2000-2011). Similarly, public spending also declined in the post Arab spring Era, where the average

total public spending in the period (2012-2017) reached 33.8%. This shows how the state role in the economy declined with both economic liberalization and the Arab spring. This also means that the private sector dependency on the state have declined during both periods⁷. A better indicator that could show the decline of private sector dependency on the state is public capital spending – a main source for government tenders for the private sector. During the rentier era (1975-1988), governmental capital spending amounted 16.2% of the GDP. Yet, this figure declined to 7.5% during the liberalization era (2000-2011), and shrank to become only 4.4% during the period (2012-2017).

FIGURE 2: PUBLIC SPENDING TO GDP RATIO (1975-2017)



Source: Central Bank of Jordan

The above-mentioned state-dependence varies by sector, some sectors are more dependent on state resources, while others are less dependent. The following two subsections will be analyzing the level of state dependence of two sectors: the banking sector and the industrial sector.

⁷ We were not able to reach any data in government financials that show the direct subsidies that goes to the private sector.

4.3.1. The Banking Sector:

The relationship between the banking sector and the state in Jordan is best described as interdependent. Governmental tax revenues from the banking sector constitutes around 67.1% from the total tax revenues that the government earn from the public holding companies in Jordan⁸. Moreover, the banking sector is considered as a major jobs creator in Jordan, where it employs 26.6 thousand Jordanian. More important, the banking sector in Jordan is a main financer of the Jordanian government, where local public debt levels reached 40.8% of the GDP by the end of November 2020⁹. Thus, the banking sector have a high leverage vis-à-vis the government.

On the other side, with the large amounts of financial facilities that it provides to the government, the banking sector is also highly dependent on the government in Jordan. For instance, financial facilities (loans and government bonds) provided by the banking sector to the Jordanian government constituted around 22.7% - on average – of the banking sector assets during the period 2010-2020. Thus, more than one fifth of Jordanian banks assets are from governmental sources – this should apply to profits accordingly. Similarly, through the Social Security investment fund (SSIF)¹⁰, the government is a main supplier for Jordanian banks liquidity. For example, the SSIF deposits in the Jordanian banks reached 1.35 Billion Jordanian Dinars. Moreover, the SSIF is a main financer for the Jordanian banks through its share holdings. In 2019, the SSIF was holding shares in the Jordanian banks that values around 0.96 billion Jordanian Dinars, which is way higher than the SSIF holdings in the industrial sector that reached only 0.29 billion Jordanian Dinars in the same year.

⁸ Based on the calculations of Jordan Strategy Forum, May 2018: <https://bit.ly/2Q8amC1>

⁹ This number is the official number after the subtraction of the Social Security Investment Fund holdings in the banking sector, and subtracting the public debt guaranteed by the SSIF. Thus, this ratio could be higher without accounting for the SSIF guarantees and holdings.

¹⁰ Managed and owned by the Government of Jordan.

Similarly, the Jordanian banking sector enjoys conservative monetary policy and the protectionist practices of the Central Bank of Jordan, making the sector highly monopolistic and weakly competitive. Currently, the CBJ bans the licensing of any new banks in Jordan. Despite that this is not mentioned in any official regulations. Yet, it is known to be the general practice of the CBJ. Asking a professor of Finance in the University of Jordan and a Banker in Amman, they both told me that the only justification that the CBJ tells you is: "we have sufficient banks." According to (Demirgüç-Kunt et. Al 2010), there was no new domestic banks that entered the system in Jordan between 1996-2010. Moreover, regarding foreign banks, in the period 2005-2010, the CBJ "received 23 inquiries from interested parties, but approved only 3 banking licenses." This rejection rate was higher than other countries in the MENA region including Jordan, Israel, Lebanon, Morocco, and Tunisia (Demirgüç-Kunt et. Al 2010). Although, even if an investor succeeded in getting an approval to establish a new bank in Jordan, the licensing requirements are the hardest in the MENA region. For example, the minimum capital required for a bank in Jordan is 56 US\$ million, which is higher than Israel (22 \$US million), Lebanon (7 \$US million), and Morocco (23\$ US million).

These protectionist measures enabled the Jordanian banking sector monopolistic practices which allows it to enjoy both wealth and profit protection. For example, lack of competition allows the Jordanian banking sector to have one of the highest' interest rate spread¹¹ ratio in the MENA region, and compared to other countries in the world. The available data for the period 2017-2019 shows that the average interest rate spread in Jordan for that period was 4.32% compared to a regional average of 2.65%¹².

¹¹ lending rate minus deposit rate

¹² Author own calculations based on the International Monetary Fund, International Financial Statistics and data files.

Beside the financial links between the Jordanian banking sector and the government of Jordan. Political links also exist. Many Jordanian state-men (Ministers, Prime Ministers, and senators) became chairpersons for banks, and many others became board members in these banks. For example, after the income tax law protests in 2018 that led to toppling down Hani Al-Mulki government. Omar Al-Razzaz, who served as a chairman for 'Ahli' bank in Jordan succeeded him. In fact, in 2019, on average, there were around two former state-men serving on the Jordanian bank's boards of directors, as shown in the table below.

TABLE 2: BANKS BOARD MEMBERS WHO HELD PUBLIC OFFICES

Bank Name	Board Members who held public office	Positions
Ahli Bank	1) Omayah Toukan	Governor of the Central Bank (2001-2010). Minister of Finance (2011-2012) (2013-2015)
	2) Emad Fakhouri	Minister of Public Sector Development (2009-2010) Minister of State for Mega Projects (2010-2011). Chief of Staff in King Abdullah's office (2011-2014) Minister of Planning and International Cooperation (2015-2018)
Housing Bank	1) Abdul Ilah Khatib (Chairman)	Minister of Tourism (1995-1996) Minister of Foreign Affairs (1998-1999), (1999-2000), (2000-2002), (2005-2007).
Jordan Commercial Bank	1) Ayman Al-Majali	Deputy Prime Minister, Minister of Information & Minister of Youth (1999-2000).
	2) Muhannad Shehadeh	Minister of Investment Affairs
Safwa Bank	1) Mohmmad Abu Hammour	Minister of Finance (2003, 2005), (2009-2010), (2010-2011)
	2) Ibrahim Saif	Minister of Planning and International Cooperation (2013-2015) Minister of Energy (2015-2017)
Capital Bank	1) Bassem Al-Salem (Chairman)	Minister of Labor (2005-2007) Minister of Finance (2005-2009)
	2) Mazen Darwazeh	Senator

	3) Ahmad Al Hanandeh	Minister of Digital Economy (2020-present)
	4) Jamal Al-Sarairoh	Minister of Transportation Minister of Telecommunication Deputy Prime Minister
Bank of Jordan	None	-
Arab Bank	1) Bassem Awadallah	Minister of Planning and International Cooperation (2001-2005) Minister of Finance (2005-2006) Chief of the Royal Hashemite Court (2007-2008)
	2) Khaled Irani	Minister of Energy Minister of Environment
	3) Alaa Bataineh	Minister of Energy Minister of Transportation Minister of Public Works
	4) Sulaiman Hafez Al-Masri	Minister of Finance (1997-1998), (2012-2013)
Islamic Arab Bank	1) Zaid Bahjat Al-Humsi	Senator
Al-Itihad Bank	None	-
Jordan Islamic Bank	1) Ayman Hatahet	- Minister of industry and trade.
	2) Salem Al-Khazaleh	- Minister of industry and trade.
	3) Hatem Al-Halawani	- Minister of industry and trade.
Cairo Amman Bank	None	
Jordan Kuwait Bank	1) AbdulKarim Al-Kabariti	Prime Minister
	2) Dr. Yousef Qsous	
	3) Dr. Marwan Muasher	- Jordan's Ambassador to the US. - Jordan's Ambassador to Israel. - Minister of foreign affairs. - Deputy prime minister.
	4) Dr. Marwan Awad	- Minister of Finance
	5) Dr. Safwan Toukan	- Senator
Invest Bank	1) Bassam Al-Saket	- Minister of agriculture
Société General Jordan	1) Fawaz Al Zubi	- Minister of telecommunications
ABC Bank	None	-
AJIB Jordan	1) Mohammad Sharif Al-Zubi	- Minister of Justice

Source: Jordanian banks annual reports.

Based on the above, we have clear evidences of high dependency of the banking sector on the state in Jordan. This sector dependency includes all the aspects of state-dependency as defined by (Bellin 2000); “subsidized inputs, protected markets, and cronyistic relations with state elites.”

4.3.2. The Industrial Sector:

The industrial sector in Jordan is less state-dependent than the banking sector. Also, it enjoys less state support than this enjoyed by agriculture and services sector¹³. This became more evident in the post 1989 era, and after Jordan joined the WTO in 2005. However, the reform measures which had a significant impact on the state-dependency of the industrial sector took place after 2012 as Jordan started to suffer from severe fiscal challenges.

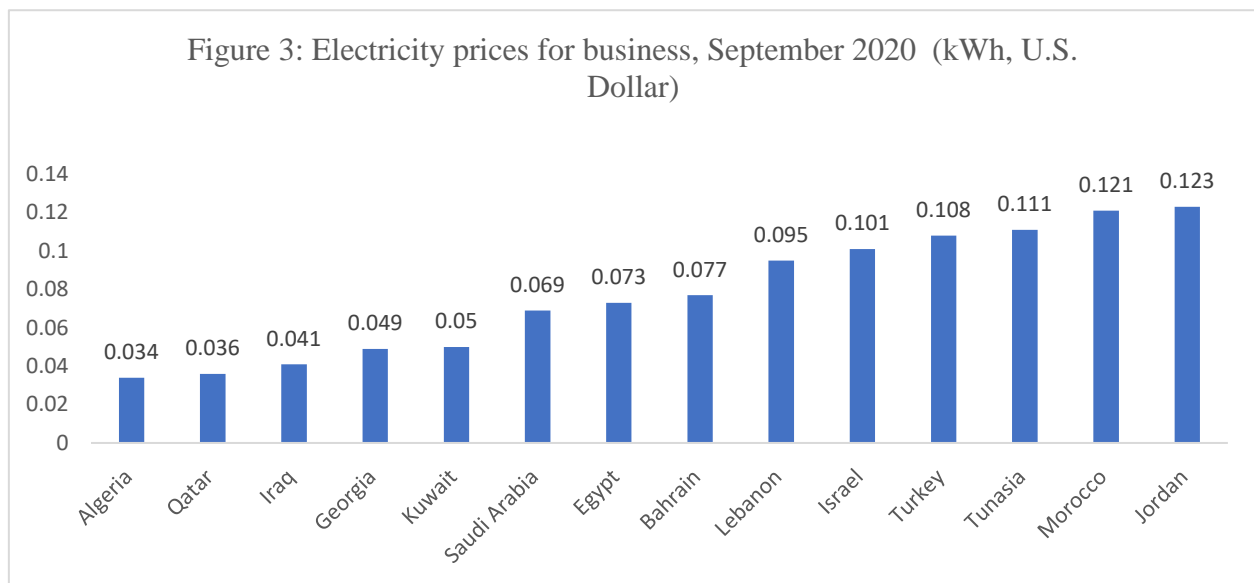
Jordan’s accession to the WTO and the different bilateral and multilateral trade agreements that it signed with countries in the region and around the world, exposed the Jordanian industrial sector to new modes of competition. Despite the fact that some trade agreements like the ‘GAFTA ¹⁴’ provided the Jordanian industries with preferential treatment. Yet, the weak development, lack of products complexity, and the high costs of production made the Jordanian benefits from these trade agreements minimal. Many Jordanian industrialists couldn’t meet the rules of origin standards in the importing countries. Moreover, due to high costs of production in Jordan, the Jordanian industrial products faces a weak competitive advantage vis-à-vis other countries products in the region. For instance, Jordan’s neighboring countries like Saudi Arabia and other countries in the Arab Gulf subsidizes their industries in huge amounts,

¹³ For example, the agricultural enjoy more tax exemptions as it’s a “vulnerable” sector. In the services sector, the tourism sector enjoys state support as a strategic sector. Similarly, the ICT sector is a zero tax and tariff sector.

¹⁴ Greater Arab Free Trade Area

while industrial subsidies in Jordan are minimal or non-existent due to the weak state fiscal capacity. For example, energy prices for the commercial and industrial sectors in Jordan are the highest in the region. Figure 3 shows that by the end of September 2020, electricity prices for businesses in Jordan was the highest in the MENA region¹⁵. Figure 4, shows that gasoline prices in Jordan are also the highest in the region¹⁶.

FIGURE 3: ELECTRICITY PRICES FOR BUSINESS, SEPTEMBER 2020 (kWh, U.S. DOLLAR)

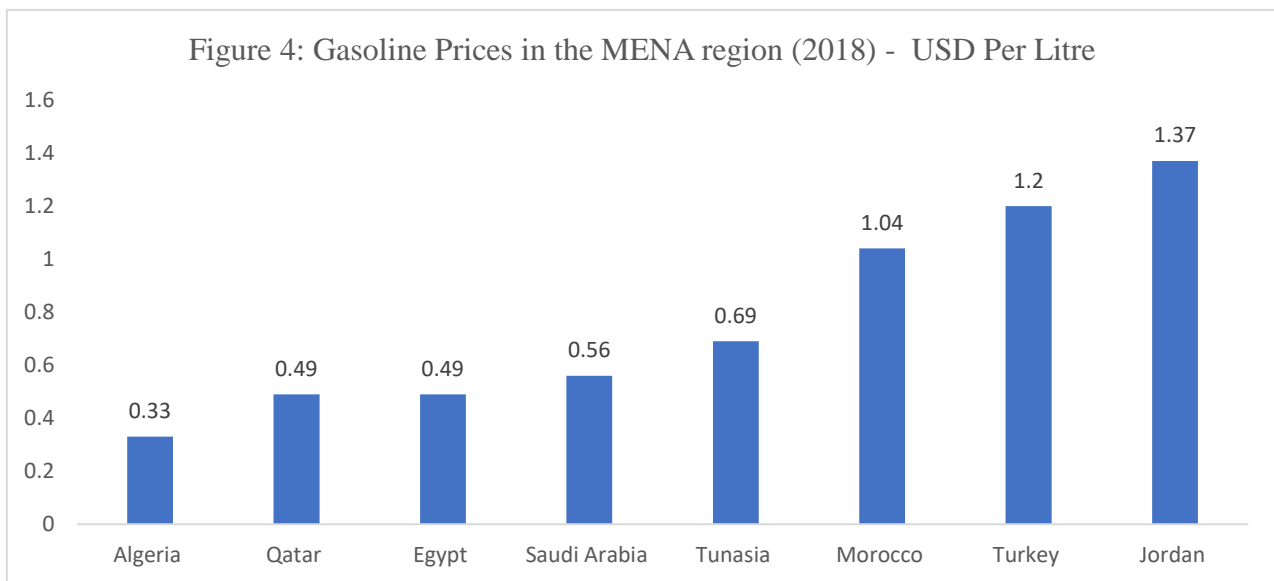


Source: Global Petrol Prices.com (2020), Electricity prices, 2020, https://www.globalpetrolprices.com/electricity_prices/

¹⁵ Global Petrol Prices.com (2020), Electricity prices, 2020, https://www.globalpetrolprices.com/electricity_prices/

¹⁶ IEA (2020), Energy Prices 2020, IEA, Paris <https://www.iea.org/reports/energy-prices-2020>

FIGURE 4: GASOLINE PRICES IN THE MENA REGION (2018) - USD PER LITRE



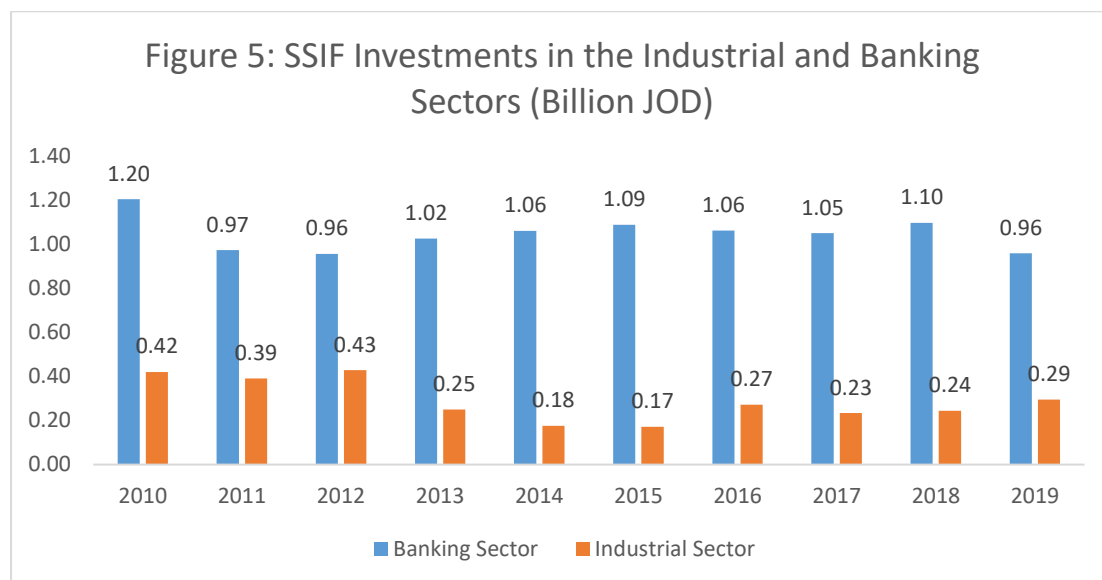
Source: IEA (2020), Energy Prices 2020, IEA, Paris
<https://www.iea.org/reports/energy-prices-2020>

On the fiscal side, In 2012, the government of Jordan started to remove subsidies on both oil and electricity prices which led to cost hikes in production costs in for the industrial sector. Similarly, the income taxation law amendments in 2018 – in compliance with the WTO agreement with Jordan – the Jordanian government enacted a gradual elimination of tax exemptions on the industrial sector profits (Jordan strategy forum 2018). Thus, the industrial sector will be paying 20% of their profits in taxes for the Jordanian government by 2023. This rate is higher than the income tax on both the professional services sector (Financial auditing, lawyers, engineering, etc), also higher than the taxes on the ICT sector.

Additionally, governmental investments in the industrial sector are significantly lower than those in the banking sector. For example, the average SSIF investments in the industrial sector for the period 2010-2019 was around 0.29 billion JODs compared to 1.05 billion JODs of investments in the banking sector for the same period. Figure 5

shows the gap in the SSIF between investments in the banking sector and the industrial sector.

FIGURE 5:SSIF INVESTMENTS IN THE INDUSTRIAL AND BANKING SECTORS (BILLION JOD)



Source: SSIF annual reports (2010-2019).

Based on the above, the industrial sector is minimally dependent on the state in Jordan. Moreover, this sector did not benefit from liberalization policies that took place in Jordan in Jordan over the past two decades. Therefore, weak state-dependency of could be a main explanatory variable of this sector dissatisfaction, voice, and support for democratic reforms and improved governance.

4.4. Fear:

4.4.1. The Banking Sector:

As mentioned earlier, the banking sector in Jordan is less active in voicing their dissatisfaction with public policy and politics in Jordan. Moreover, this sector could be considered as fearful from the uncertainty associated with political change or instability that can cause potential disruptions in the financial system and the macroeconomic environment. This was evident in the Jordanian banks' annual reports, the Banks association publications, bankers' public statements. For example, in 2016, Adli

Kandah, the director of the banks association in Jordan participated in the “Arab Banking Integration Conference.” In that conference, Kandah presented a working paper that described the Arab Spring as “costly.” Similarly, the association statement of this working paper used a denouncing language of the Arab Spring describing it as “the so-called Arab Spring,” – In Arabic its critical way to address something. Likewise, in an interview with the chairman of the association, Hani Al Qadi, in July 2020, he explained the poor economic situation in Jordan by referring to “the negative impact of the Arab Spring.”

In addition to this fear of change, the banking sector is also fearful from the authoritarian status-quo in Jordan. A senior banker in Jordan told me that they fear some authoritarian policies driven by “populism,” like “anti-banking regulations (tax or other) driven by revenue-seeking & populism.” Moreover, he told me that the banking sector is concerned about the authoritarian apparatus practices that lead to draw a “public image of banks being the “villains” of society.”

In an interview with an executive Jordanian banker, he described major political changes like the Arab Spring as “risk items.” But by saying that he told me that this does not mean that the banking sector is anti-democratization. This sector “prefer stability, but this does not mean that we promote oppression,” he explained. “Financially speaking, no one cares about political directions as long as they are being only political directions. If you are a shop selling sandwiches, you don’t care if you sell it to right, left, or liberal.” The major concern of the banking sector is that the business environment is operating smoothly and with certainty.

“Its an operational risk, disruption of business, disruption of capital inflows, or security chaos, all of these are risk items, because the banking sector is both promoter and follower of business, if the business environment was disrupted, the finance industry get affected”

Moreover, the banking sector is fearful from radical change that could cause uncertainty. In the same interview, the banker told me that “unplanned, quick, aggressive, and radical change will disrupt the financial system.” For example, “In the Jordanian context, going Islamic is a problem.” He also added:

“Disrupting the process with populist political actions whether leftist, Islamic, or right, will have negative consequences”

The preference of operating in business-friendly environment does not mean that the Jordanian private sector does not prefer democracy too. As the banker told me: “long term political reforms are something else. Good governance and good rule of law is good for everyone.”

Therefore, driven by the unstable politics of Jordan, and the polarized environment between the people reform aspiration and the authoritarian regime, the banking sector in Jordan is characterized by two aspects of political fear. First, fear of turmoil and unrest associated with political change that is driven mainly by banks need for macroeconomic stability. Second, fear of authoritarian practices that could destabilize the business environment. However, these two factors do not lead us that the banking sector prefers the current autocratic status quo despite its fear from democratic change.

4.4.2. The industrial Sector:

In general, the industrial sector in Jordan is less fearful from democratic reforms than the banking sector. In July 2011, amid the intense and hot summer of the Arab spring in Jordan, the Jordanian chamber of industry issued a statement affirming that economic dialogue with the government must go “side by side with the political dialogue” (Alghad” 2011). Therefore, we have a clear statement from the industrial sector in Jordan showing their interest in political reform in Jordan, and that it can’t be separated from political reform. This support for political reform for this sector goes against Eva

Bellin's argument of business elite being "contingent-democrats". Where she stated that business elite could be fearful from political unrest that accompanies political change. Interviewing Jordanian industrialists, they showed a firm interest in political reform in the country. More important, they showed that they are not fearful from political change, populist movements, or the Islamists. Yet, they are more fearful from the authoritarian apparatus of the state. Regarding the risks associated with political change, one of my interviewees stated that political change and democratization will be "hard and risky in the beginning, but latter it will be definitely an enabler for businesses." Similarly, another industrialist said that "there wouldn't be any chances that the Islamists would do anything that could hurt businesses" in Jordan. Moreover, they showed a fear from the current authoritarian status quo rather than a fear of change. In an interview with a corporate lawyer in Amman, he clearly stated that "The Jordanian private sector fears Authoritarianism." In a more direct manner, an industrialist told me: "I don't want to be active in advocating for political change, because I want to keep myself and by business safe."

Therefore, the findings indicate that the industrial sector in Jordan is not fearful from democratic reforms in the way that (Bellin 2000) define it as a fear from social unrest. Yet, the findings add to Bellin's concept of fear by finding that some business elite could be less actively supportive for democratic reforms due to their fear from authoritarianism.

4.5. Summary of Findings:

The analysis tried to measure the impact of state-dependence and fear on business elite attitudes toward democratization. The Jordanian case was the main sample for the

research. To achieve the research goals, the thesis tested two main hypotheses, those are the following:

H1: The higher the dependency of the business elite on the state the lower the support of businesses for democratic reforms.

H2: The more fearful the businesses from populist movements the lower their support for democratic reforms.

Considering the heterogeneity of business elite, the thesis followed a comparative approach, where I compared the industrial sector, and the banking sector attitudes toward democratization in Jordan. The results show that the industrial sector was more keen on democratization than the banking sector, The determinants of these results are summarized in the table below.

TABLE 3: SUMMARY OF RESULTS

	Independent Variables		Dependent Variable
	State Dependence	Fear	Voice Vs. Loyalty
The Banking Sector	High level of dependence	High level of fear	Loyalty
The Industrial Sector	Low level of dependence	Moderate level of fear	Voice

The table shows that when a sector enjoys a higher level of dependence on the state, in addition to a higher level of fear from populist movements they become less pro-democratization and more loyal to the authoritarian regime. This was the case of the Jordanian banking sector. On the other side, the industrial sector was more voiceful of its dissatisfaction and more pro-democratization in Jordan. This is explained by the low level of dependence on the state, and the moderate level of fear.

5. Conclusion:

This thesis tried to test Bellin (2000) hypothesis of business elite and aristocracy being “contingent democrats” in the Jordanian case. She argued that “for capital, democratic enthusiasm hinges on its level of state-dependence and fear of social unrest” (Bellin 2000). However, despite the importance and robustness of Bellin’s hypothesis, it neglected the possible variation of political attitudes toward democratization between different business sectors. Moreover, it did not consider a representative sample of rentier states and how businesses could become democratizers or not in such states. Therefore, this thesis aims to test Bellin’s variables – fear and state dependence – in the context of economically liberalizing reinter states. Jordan was the main case that represents such contexts. To do so, the thesis followed a comparative approach where we compared the attitudes of the industrial and the banking sectors toward democratization in Jordan.

The findings show that we cannot deal with business elites as a homogenous community. The attitudes of these people toward democratization variates according to the sector that they operate in, and how this sector is impacted by the economic policies that govern their businesses. For instance, we found that the Jordanian case shows that the industrial sector is more enthusiastic for democratic reforms and openness more than the banking sector.

Within the same context, we find that “state-dependence” and “fear” have a strong explanatory power in the Jordanian case. First, in the case of the industrial sector, the findings indicate that the declined state-dependence of this sector made it more pro-democratic reforms. In addition, due to the poor official performance in managing the economy, this sector became less fearful from democratic reforms, and they think that it will be in the interest of their businesses. Second, regarding the banking sector, we

found that the high dependency on the state and the high level of fear from social unrest made this sector less supportive for democratic reforms and more loyal to the illiberal incumbent.

Hence, the hypothesis introduced by Bellin (2000) can be accepted in general. However, some modifications are needed. First, we must take in consideration the differences in interests of the different business elite groups. The contrast that (Bellin 2000) makes between labor and capital might not be enough to explain the different social groups support for democratization. Second, some modifications are need to the conceptualization of the “fear” variable. The Jordanian case shows that the private sector fears the authoritarian state practices as much as it fears populist movements under democracy. Therefore, we have to take into consideration that the business elites might be enthusiastic to support democratization, however, they could be fearful of jeopardizing their business due to the authoritarian practices of the state.

Notwithstanding these findings, this research project was faced by some limitations. First, time and covid19 limitations made it harder to conduct fieldwork in terms of surveys and additional interviews. A survey tool would be helpful in measuring the business elite attitudes toward democratization on a wider scale. Survey results would help us on a later stage to conduct a cross country comparison to empirically test the validity of (Bellin 2000) hypothesis. Second, this study was challenged by the lack of data on the industrial sector in Jordan. The legal nature of the industrial sector in Jordan makes it disclosive about its financial and organizational structure. On the other side, the banking sector is obliged to disclose its financials and its organizational details. This data gap created some mismatches in the analysis. However, this could be solved in future research project by conducting extensive fieldwork and archival research.

More important, there are still many venues for future research on this issue. To improve our understanding of what determines the business elite attitudes toward democratization, we need to build a cross-national data set on the potential causes of business elite support for democratization. For instance, we need to employ survey tools and archival data to build a dataset on “state-dependence” and “fear” where we can compare countries with each other and overtime. Additionally, its important in the future when we study business elite attitudes toward democratization that we take into consideration a matrix of power vs. interests. Business elites might prefer to operate in a democratic environment; however, they might not have the power to transform the authoritarian status-quo. This was clear in the case of the Jordanian industrial sector. Finally, in future research we have to consider that the determinants of the business elite attitudes toward democratization are shaped by contextual conditions. In other words, business elite attitudes toward political regimes does not change in stable periods. They change in unstable times. The Jordanian case shows that the “state-dependency” and “fear” variables changed while Jordan was going through major contextual transformations like the decline of rentierism, liberalization, and the Arab Spring.

Appendix A:

Since the establishment of the Emirate of TransJordan in 1921 as British protectorate, state-business relations fluctuated between having strong ties and marginalizing the business community. Headed by Emir Abdallah and under British colonial control, the Emirate of Transjordan constituted a hub for merchants who started to come to Jordan from Syria and Palestine. Being under the British mandate, merchants operating in Jordan had an exporting access to other British colonies in the region. Nevertheless, the British mandate practiced discriminatory policies against the local business elite. The mandate favored British exporters and industrialists over their Jordanian counterparts, insuring that “no infant Jordanian industry could survive” (Carroll 2003: 26). However, despite the colonial discrimination, Jordanian merchants enjoyed special relationships with the Emir who “was often in need of personal funds” (Carroll 2003: 26). Katherine Blue Carroll describes the relationship between the Jordanian merchant community and the Emir as the following:

“Amir Abdullah supported the merchants, but this did not come without a price. In exchange for access to the monarch, merchants were expected to make up for shortfalls in the palace budget [...] When Abdullah’s social expenditure exceeded his personal allowances from the British, he turned for his merchant friends for funds.”

This special relationship was evident in many cases. For example, Subri Tabba, a leading member of the Amman Chamber of Commerce, met “frequently” with Emir Abdullah to discuss “commercial issues” (Moore 2004:63).

Thus, if we look at the difference between how the colonial authorities dealt with the Jordanian merchants, and how the Emir dealt with them, we find that since the establishment of Jordan, the business community had a variegated nature of relations with the different governing authorities in the country.

This dynamic of state-business relations in terms of business influence, or marginalization, was changing overtime. This was mainly influenced by political developments overtime. For example, one of the peaks of business power was in the 1940s, the Jordanian business elite connections to the monarch and state executives helped them to delay the advancement of an income taxation law that was proposed by the British authorities to capture some of the profits Jordanian merchants made during WWII. According to (Moore 2004: 66), the President of the ACC “succeeded in delaying the tax for a year by collecting the proposed tax amount from ACC elites and turning it over the Ministry of Finance.”

This power of the Jordanian business elite increased the fear of the British officials regarding the influence of these elites. Thus, the British aggressively pushed to implement the law. More important, they amended it by tying the tax exemptions authority with the prime minister to make it harder for business elite to get exemptions (Moore 2004 & Carroll 2003). To oppose the law, the Jordanian business elite managed to organize a general strike. Yet, the law passed.

In a later stage, when Jordan gained independence from Britain in 1946, the dynamic of state-business relations changed again. Between the late 1940s and the early 1970s, state-business relations in Jordan could be described as developmental, or as Katherine Blue Carroll describe it; “benevolent-paternalistic,” where beside providing several types of tax exemptions, the state engaged in “negotiations with the elite merchants, offering them monopolies, financial assistance, and protection in exchange for their participation in industrial projects” (Carroll 2003: 29). This was also part of the rentier social contract that characterized state-business relations in the emerging monarchy: “Jordan has been characterized by aspects of rentierism from its very beginning” (Clark 2018: 54). In the colonial period, the state was fully funded by the British mandate, and

later after independence Jordan enjoyed high amounts of developmental aid from the United States and Jordan's Arab allies. This developmental aid was used to both co-opt business elite and to encourage them to participate in the state developmental projects. This cooperation led to "the establishment of all the major Jordanian industries of the 1950s such as the establishment of the Jordan Cement Factories Company in 1951, the reorganization and extension of the Jordan Phosphate Mining Company in 1953, as well as the establishment of the Jordan Petroleum Refinery Company in 1956 and the Jordan Vegetable Oil Industries Company in the same year, were grounded on public-private partnerships" (Heydemann 2004: 140). This partnership allowed both the state and the business elite to have almost similar powers vis-à-vis each other. On one hand, the private sector received tax exemptions and subsidies as they participated in state development projects, while on the other hand the state had leverage over the private sector where it had a controlling share in industrial companies owned in a partnership with the private sector. For instance, there were two main cases that show how the state used these shares for business elite cooptation. In the first case, "the local agents for oil companies such as Shell, Caltex, or Mobil were against the establishment of the petroleum refinery." To co-opt them, the state threatened them by the withdrawal of their import licenses, or giving them shares in the newly established companies if they support the establishment of the refinery. Ultimately, "the merchants agreed to take shares in the new companies" (Heydemann 2004: 140). In the second case, the state used its power through holding majority shares in these companies in appointing the executive boards. "Positions on such boards gave elite merchants an advantage in acquiring government contracts and influencing future purchases" (Moore 2004: 69). Therefore, despite the authoritarian nature of the Jordanian state in the colonial period and after independence, the state enjoyed a satisfactory level of business elite loyalty.

This loyalty is mainly explained by two methods of business elite cooptation. First, cooptation through employing foreign rents in providing tax exemptions and subsidies to the private sector. Second, cooptation through building direct connections between the state senior executives and bureaucrats.

The mentioned loyalty was explicitly manifested during the September 1970 civil war between the Jordanian Army and the Palestinian Liberation Organization (PLO). In the middle of that September the Palestinian dominated ACC held its board elections. In that elections, “a group of PLO-affiliated candidates” ran against the traditional, old, and regime connected merchants. “Despite the fact that the ACC was by 1970 a fully Palestinian institution, PLO candidates were completely defeated” (Moore 2004: 102). Consequently, the war resulted in more marginalization of the Palestinian population – where most of the merchants come from. Also, the state increased its control of the economy, leading to more business elite marginalization. That was also intensified by the upsurge of foreign rents that Jordan received during the 1970s. The significant increase in oil prices after 1973 increased Petro-dollar inflows from gulf countries to Jordan in the forms of official aid and Jordanian expat workers remittances. In the period 1970-1974, foreign aid constituted 18.01% of the GDP and expat workers remittances constituted 3.98% of the GDP. During 1975-1979, foreign aid peaked to reach 31.17% of the GDP and workers remittances jumped to reach 19.58% of the GDP (Husein 2019). In addition to remittances and foreign aid, the Jordanian state also enjoyed some external revenues from its publicly held national companies. Thus , the Jordanian state was heavily dependent on foreign resources that allowed it to expand the public sector and to enjoy a high level of autonomy vis-à-vis the private sector business elite. Thus, state-business relations in that period were characterized by “Partnership, cooptation, and coercion” according to (Carroll 2003).

Thereon, because of the high level of official dependency on foreign rents for development, weakness of the private sector, poor governance, and excessive governmental spending. Jordan faced a severe economic crisis due to the decline in foreign aid and workers remittances by the end of 1980s. Foreign aid plummeted from 23.9% of the GDP during 1980-1984 to only 9.4% of the GDP in the period 1985-1989. Similarly, expat workers remittances declined from 22.8% of the GDP to 16.30% for the same periods (Husein 2019). Therefore, Jordan was forced to replace foreign aid with borrowing to maintain its “expensive” rentier social contract. Borrowing and high governmental current spending, accompanied with the decline of foreign aid and remittances led Jordan to face a serious currency crisis. This economic crisis left no choice for Jordan but to request the IMF support “in order to reschedule foreign debt and restore access to badly needed credit.” The IMF pushed Jordan to adopt monetary and financial liberalization measures. These included the liberalization of exchange rate regime, the financial sector, and the capital account. (Harrigan et. Al 2006). Consequently, during 1988, “the Jordanian dinar experienced sharp declines (totaling 45 per cent of its value) against the US dollar” (Brynen 1992). Similarly, the IMF pushed for the liberalization of interest rates, where interest rates skyrocketed leading to an increase in banks non-performing loans (Harrigan et. Al 2006). This situation caused a complex socio-economic crisis leading Jordanians to revolt in April 1989. As a response, King Hussein Ibn Talal of Jordan took measures for political liberalization in the country that included the termination of martial laws, in addition to calling for the first free and fair elections in the country since 1957. Once again, these measures of economic and political liberalization led to a new era of state-business relations. According to (Greenwood 2003), political liberalization that took place in Jordan after 1989 gave businesses “greater opportunities to influence government policy making.”

However, it was not the case. Fieldwork by (Carroll 2003) shows the quite opposite.

She elaborates:

“The process of change in state-business relations has been overwhelmingly extra-democratic – negotiated outside Jordan’s parliament. Jordanian businesspeople have made few efforts to form parties of their own and have been slow to develop their relations with existing parties or with the institution of parliament in general. Instead, the business community has developed and strengthened its own associations and interacted, through these, directly with the executive” (Carroll 2003: 125).

Yet, despite not being active in the new democratic politics of Jordan. The Jordanian business elite employed the increased level of freedoms and their direct connections with the state officials to voice their dissatisfaction.

Therefore, economic and political liberalization in the aftermath of the 1980s economic crisis transformed state-business relations in Jordan in two main ways. First, the Jordanian business community became more able to voice dissatisfaction through different channels; media, parliament, direct connections with the government, and others. Second, it was a start of an era where businesses became less “state-dependent” due to the decline of rents and the economic reform measures that included elimination of subsidies and raising new taxes.

Later, this new dynamic of state-business relations was furtherly intensified after the death of King Hussein and the succession of his son Abdullah II Ibn Al-Hussein. Soon after sitting on his throne, Abdullah II declared himself as a modernizer. In his first “speech from the throne” in the opening of the third ordinary session of the 13th parliament, the new king emphasized the pivotal role of the private sector:

“We will expand the role of private sector investment and introduce legislation to attract such new investment to improve services in this sector, which in turn enhances public

revenues and creates new employment opportunities.” (King Abdullah II, 1ST of November 1999).

Thus, the new king did not see the private sector only as a major development partner, he actually believed that the private sector should be the promoter of economic growth and employment. This royal vision was reflected in many new policies that aimed at giving the private sector a larger role in the economy. Hence, the new king pushed his successive governments to continue with economic liberalization and modernize the economy. Consequently, in 2001, the Jordanian government initiated the “social and economic transformation program,” which would be later the main compass that guides local public policies in Jordan. This program focused mainly on restructuring the public sector to make more efficient and private sector friendly. It also aimed to “accelerate privatization” of the Jordanian public holding companies. Moreover, later in 2005, Jordan became a member state in the World Trade Organization. Thus, the new Jordan was characterized by rapid liberalization and higher role of the private sector. However, that did not necessarily lead to a better private sector performance, where disparities between different sectors, firms capacities and connections led to high benefits for some sectors like the banking sector, while other sectors suffered from the fiscal reform and trade liberalization measures; like the industrial sector.

To make things worse, the Arab Spring in 2011 had serious ramifications on the Jordanian economy. Wars in Syria and Iraq – main export destinations for Jordan- led to the closure of Jordan’s eastern and northern borders for around four years. Moreover, receiving millions of Syrian and Iraqi refugees, in addition to the turmoil in Egypt led to serious problems in Jordan’s public finances, energy sector, and the investment climate. Therefore, levels of dissatisfaction among the Jordanian business elite

increased, however, their attitudes toward democratization in this new era is still unstudied.

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