

# Trade Integration

Jordan Performance

# Introduction

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Jordan underwent strategic and wide-reaching reforms to its trade sector over the past two decades, in order to better align integrate the Jordanian economy into the regional and global economy

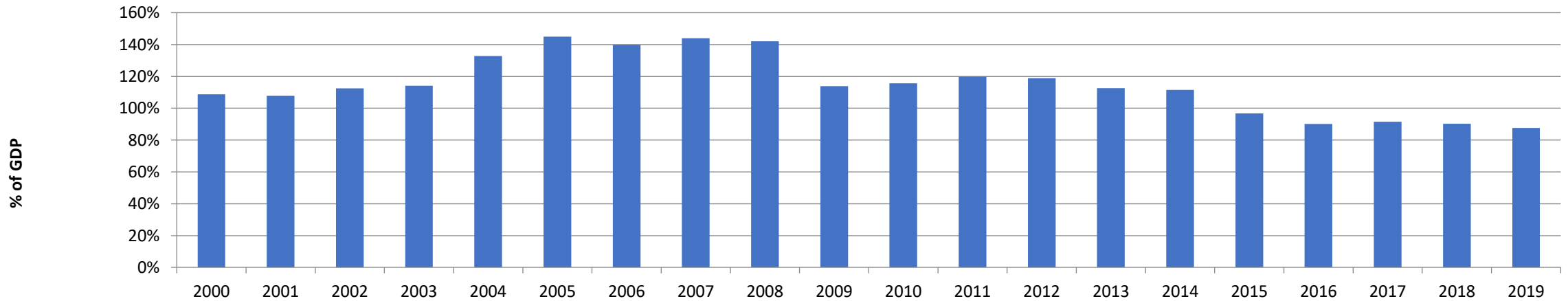
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Study aims to provide a comprehensive account and assessment of Jordan's integration performance. The study also utilized a monitoring framework developed by ESCWA dubbed "System of Indices to Monitor and Evaluate Arab Global and Regional Economic Integration

# Trade Sector Overview

- 2000-2005: Increasing trade activities, with Jordan's trade-to-GDP ratio reaching a peak of 145% of GDP in 2005
- 2008- 2010: Global Financial Crisis
- 2013-2018: Trade route disruptions from regional instability.

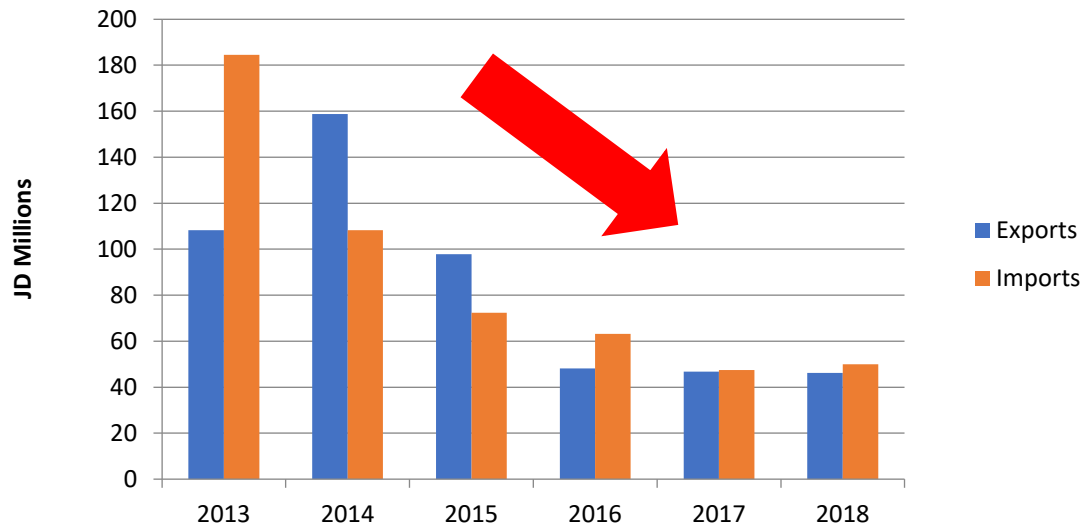
Trade (% of GDP)



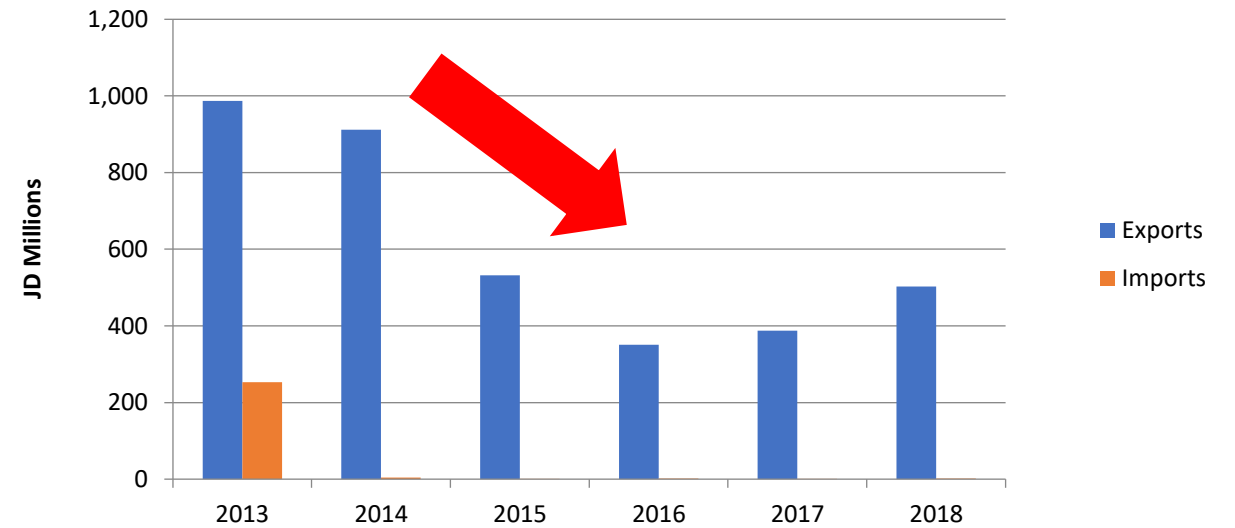
# Trade Sector Overview

- Regional instability and closure of borders with Iraq and Syria led to deterioration of trade activities with these neighbouring countries

Trade with Syria



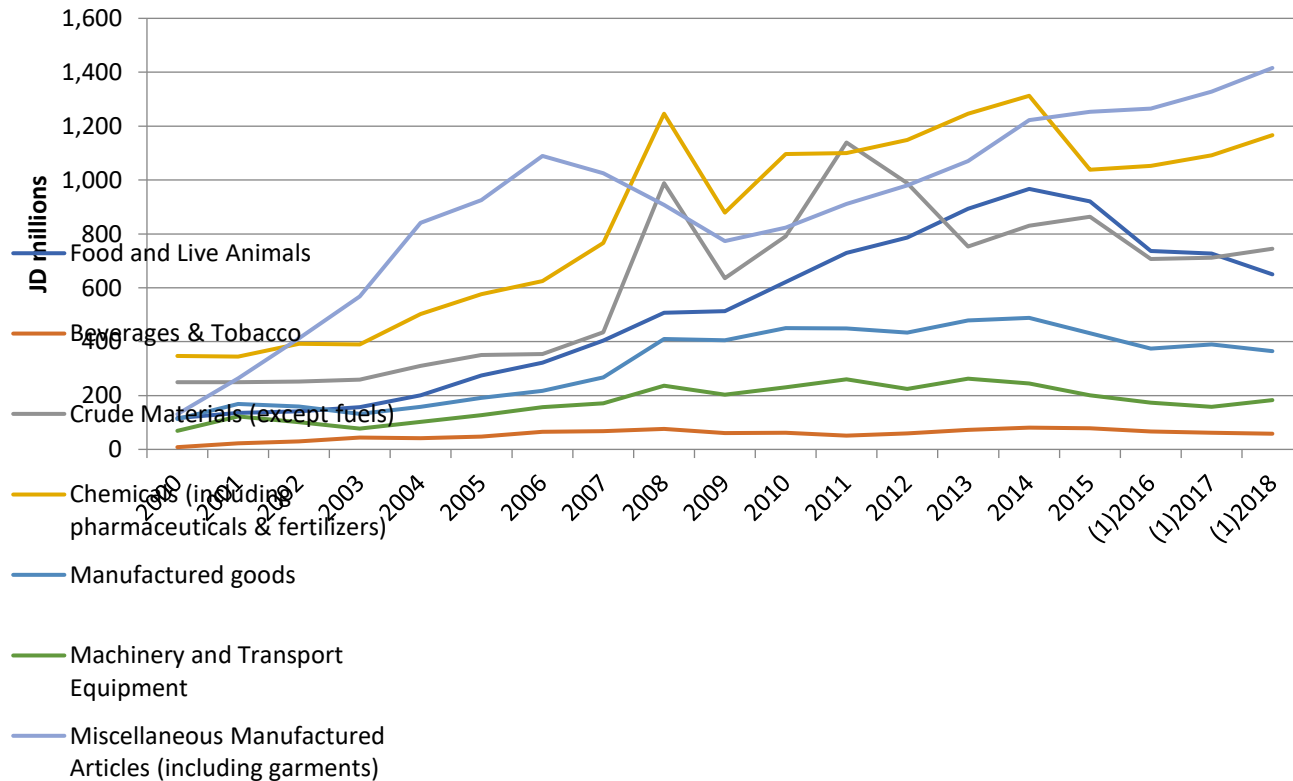
Trade with Iraq



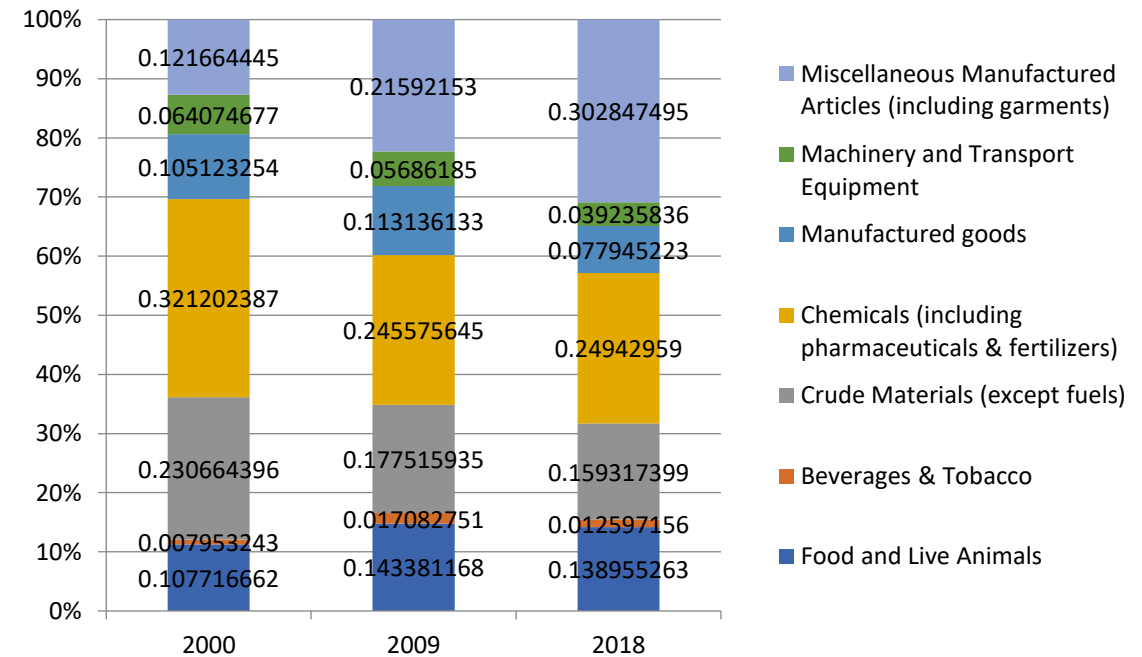
# Composition of Exports

- Boost in garments exports over past two decades, led to a significant growth in 'miscellaneous manufactured articles'
- Chemical exports also registered exponential growth over this period, especially in the period between 2000 and 2008, in which the value of chemical exports grew by 259%.

National Exports

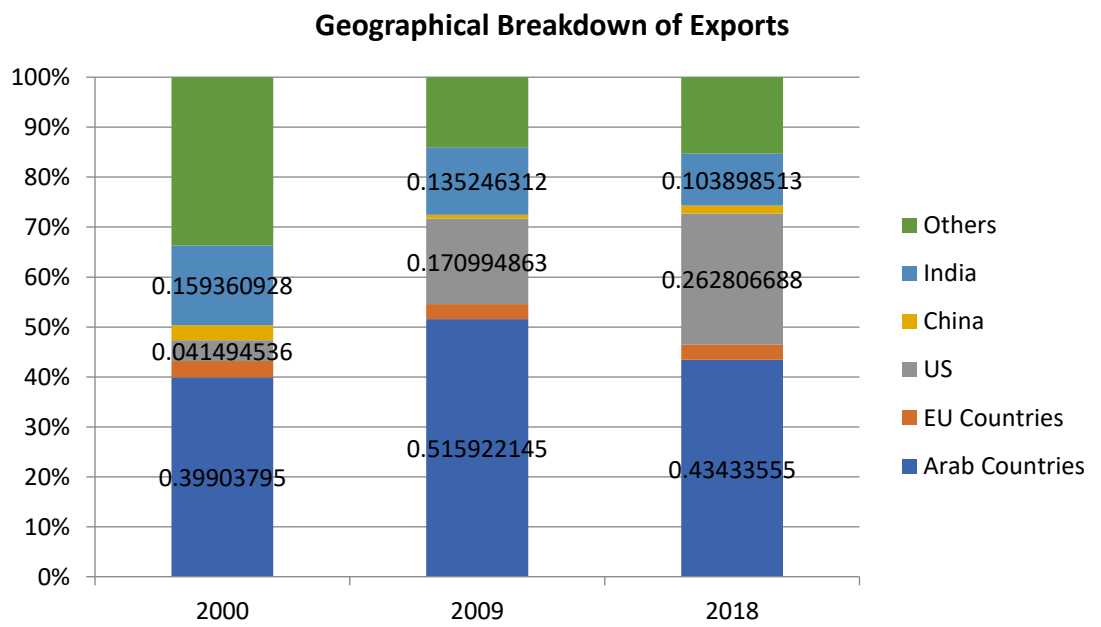
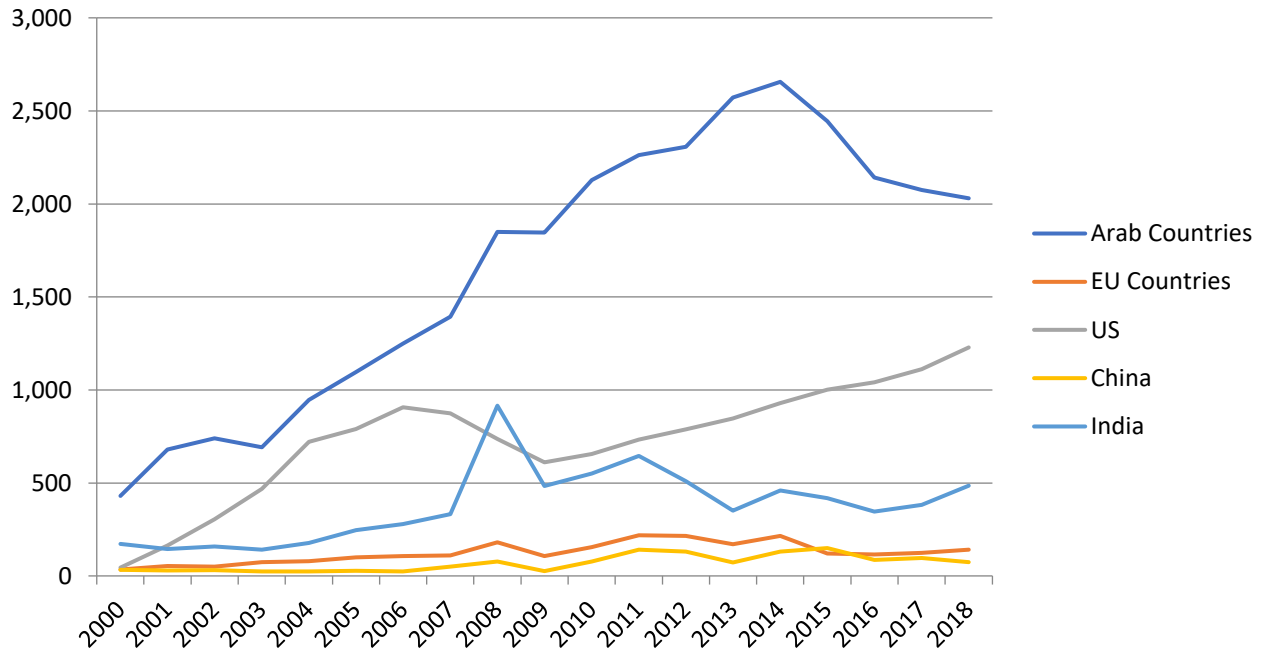


Breakdown of Exports



# Destination of Exports

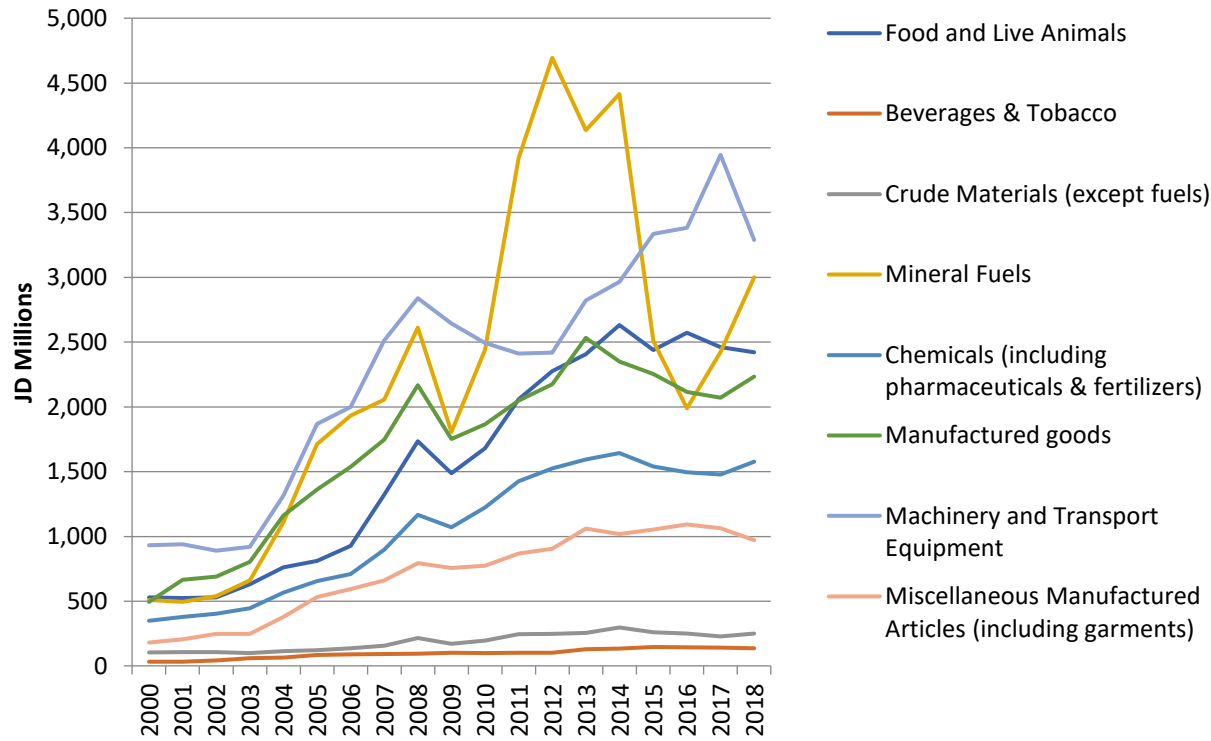
- Exports to Arab countries surged from 2000 reaching a peak in 2014, after which they declined due to regional instability.
- The continuous surge in Jordan's exports to the US has been fueled by the large increase in garments export produced by Jordan's Qualified Industrial Zones (QZI) and after 2012 utilizing the US Jordan Free Trade Agreement (USFTA)
- Jordan's exports to India are dominated by fertilizers and raw phosphate and potash, and have risen steadily from 2003 to 2008, and then remained relatively stable.



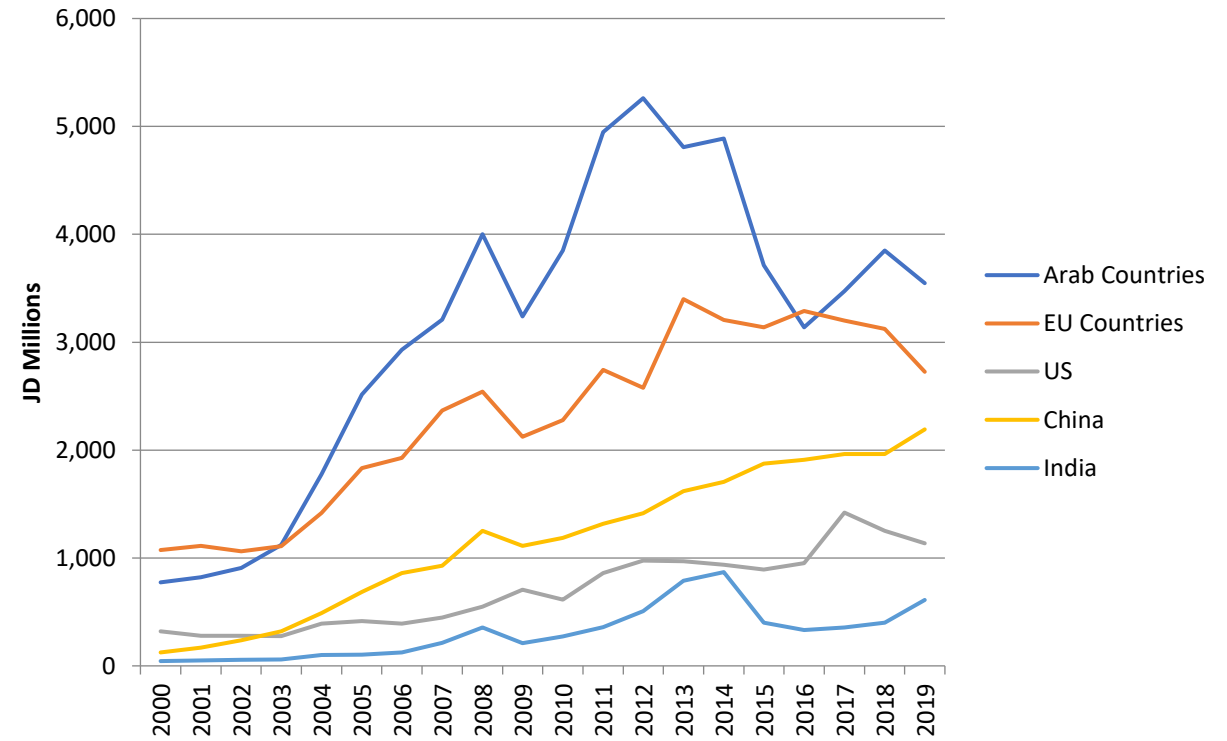
# Composition & Source of Imports

- Almost all imports grew over the past period except for non-energy crude materials and beverages and tobacco imports.
- The value of Jordan's energy imports is very much dependent on the global price of oil and refined oil products

Imports



Geographical Breakdown of Imports

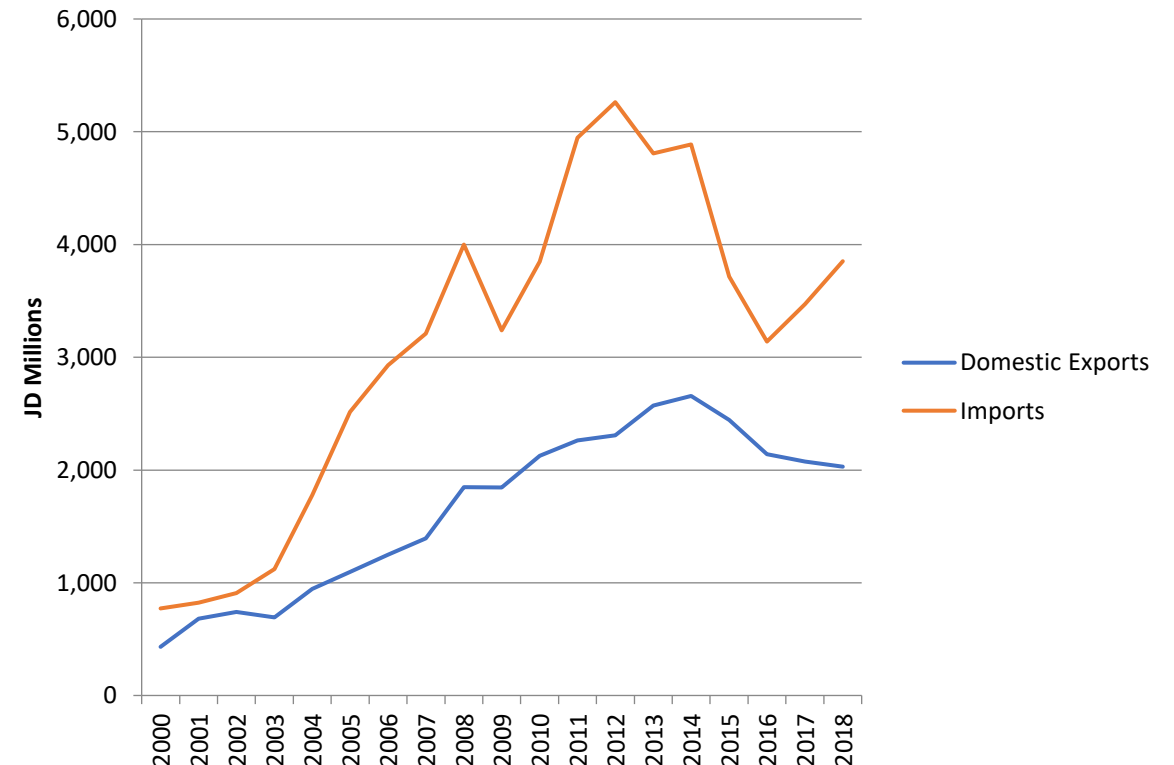


# Review of Jordan's Preferential Trade Agreements

- The GAFTA region is Jordan's main trading partner given the geographical proximity and cultural similarities in the region
- Over 45% of the Kingdom's exports were destined to this region.
- Overall, it is estimated that the GAFTA has contributed to increasing regional trade by 20% almost a decade after it came into force

PAFTA / GAFTA	
Agreement	Description
Title	Pan-Arab or Greater Arab Free Trade Area Agreement
Parties	17 Arab States
Coverage and type	Goods, FTA
Date of signature	1997
Date of entry into force	1998
Transition for full implementation (goods)	Full implementation realized in 2005 instead of 2007
Jordan merchandise trade with PAFTA/GAFTA countries (2019)	26.7% of Jordan's imports came from other PAFTA/GAFTA member states, and 41.5% of its exports went to other PAFTA/GAFTA member states

Trade with GAFTA Countries

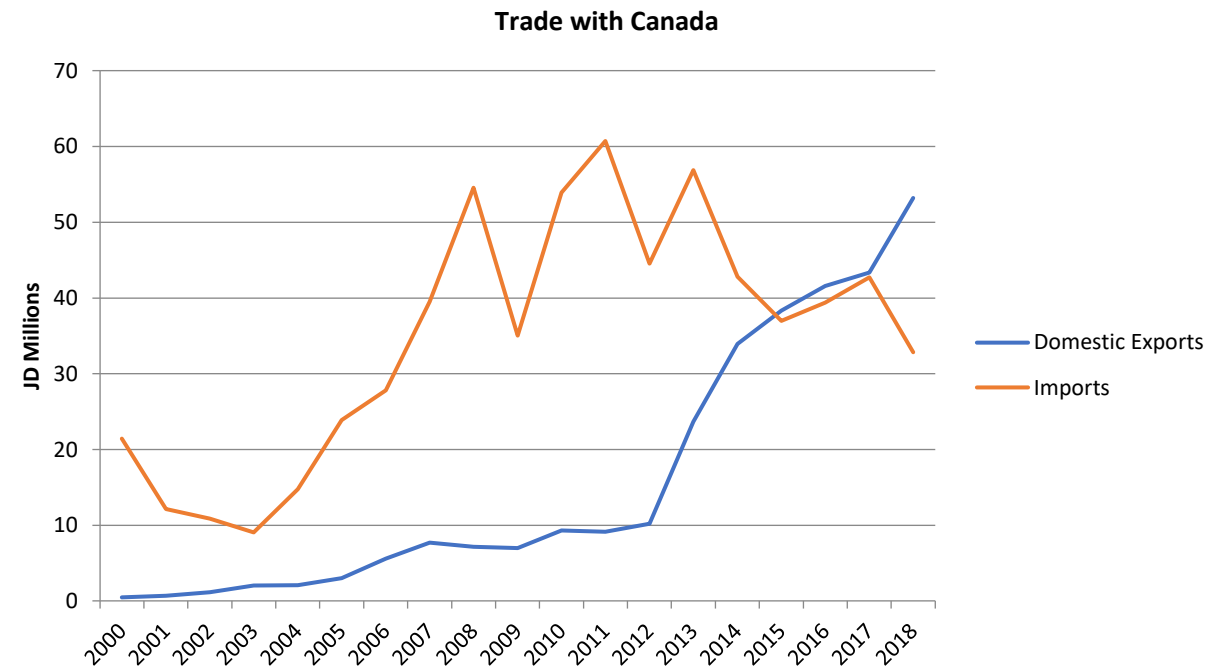




# Review of Jordan's Preferential Trade Agreements

- The Canada FTA agreement establishes a free trade area in goods only and therefore does not cover services
- The FTA with Canada was signed alongside a Foreign Investment Protection and Promotion Agreement, which aims to protect Canada's investments in Jordan

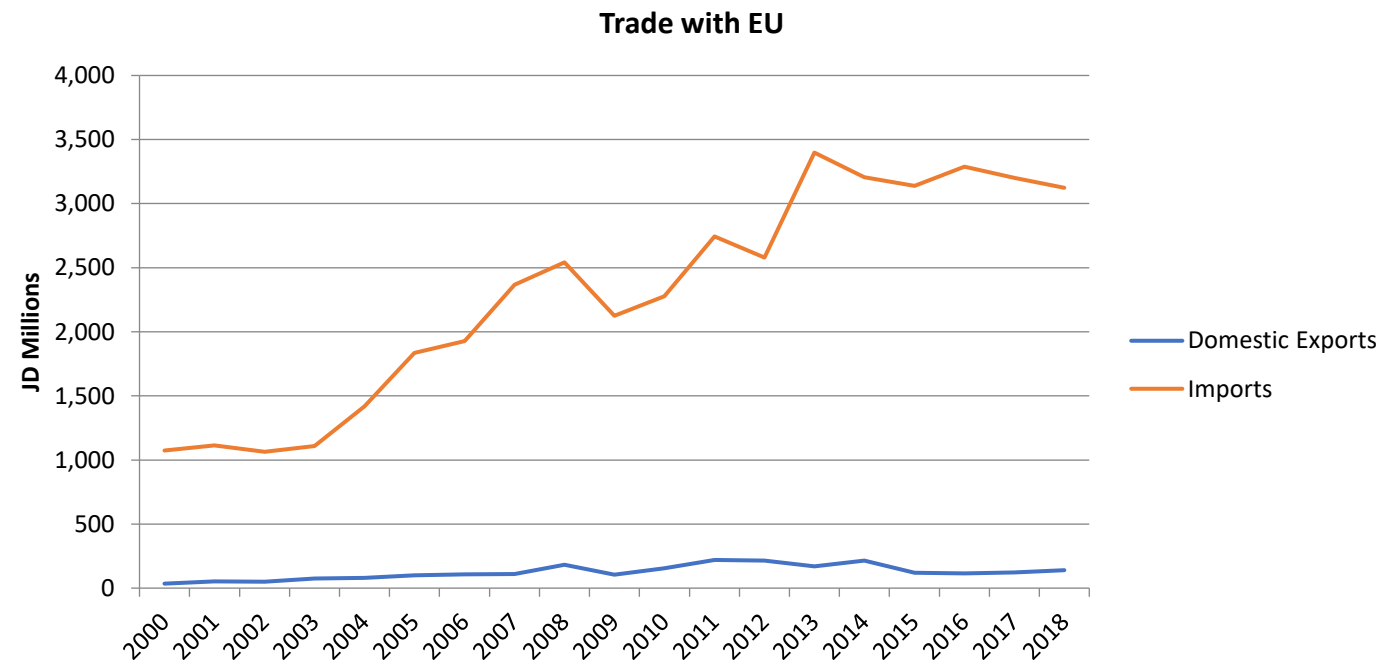
Jordan – Canada FTA	
Agreement	Description
Title	Canada – Jordan Free Trade Agreement
Parties	Canada, Jordan
Coverage and type	Goods, FTA
Date of signature	2009
Date of entry into force	2012
End of implementation period	2016
Main products excluded from liberalization	Tariffs remain dutiable in HS sections I and IV (live animals and animal products and prepared foods)
Jordan merchandise trade with Canada (2019)	0.2% of Jordan's imports and 1.3% of its exports were with Canada



# Review of Jordan's Preferential Trade Agreements

- The Jordan-EU Association Agreement generally covers a range of issues at deeper depths than traditional FTAs, and it promotes the EU model of integration, utilizing linkages to encourage integration
- This agreement has passed through several developments and updates over the years

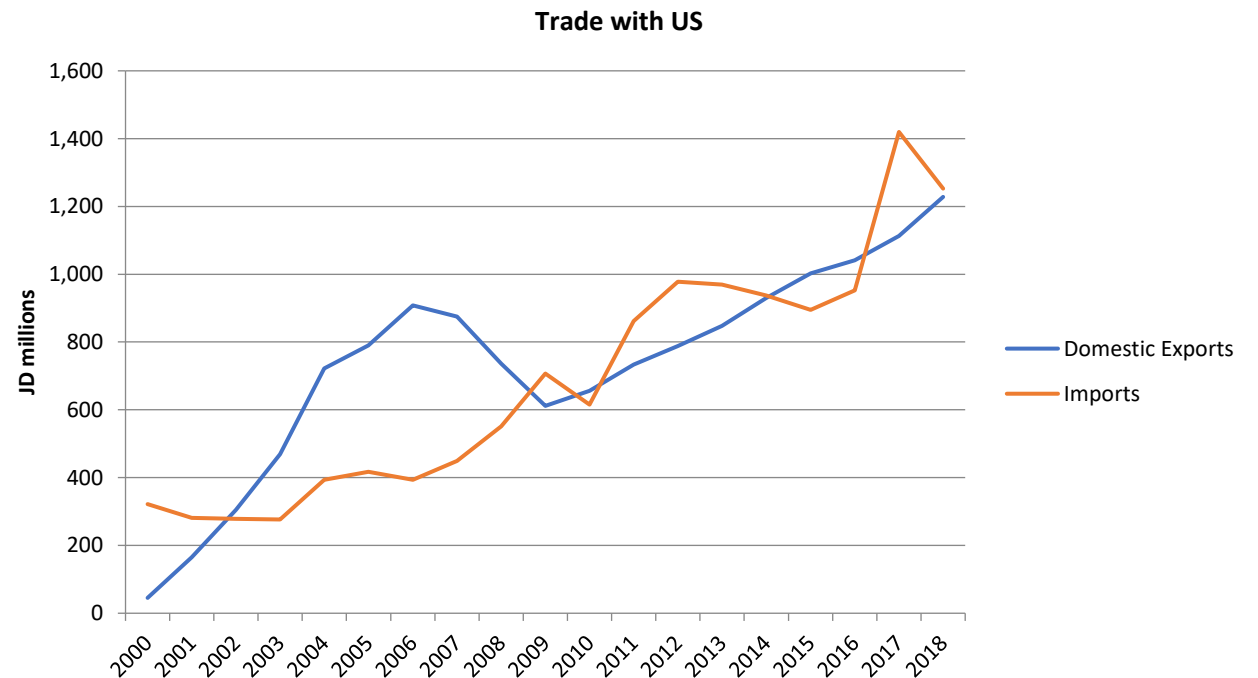
EU – Jordan	
<b>Agreement</b>	Description
<b>Title</b>	Association Agreement between the European Union and Jordan
<b>Parties</b>	EU countries + Jordan
<b>Coverage and type</b>	Goods, FTA; government procurement, intellectual property rights.
<b>Date of signature</b>	1997
<b>Date of entry into force</b>	2002
<b>End of implementation period</b>	2013
<b>Jordan merchandise trade with EU Countries (2019)</b>	18.9% of Jordan's imports and 3% of its exports were with EU member states



# Review of Jordan's Preferential Trade Agreements

- This FTA is the 1<sup>st</sup> agreement signed by the US with an Arab state, and provides for extensive liberalization across a wide spectrum of trade issues, eliminating all tariff and non-tariff barriers in almost all industrial goods and agriculture products
- the FTA signed with the US has been the most impactful on Jordanian exports, especially with regards to the textiles and apparel sector

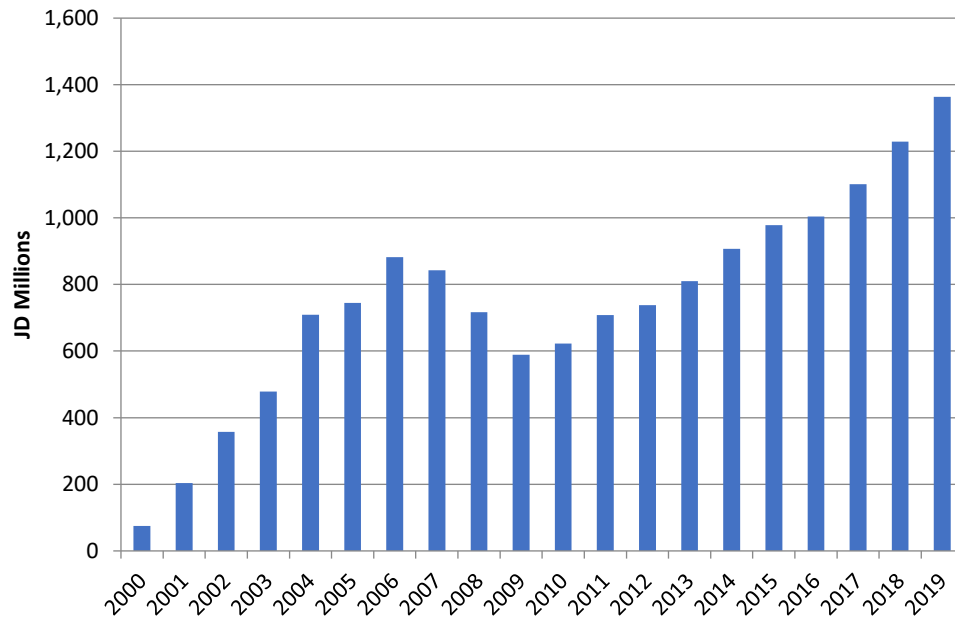
Jordan- United States	
<b>Agreement</b>	Description
<b>Title</b>	Agreement between the United States and Jordan on the Establishment of a Free Trade Area
<b>Parties</b>	Jordan, the US
<b>Coverage and type</b>	Goods and services, FTA and Economic Integration Agreement; government procurement, intellectual property rights, domestic regulation, and mutual recognition on services
<b>Date of signature</b>	2000
<b>Date of entry into force</b>	2001
<b>End of implementation period</b>	2014
<b>Main products excluded from liberalization</b>	153 lines remain dutiable, in HS sections II, III, IV, and XVII
<b>Jordan merchandise trade with Singapore (2019)</b>	7.8% of Jordan's imports and 27.2% of its exports were with the United States



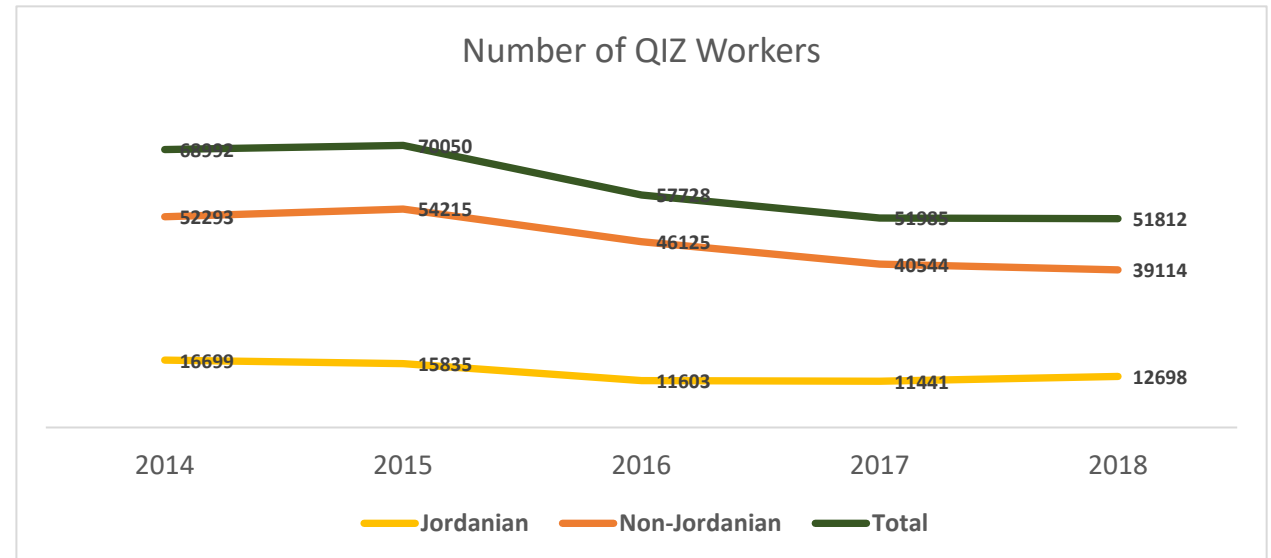
# Zooming into Garment Exports

- Qualifying Industrial Zones (QIZs) was a joint initiative between the US, Jordan, Israel and Egypt, aiming at enhancing peace and economic cooperation between Israel and its neighbors.
- This scheme has allowed for exponential growth of the garment industry in Jordan, making garments exports the number one export in Jordan, making up over 23% of Jordan's total exports

Garment Exports



Number of QIZ Workers



# Rules of Origin Analysis

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- EU Rules of Origin: Relaxed rules allowing Jordan to export goods made using up to 70% of non-local materials. Agreement applies to 52 product categories and has been extended to all companies operating within Jordan
- GAFTA rules of origin: Authority granted to the Economic and Social Council of the League of Arab States to decide on rules of origin to fulfil the agreement's objective, taking into account that the value-added for goods produced in an Arab country should be no less than 40% and this share would be reduced to 20% in the case of industrial assembly projects in Arab countries. GAFTA includes general rules of origin in addition to detailed rules of origin
- US Rules of origin: The rules of origin under the FTA with the US require that goods consist of a minimum of 35% Jordanian content to be eligible for the duty free entry according to the agreement. Comparing to the other agreements, this is seen as the most flexible.

# Overall Assessment

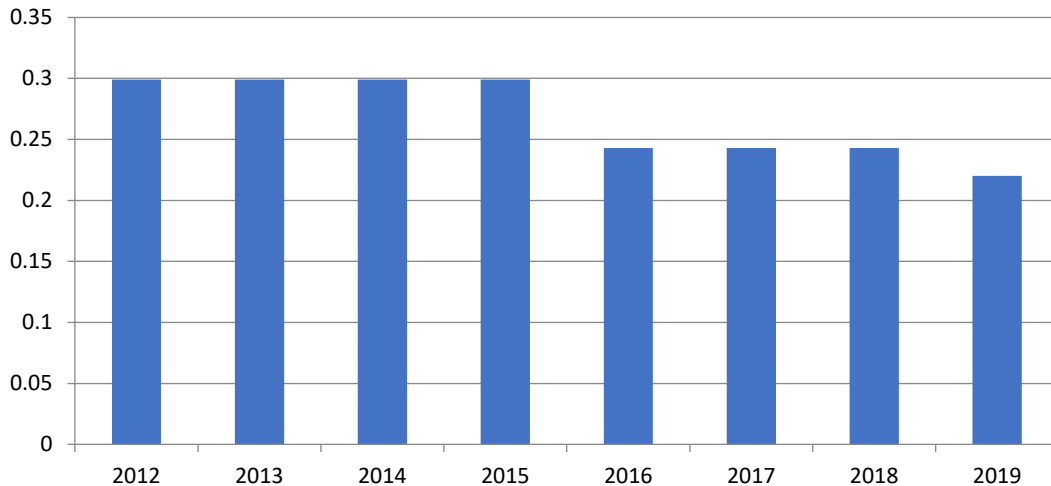
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- All of the agreements call for a **gradual reduction in tariffs** on products over specific periods of time, with most of them granting immediate tariff-free access for Jordanian products to enter into markets of trading partners. Nevertheless, Jordan has not been able to fully utilize these preferential market access opportunities, with some pointing towards trade diversions taking place
- A study conducted in 2012 on the impact of trade liberalization in Jordan concluded that the impact of Jordan's liberalization had a rather small impact, as it found no statistically significant and robust effect on exports and imports arising from multilateral or preferential trade liberalization. The study, however, found one exception: the FTA with the US.
- In addition, the Ministry of Industry and Trade has recently undertaken two assessments regarding Jordan's FTA with the US and with Canada. The assessment regarding the US agreement concluded that there is a large positive impact of this agreement on the size of bilateral trade between both countries and on Jordan's trade balance MoIT "Assessing the Impact of the Free Trade Agreement Between Jordan and the US" in Arabic With regards to the other assessment that the Ministry conducted on Jordan's FTA with Canada, the Ministry concluded that there was an overall positive net impact from the agreement on Jordan, but the impact is still much below potential MoIT (2016) "Economic Impact Assessment Study on the Free Trade Agreement between Jordan and Canada" in Arabic

# Trade Policy & Reforms - Legislation

- There is a great degree of complexity in Jordan's legislation that has often been cited as an impediment of the business environment in general and trading in specific

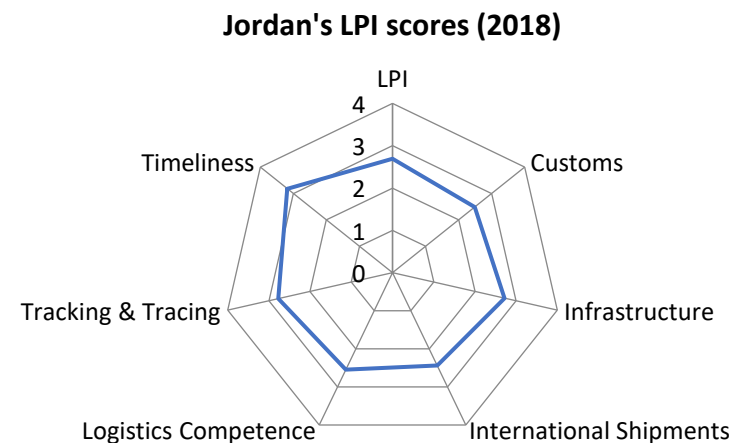
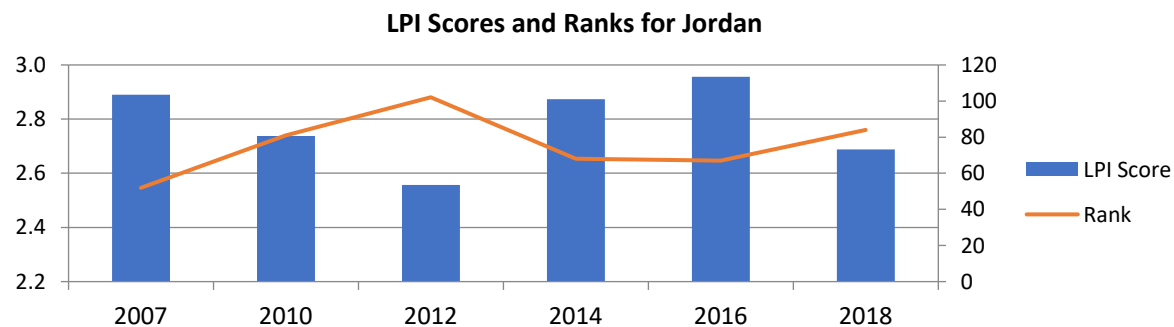
FDI Regulatory Restrictiveness Index



Legislation	Topic
Competition law No. 33 of 2004	Competition
Customs Law 1998 amended in 2012	Customs procedures
Import instructions (1) for 2012 and its amendments	Import licensing and restrictions
Draft Amendment of Law No. 22/2000 on Standards and Metrology	Standards and technical requirements
Illegal Competition and Trade Secrets Law No. 8 of 2000	Competition
Law No. 20 of 2000 amending Imports and Re-exports Taxes & Fees Unification Law of 1997	Import and reimport taxes and fees
Imports and Exports Law and amendments No 21 2001	Imports and exports
Unified procurement by law of 2019	Government procurement
Investment Law No. 30 for 2014	Tax and incentives / foreign investments
Income Tax Law No. 34 of 2014	Tax and incentives
Public Private Partnership Law 2020	Public Private Partnership
Trademarks temporary law 2003	Trademarks
Anti-Dumping and Subsidy Regulations 2003	
Economic Zone Law No. 30	Economic Zones
National Production Protection Law No. 21 of 2004	Trade remedies
National Production Protection Regulation No.55 of 2000	Trade remedies
Anti dumping and Subsidy regulation No. 26 of 2003	Trade remedies

# Trade Policy & Reforms – Non Tariff Measures

- According to the ITC business survey on non-tariff measures, close to two thirds of Jordanian companies are affected by burdensome NTMs when they export or import. *Main obstacles include pre-shipment inspections, the way officials apply regulations, high fees and charges, and rules of origin affecting Jordanian business at the Jordanian border, as well as in destination markets*
- A third of all obstacles faced by companies when they trade are related to regulations not being applied *coherently and systematically by Jordanian officials*, with some exporting companies believing that the government agencies lack capacity and resources
- In terms of destination markets, the majority of NTMS faced by Jordanian traders (93%) are due to trading with Arab states, which accounted for only 41.5% of Jordan's exports in 2019. This indicates that the GAFTA region remains to be a challenging destination for Jordanian exports
- On the other hand, the US is responsible for only 2% of the NTMs, while consuming over 27% of Jordan's exports





# Integration Indicators

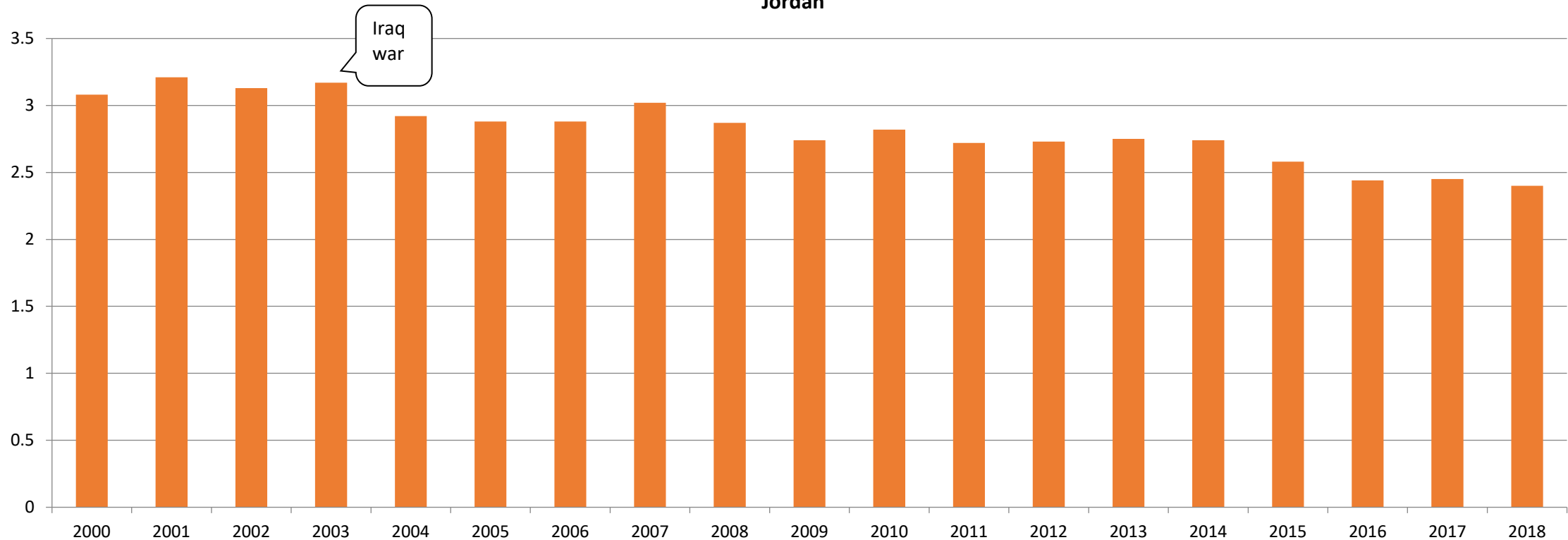
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- The study utilized a monitoring framework developed by ESCWA dubbed "System of Indices to Monitor and Evaluate Arab Global and Regional Economic Integration"
- The SIMEAI utilizes composite indices that are computed using only a handful of the most relevant individual indicators for the Arab region on (SIMEAI)".
- As such, three indices of economic integration at the global, regional, and bilateral levels are computed and additional information is displayed on scoreboards.
  - The first index, '**Globalization Index**', aggregates information about imports, exports, and inflows and outflows of FDI and remittances as a share of GDP, and is used to measure performance in integrating globally.
  - The second index, '**Regional Flow Intensity Index**' utilizes exports and inflows of FDI and remittances ('inputs' in the economy), all as shares of GDP, and is used to measure performance regionally.
  - The third index, '**Bilateral Flow Intensity Index**' is calculated for Jordan vis-a-vis other Arab countries and relevant institutional or economic sub regions. The index tracks the contribution of key Arab partners (sub regions and individual countries) to the economic situation of Jordan. The index reflects the relative dependence of a country on a given grouping or individual country.

# Globalization Index

- Jordan's globalization index score has been trending slightly downward over the past two decades. However, the factors were mostly exogenous, stemming mainly from regional instability and insecurity.
- Higher FDI levels in the mid 2000 led the index to slightly improve in 2007, before declining back again following the global financial crisis of 2008/2009.

Globalization Index - Score  
Jordan



# Dependency Index

Regional Flow Intensity Index

- As a number of different studies showed, the FTA with the US had an overall positive impact on exports and investments, and this is apparent when looking at the high regional integration dependency score that Jordan has with the US at 2.4
- the proximity of the LAS and GCC regions, joined together with Jordan under GAFTA, meant that Jordan enjoys the highest regional integration dependency score with these two regions.

## Regional Integration Dependency Scores – 2018 (with Arab World)

	LAS	GCC	Other Arabs	ArabD iv	AMU	Agadir	ArabLD Cs
Jordan	4.64	3.28	1.55	1.39	0.55	0.53	0.53

## Regional Integration Dependency Scores – 2018 (with rest of the world)

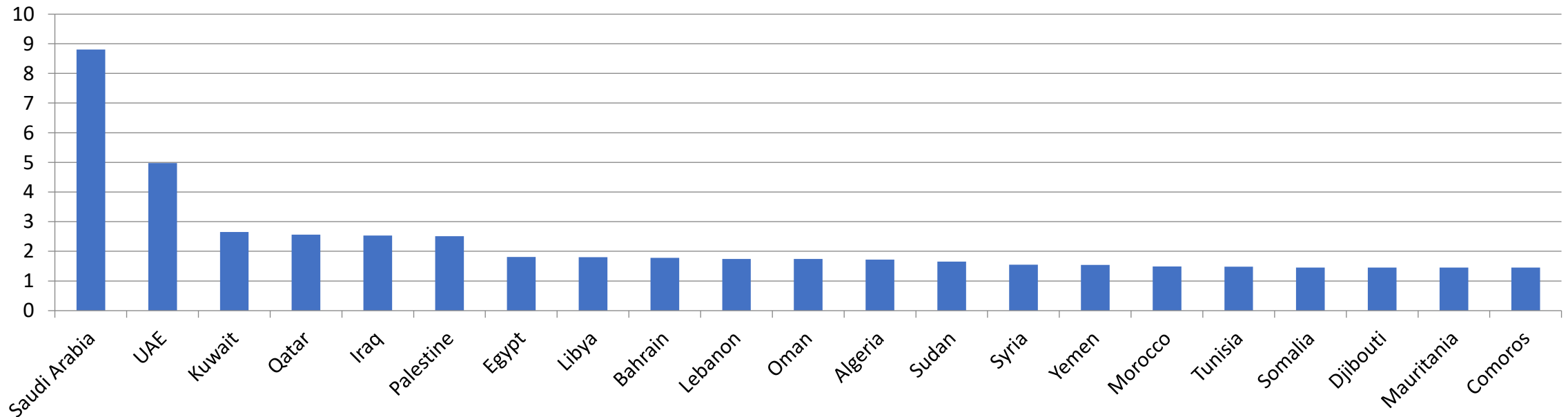
	US	India	EU	ASEAN	China	Turkey	Korea	Japa n
Jorda n	2.4	1.79	1.62	1.61	1.59	1.52	0.53	1.48

# Dependency Index

Bilateral Flow Index

- The Dependency Index – Bilateral Flow Index shows that Jordan is highly integrated with its neighbours including Saudi Arabia, Iraq, and Palestine. In addition, Jordan is relatively well integrated with the UAE, Kuwait, and Qatar, which has enabled a higher level of integration with the GCC bloc

Dependency Index - Bilateral Flows



# Constraints to Jordan's Integration Efforts

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- Weak business environment and multiplicity of trade agreements and arrangements, with some that are overlapping
- Weak institutional capacity that hinder further integration and weak implementation of common rules and clear standards and specifications
- Weak economic complexity of Jordanian exports and weak competitiveness
- High degree of uncertainty and primacy of political over economic interests
- Weak infrastructure and when exits underutilization of infrastructure facilities

# Way Forward: Building Blocks of Integration Framework

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- Set up free economic zones or development industrial zones with neighboring countries.
- Upgrade existing infrastructure and develop new infrastructure where appropriate and feasible
- Re-engineer procedures at the Customs Department to allow for successful implementation of the National Single Window
- Increase the complexity of the Jordanian economy and sophistication of its exports
- Agree with trading partners on systemic model to standardize quality of goods
- Prepare contingency plans for trading across borders and seek new markets for domestic exports
- Utilizing the new system adopted by ESCWA to monitor certain trends and improve policy making.