



# TRADE PERFORMANCE AND STRUCTURE PROFILES<sup>1</sup>

## Jordan

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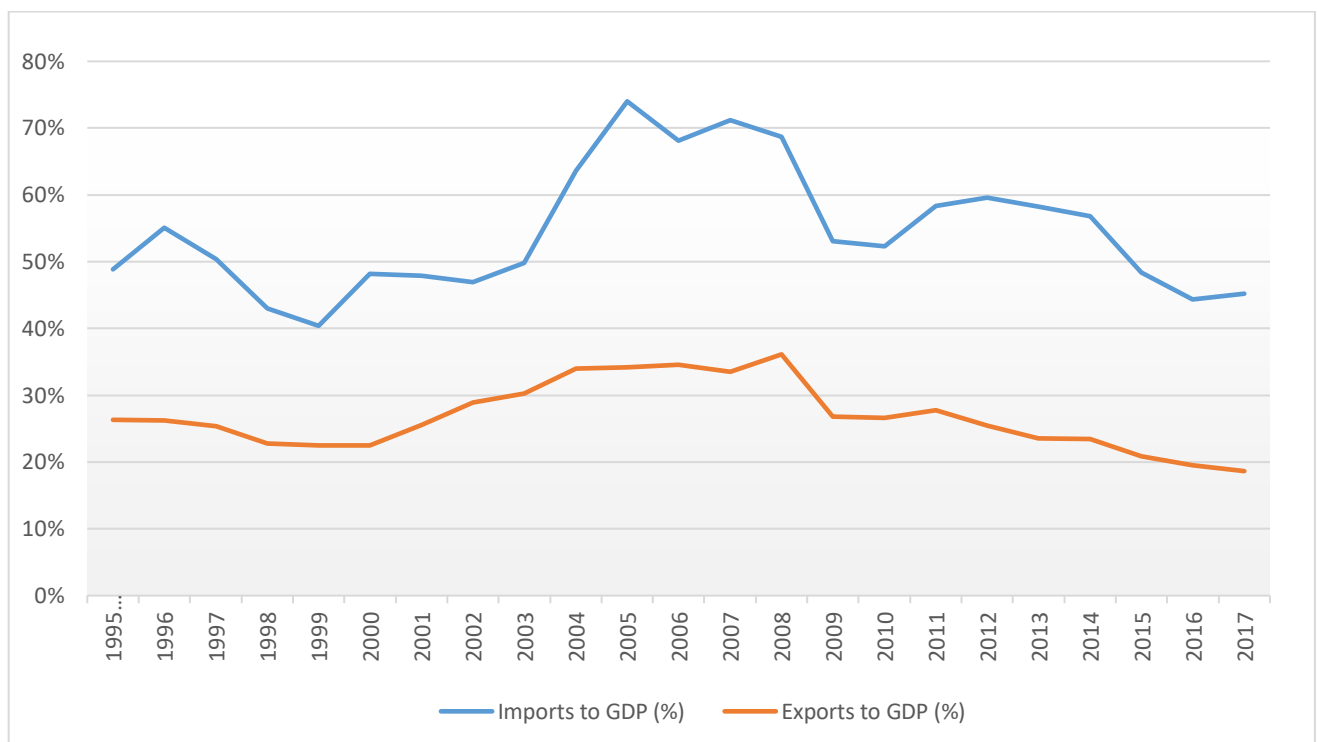
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# TRADE PERFORMANCE AND STRUCTURE PROFILES: JORDAN

Jordan's performance in merchandise and services trade and attracting foreign direct investment has been mixed over the past two decades. Jordan's merchandise exports and imports have been losing their relative importance since the onset of the global financial crisis, offsetting the prior gains. Jordan's trade in services has declined significantly over the last two decades. Jordan has been rather successful in attracting FDI, with very high levels of FDI inflows in relation to GDP. Traditional destinations for Jordan's exports have mainly been PAFTA countries but the emergence of NAFTA is notable. EU and NAFTA countries hold relatively favorable prospects for the exports of Jordan, the diversification and sophistication of which largely stalled.

## I. Trends in Trade and Investment

Figure 1: Merchandise Exports and Imports, as a share of GDP

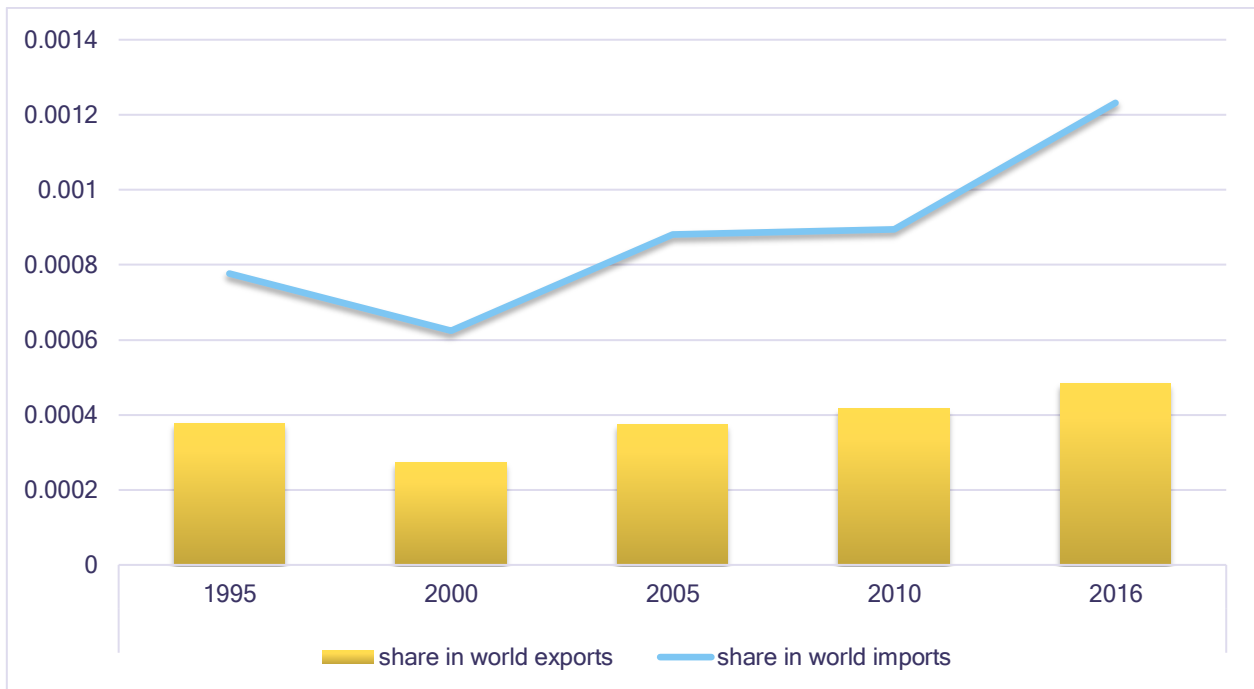


Source: ESCWA calculations using the World Development Indicators database (accessed October 2018).

Jordan's merchandise exports and imports as a share of GDP have shown a fair deal of fluctuation in the past two decades. After a slow but relatively steady increase in the early 2000s, Jordan's merchandise imports and exports had surged prior to the onset of the global financial crisis of 2007/8, in the aftermath of which they declined precipitously.

*Since the beginning of 2010s, the decrease in merchandise exports has been steady and is particularly marked.*

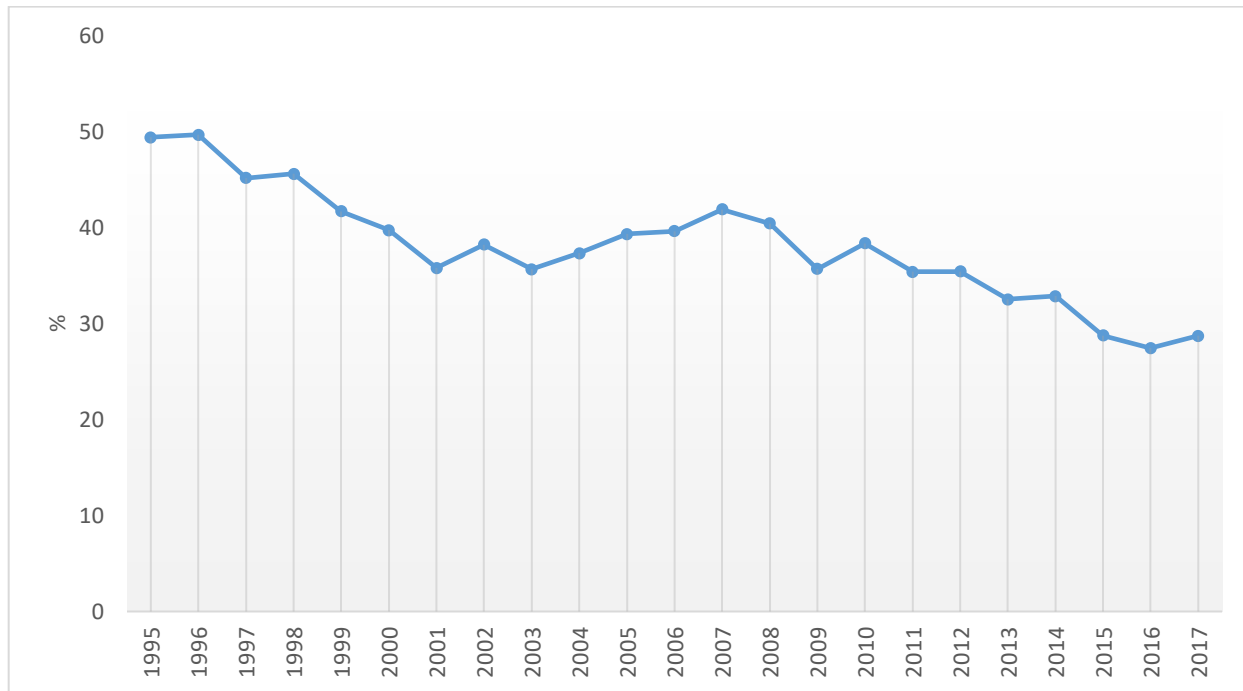
Figure 2: Jordan's Share in World's Exports and Imports



Source: ESCWA calculations using COMTRADE data (accessed October 2018).

Jordan's share in world export has increased since the beginning of 2000s, after a sharp decline in the second half of the 1990s. Jordan's import share have shown a similar pattern to the time profile of its export share, albeit a both proportionally larger increase in and higher level of the share.

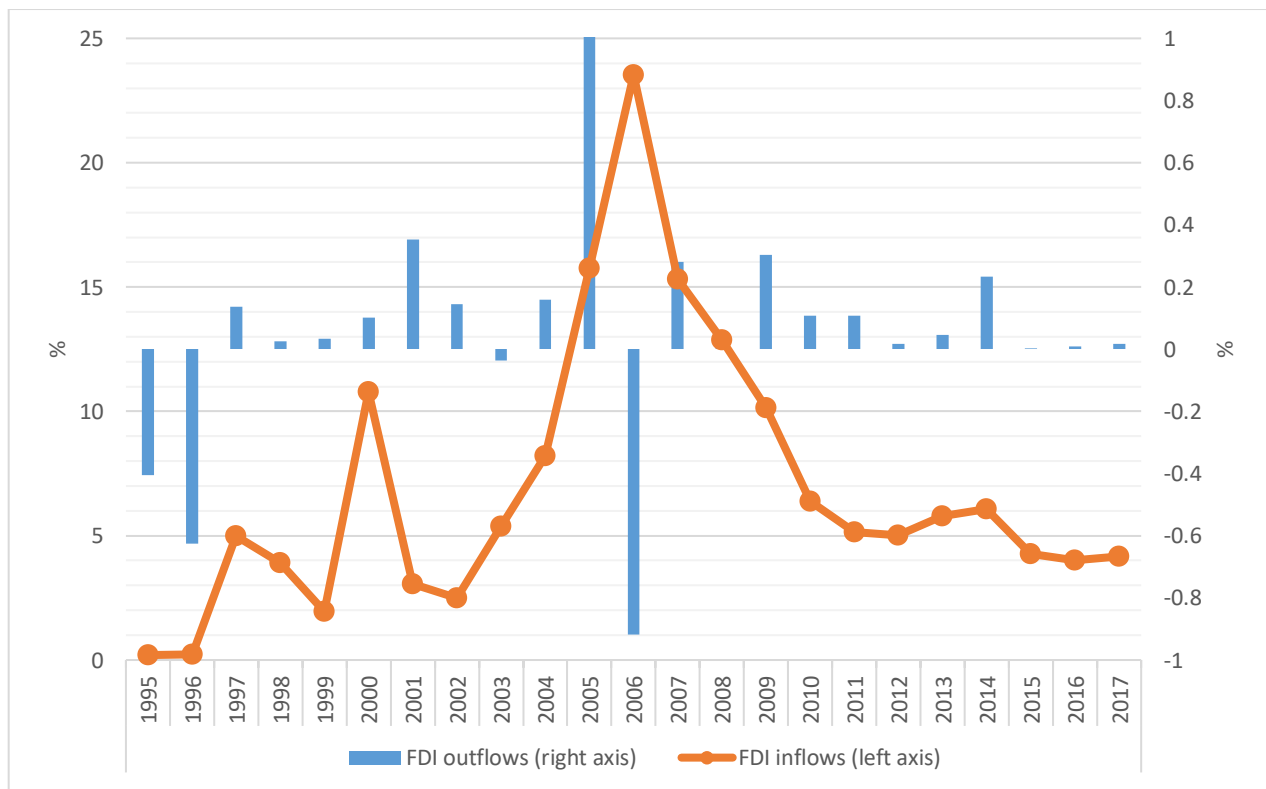
Figure 3: Jordan's Services Trade, 1995-2017, as a share of GDP



Source: ESCWA calculations using the World Development Indicators database (accessed October 2018).

Jordan's trade in services as a share of GDP has slackened considerably in the past two decades. The decrease has mostly taken place since the beginning of 2010s and in the second half of the 1990s.

Figure 4: Net FDI inflows and outflows, 1995-2017, percent of GDP

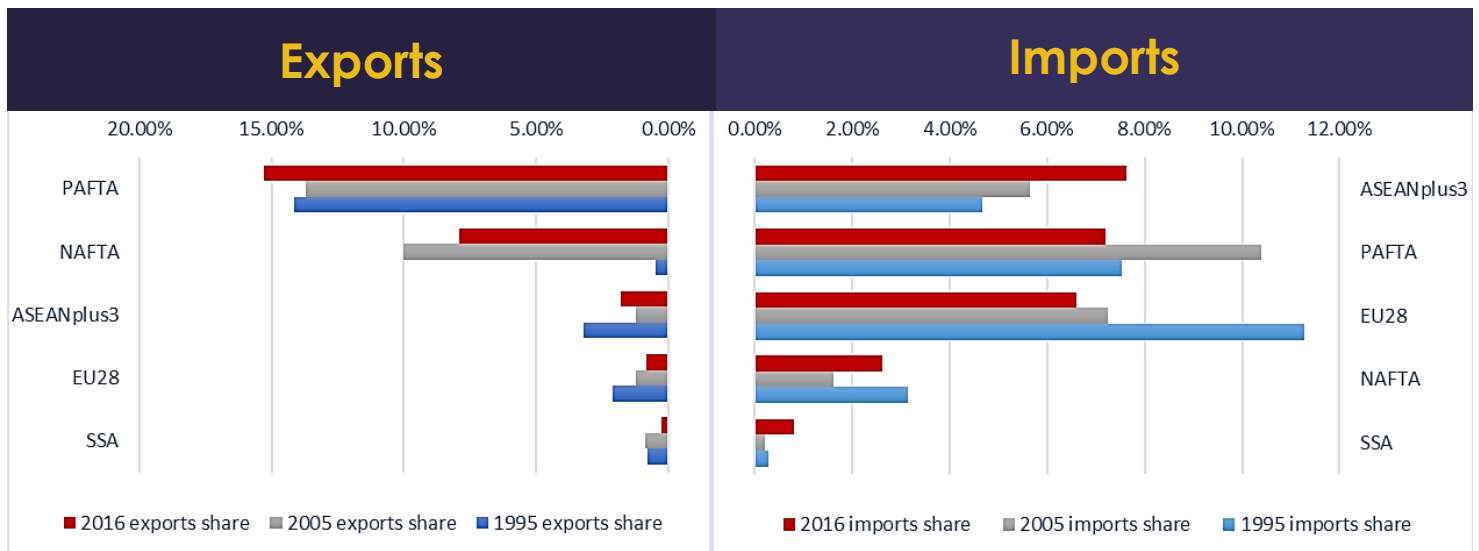


Source: ESCWA calculations using the World Development Indicators database (accessed October 2018).

- II. Jordan's has been a rather attractive FDI destination. Net FDI inflows, new investment inflows to acquire a lasting management interest in an enterprise less disinvestment (including repatriated assets and earnings) by foreign investors, reached around 23% of GDP in 2006, before moderating to around 5% in the early 2000s and remaining close to that level since. Net FDI outflows, new investment less disinvestment in foreign economies by domestic investors, by contrast, have been mostly muted and remained generally low. Merchandise trade structure and indicators performance

This section assesses the trade performance and structure of Jordan, employing a range of indicators and indices created using highly disaggregated product-level data.

Figure 5: Top export destinations and import sources, as a share of total exports and imports, 2016

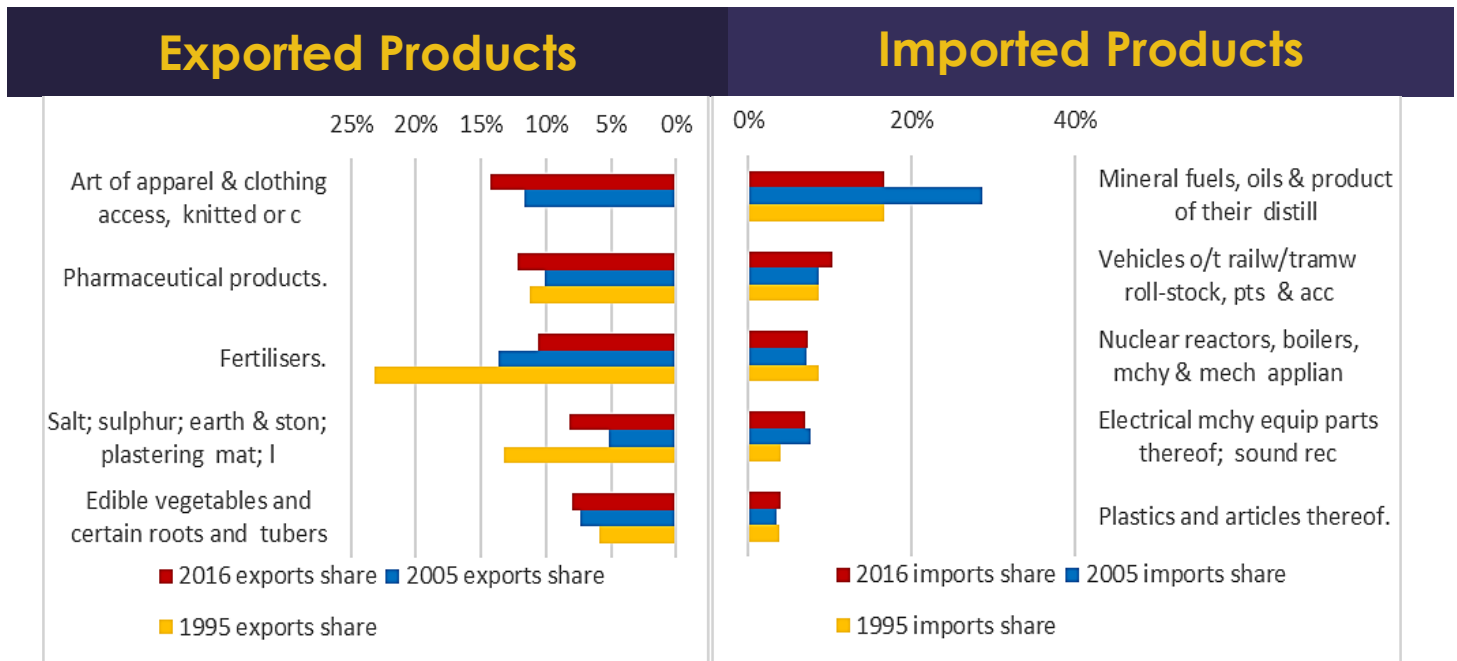


Source: ESCWA calculations using COMTRADE data (accessed October 2018).

The top destination for Jordan's exports as a bloc has consistently been PAFTA over the past two decades. Reflecting the rather marked impact of preferential access to the United States market through the US-Jordan Free Trade Agreement and Qualifying Industrial Zones (QIZ), NAFTA is the second-most important export destination, though its share has declined somewhat since 2005.

**Jordan's top import source is ASEAN+++, which overtook the EU and PAFTA as of 2016.**

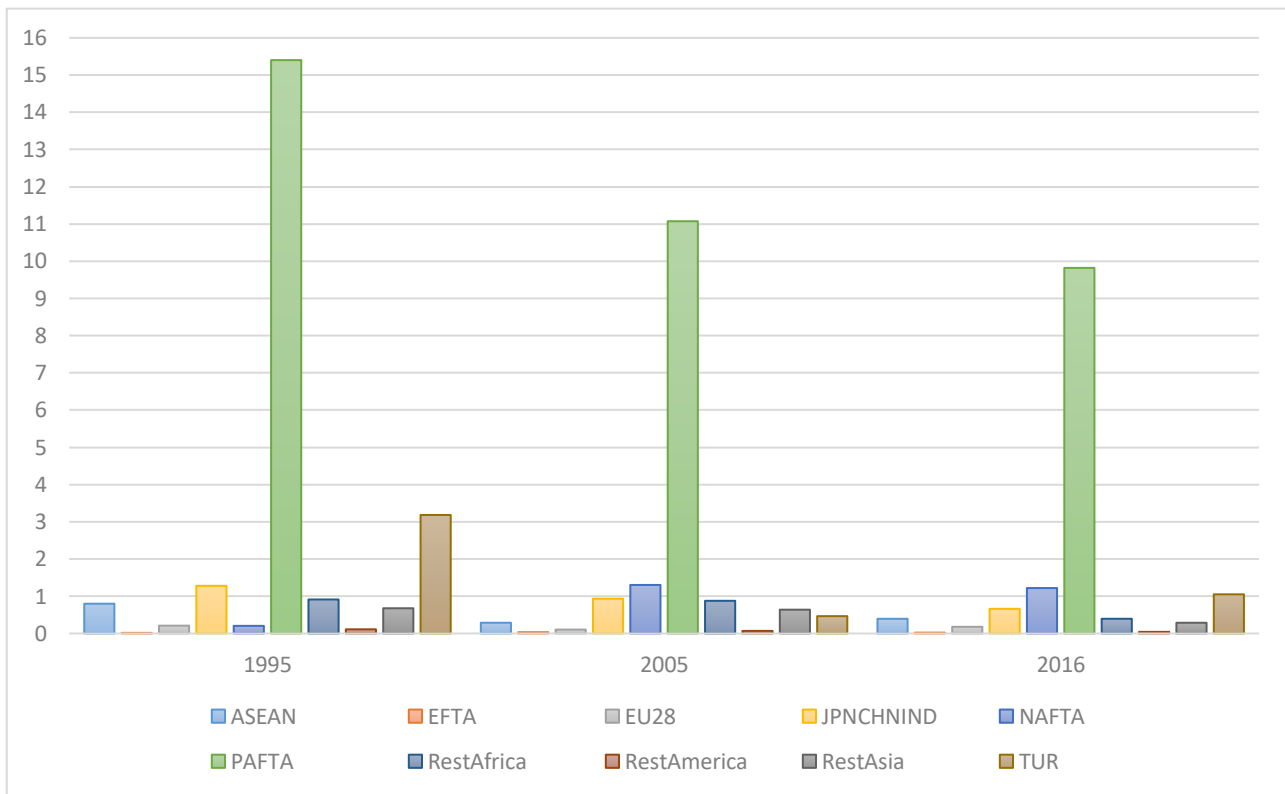
Figure 6: Top products exported and imported, 2016 (as a share of exports and imports)



Source: ESCWA calculations using COMTRADE data (accessed October 2018).

The shift in the merchandise exports of Jordan is visible, moving from the fertilizer, salt, Sulphur, and earth and stone plastering materials dominated export basket to one with textiles and pharmaceuticals. Top imported products have changed since 1995 and feature mineral fuels and oils, vehicles, machinery and appliances.

Figure 7: Trade Intensity Index

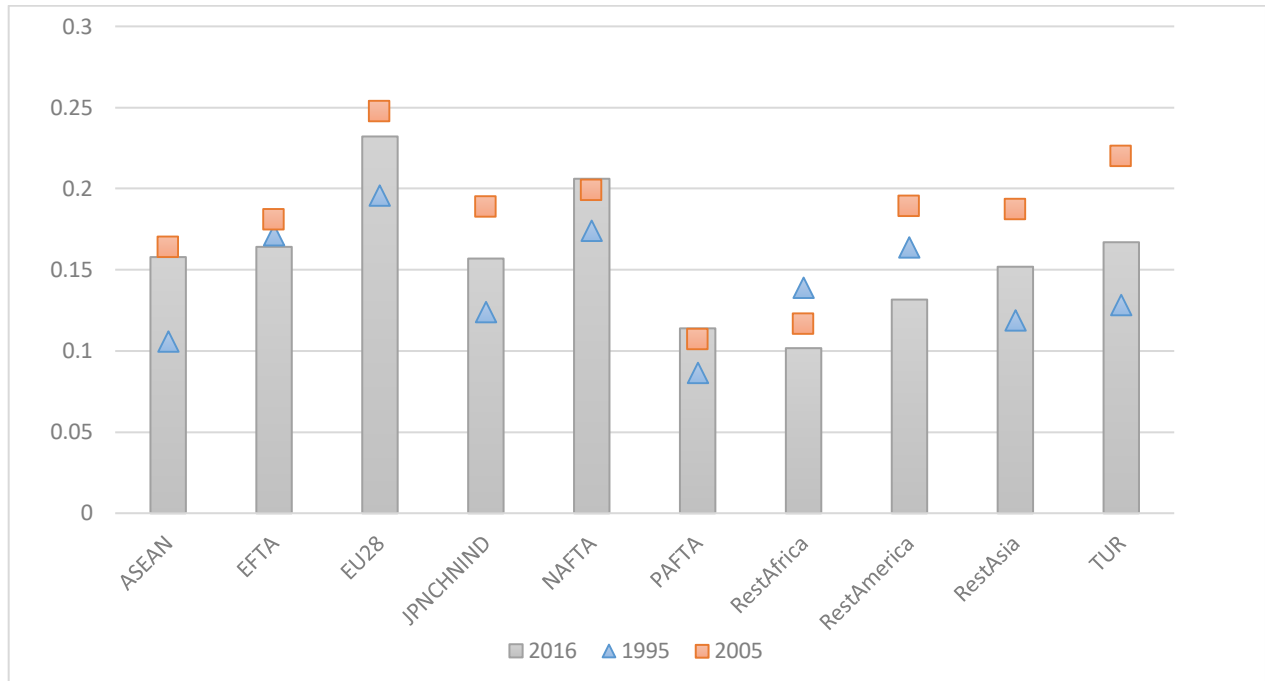


*Source: ESCWA calculations based on COMTRADE data (accessed October 2018).*

The trade intensity index captures whether the value of trade between a reporter and partner is greater or smaller than would be expected on the basis of their importance in world trade. Jordan traditionally traded and has been trading intensively with PAFTA countries. Turkey was an important trade partner, more so than its share in world trade suggests, but as of late Jordan's trade with Turkey is in line with its share in world trade, which appear to be case also with NAFTA as a bloc.



Figure 8: Trade Complementarity Index

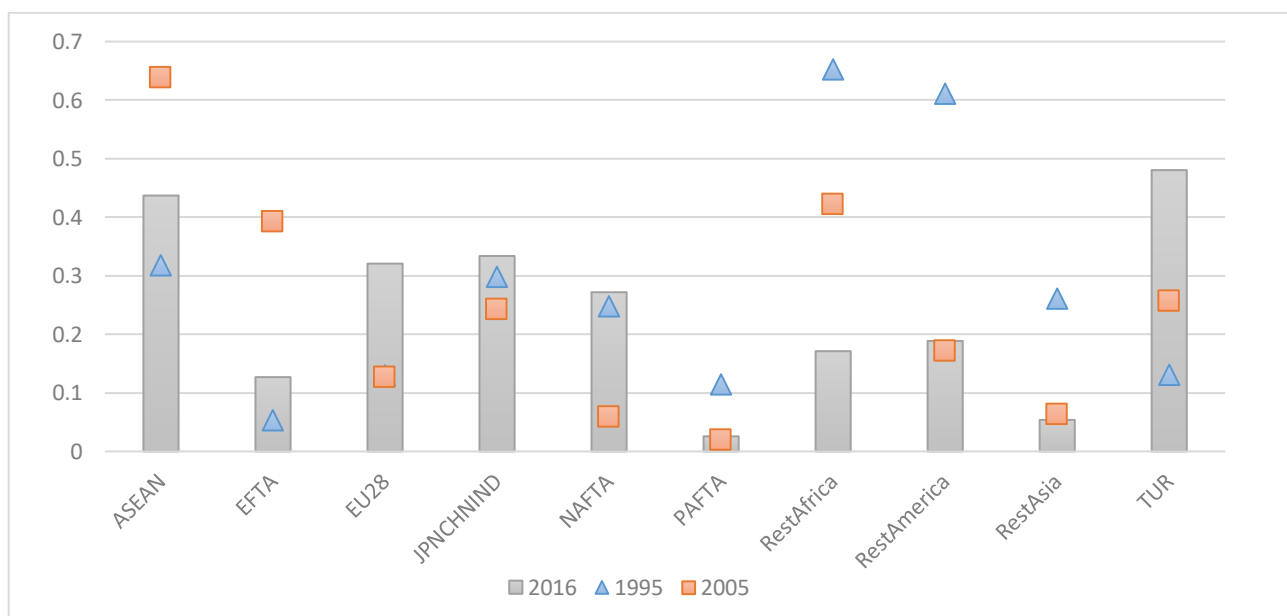


Source: ESCWA calculations based on COMTRADE data (accessed October 2018).

The trade complementarity index captures how well the structures of a country's exports and its partner's imports match, showing the extent of prospects for further exchange. The index takes on the value zero when no goods are exported by one country or imported by the other and 1 when the export and import shares exactly match.

**The index for Jordan attains relatively higher values with the EU and NAFTA.**

Figure 9: Hirschman-Herfindahl Index (bilateral export portfolio diversification)

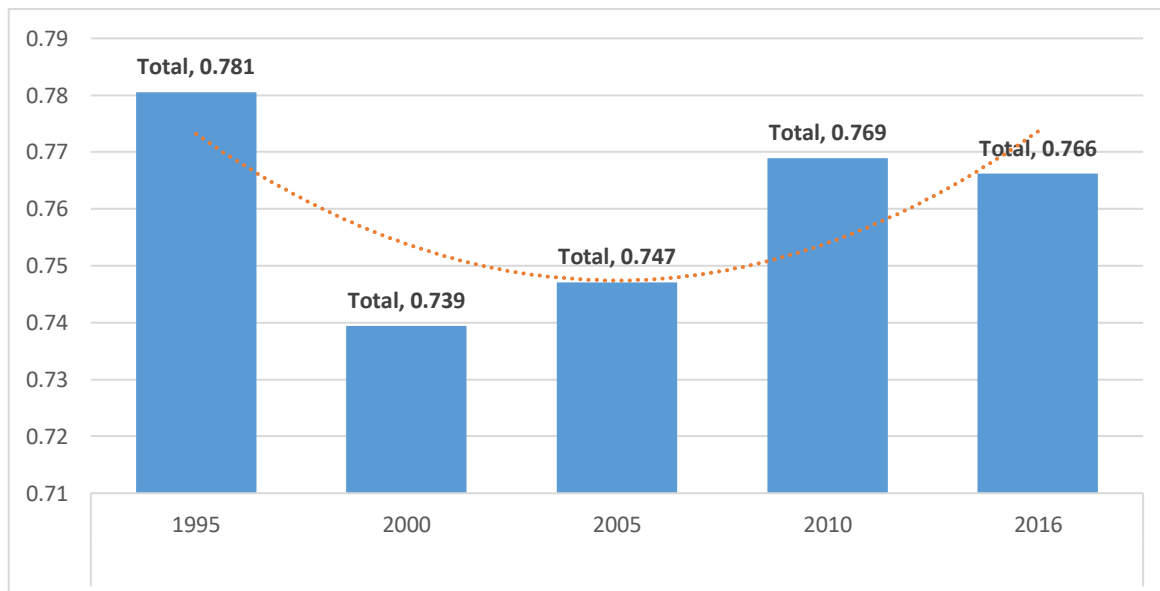


Source: ESCWA calculations based on COMTRADE data (accessed October 2018).

Jordan appears to have diversified export portfolios vis-à-vis most of its partners, with the notable exception of ASEAN countries and Turkey, as measured by the Hirschman-Herfindahl Index. Jordan has maintained a rather diversified export portfolio with PAFTA countries and lately with EFTA and Asian economies excluding ASEAN members, Japan, China, India and Turkey. The Hirschman-Herfindahl Index captures how diversified a bilateral export portfolio is.

**A country with a perfectly diversified export portfolio will have an index close to zero, whereas a country which exports only one product would attain the value of unity (least diversified).**

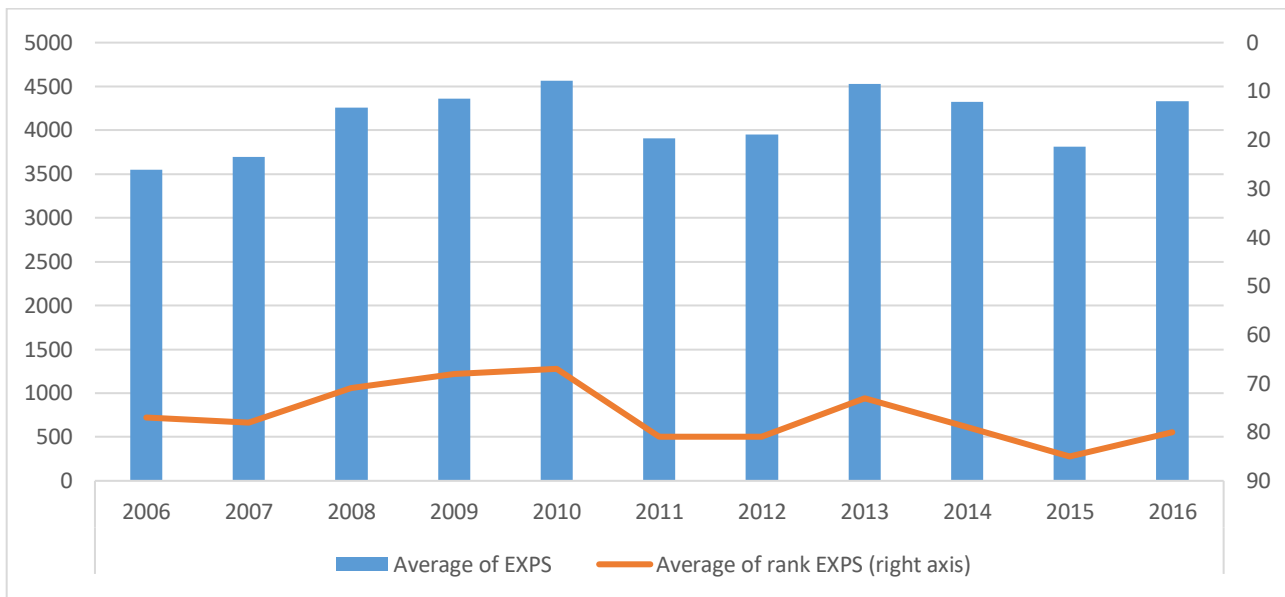
Figure 10: Export Diversification Index



Source: ESCWA calculations based on COMTRADE data (accessed October 2018).

Export diversification index measures whether a country is highly dependent on relatively few products or its export portfolio is diversified. The lower the index, the less concentrated are a country's exports. As measured by this index, Jordan had managed to diversify its export portfolio in the second half of the 1990s but most of the gains have been offset in the 2000s.

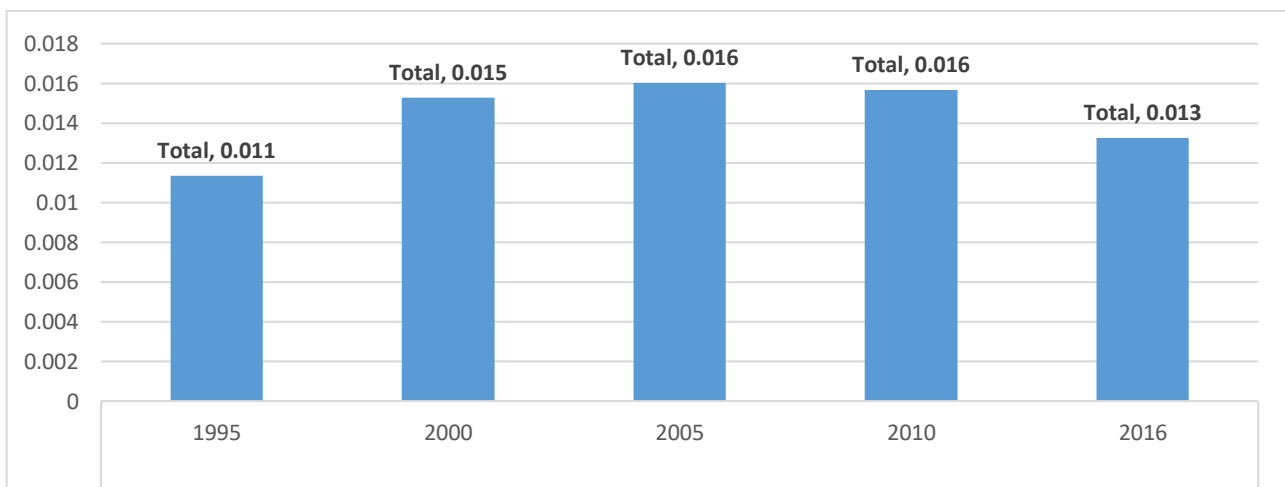
Figure 11: Export Sophistication



Source: ESCWA calculations based on COMTRADE data (accessed October 2018).

Jordan has recorded very little improvement in specializing in more sophisticated products over the past decade and dropped a couple of spots in global rankings.

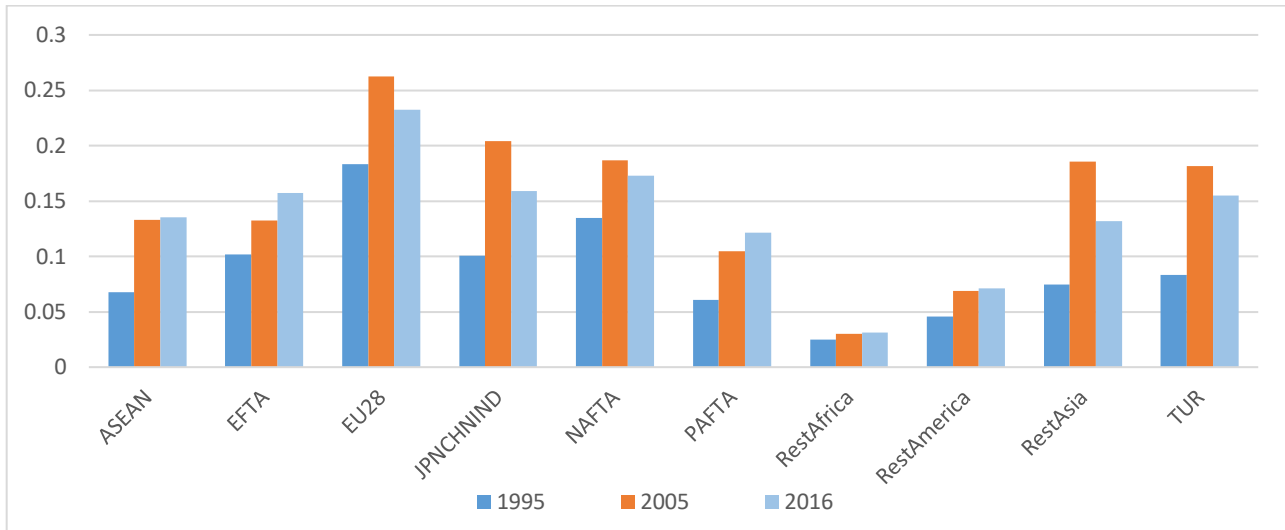
Figure 12: Export Market Penetration Index



Source: ESCWA calculations based on COMTRADE data (accessed October 2018).

Jordan's penetration into export markets improved steadily between 1995 and 2005 and has deteriorated since 2010, as measured by the Export Market Penetration index. The index is essentially the share of the actual number of export relationships (at the country-product level) forged by the country in question in the maximum possible number of export relationships it can form given its exports.

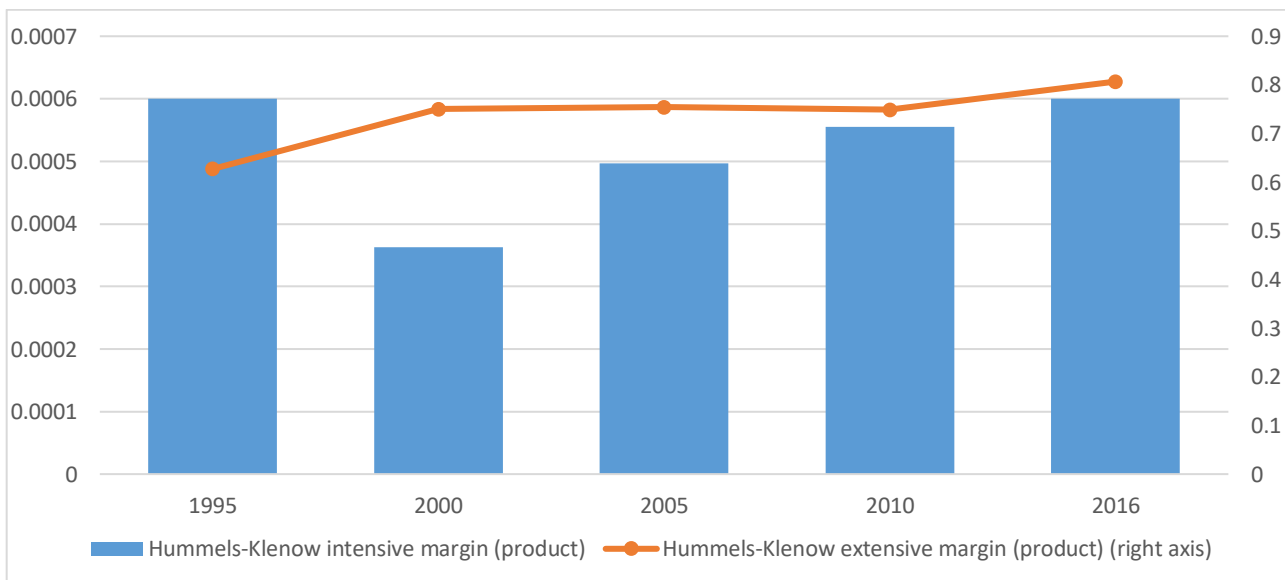
Figure 13: Export Similarity Index



Source: ESCWA calculations based on COMTRADE data (accessed October 2018).

The export similarity index captures the extent to which two entities in question are competitors in a common market. The index value of zero suggests that there is no competition between the two entities and of one that they are perfect competitors. Based on the export similarity index, Jordan's main competitors in world markets is the EU, followed by China, India and Japan.

Figure 14: Hummels-Klenow intensive and extensive margins (product)

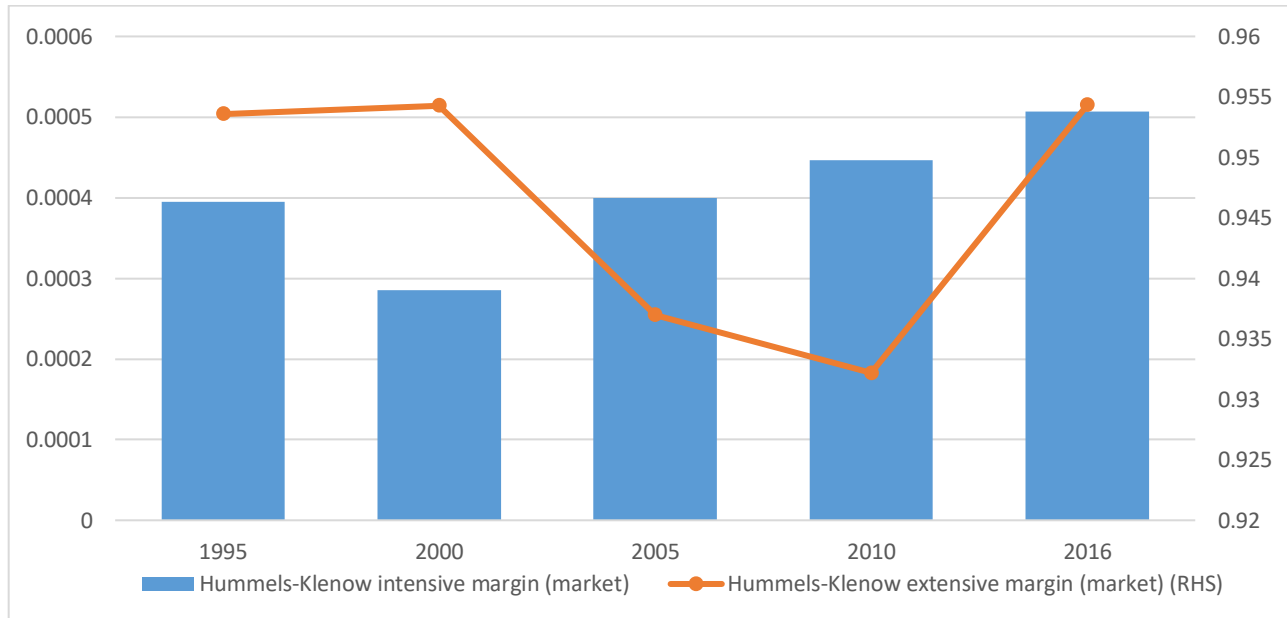


Source: ESCWA calculations based on COMTRADE data (accessed October 2018).

It is interesting to explore whether Jordan exports larger quantities or a greater variety of goods. To measure the first, the Hummels-Klenow intensive margin in products could be employed, which essentially captures the share of Jordan's exports in the world exports of products that Jordan exports. This index reached almost 0.06 per cent as of 2016, steadily offsetting since 2000 the decline that took place in the second half of the 1990s.

Jordan also experienced a sizable increase in the share of the products Jordan exports in total world exports of all goods, also referred to as the Hummels-Klenow extensive margin in products and gives an indication of how comprehensive the set of goods a country exports is.

Figure 15: Hummels-Klenow intensive and extensive margins (market)

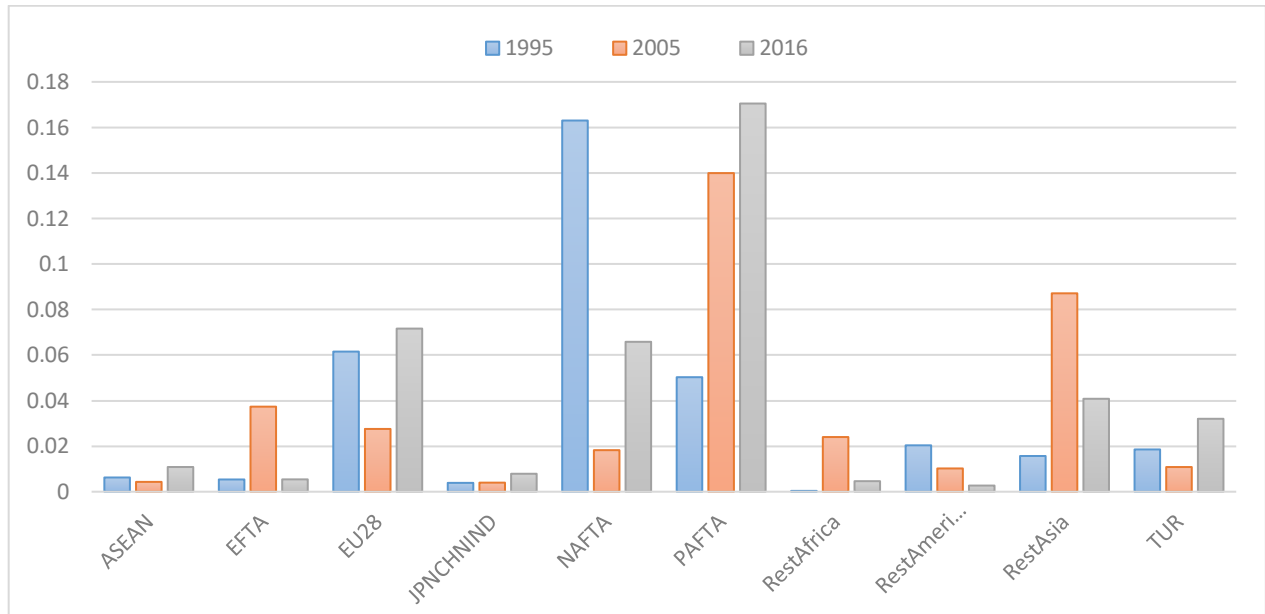


*Source: ESCWA calculations based on COMTRADE data (accessed October 2018).*

It is equally instructive to see as to whether Jordan exports larger amounts to its existing trade partners or expands into new markets. As a measure of the former, Morocco's share in the total world exports to only those countries that Jordan exports to, also referred to as the Hummels-Klenow intensive margin in markets, has gone up steadily and significantly since 2000, after a sharp decline in the second half of the 1990s.

Jordan has practically made no gains since 1995, though managed to achieve sharp improvement in the first half of the 2010s after a marked decline in the 2000s, in increasing its share in the world exports to only those countries that Jordan exports to in total world exports of all goods, referred to as the Hummels-Klenow extensive margin in markets and captures the extent of expansion into new export markets.

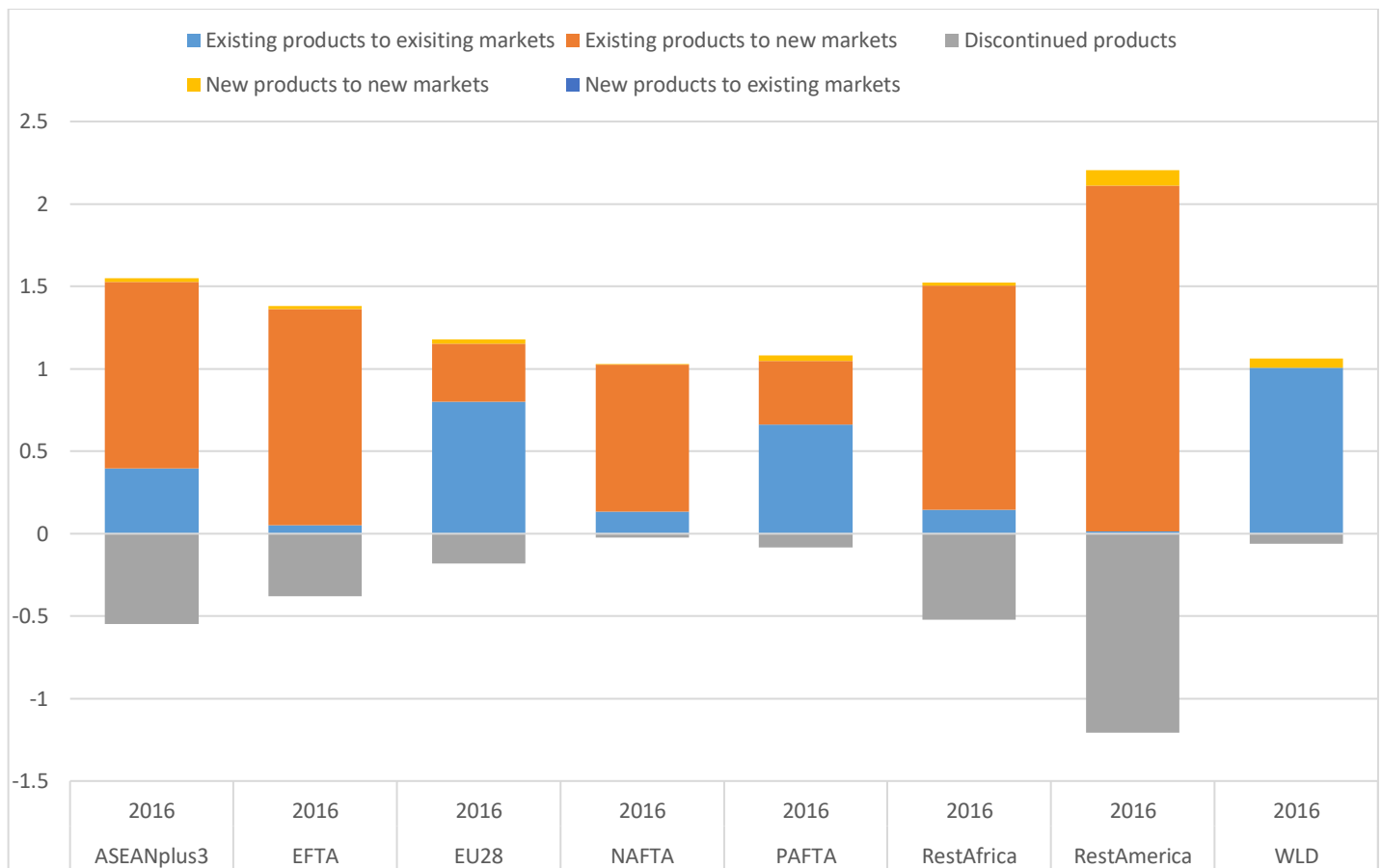
Figure 16: Intra-industry Trade Index



*Source: ESCWA calculations based on COMTRADE data (accessed October 2018).*

The intra-industry trade index measures the extent to which products that belong to the same industry were being traded between two countries, ranging between 0 and 1 and with values close to 1 corresponding to a high level of intra industry trade. Jordan has engaged in intra-industry trade mostly with PAFTA countries.

Figure 17: The composition of the change in bilateral merchandise exports between 2000 and 2016 along intensive and extensive margins



Source: ESCWA calculations using COMTRADE data.

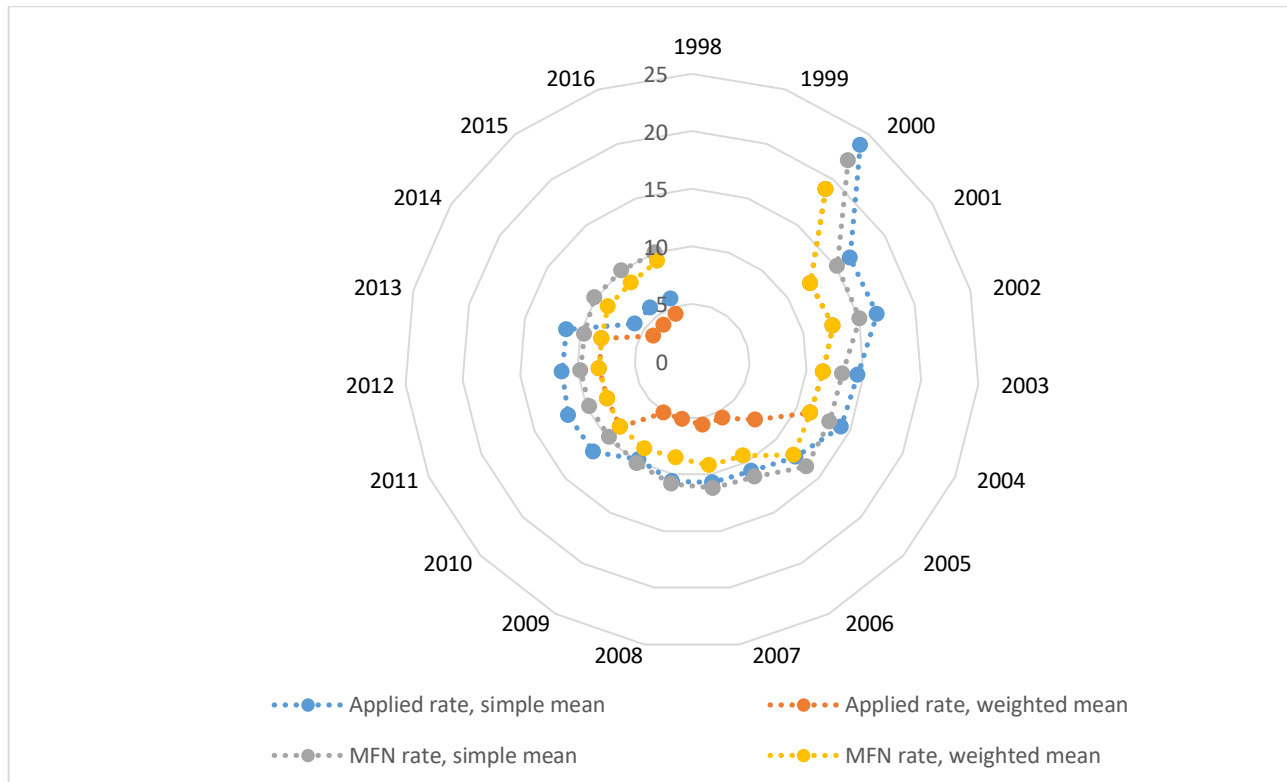
Notes: The abbreviations and the list of the countries included in each group are as follows. The Association of Southeast Asian Nations (ASEAN) is created using Indonesia, Malaysia, Philippines, Thailand, and Vietnam, not including Brunei, Cambodia, Laos, Myanmar, and Singapore. [to be completed]

Between 2000 and 2016, only very limited share of the change in the exports of Jordan has come from expanding into new products and/or markets. This share is around 60% for the United Arab Emirates and Bahrain, and 25% for Viet Nam. Across different destinations, American countries excluding NAFTA members, ASEAN+++ , EFTA countries and African countries excluding PAFTA members stand out as the destination to which new markets have a relatively high value share in the exports Jordan.

**Strikingly, new products have contributed very little to the change in the exports of Jordan as a whole and across different destinations.**

### III. Trade Policy

Figure 18: MFN and applied tariff rates for all products, simple and weighted means

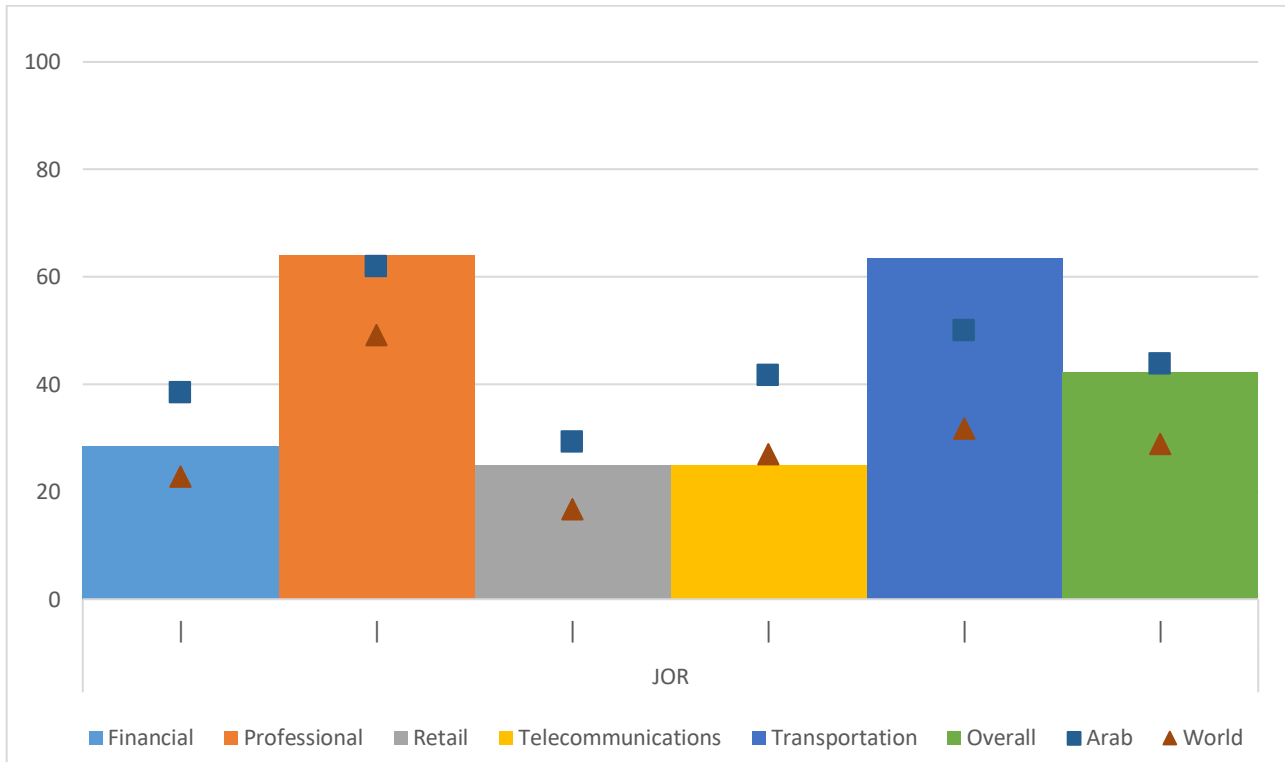


Source: ESCWA calculations using the World Development Indicators database (accessed October 2018).

Jordan has significantly lifted tariff protection in the past decade and a half. Both applied and MFN tariff rates have come down markedly and applied rates appear particularly low.



Figure 19: Services Trade Restrictiveness Index, 2010



Source: Borchert, Gootiiz and Mattoo (2014).

Policies and regulations on Jordan's services trade tend to be less stringent than the Arab average in different services sectors with the exception of transport services but more stringent than the world average with the exception of telecommunication services.

## END NOTE

Jordan's performance in services and merchandise trade in last two decades has been lackluster. By contrast, Jordan has been able to attract exceptionally high levels of FDI particularly in the 2000s. It remains to be seen what the extent and nature of the impact these elevated levels of FDI will be on Jordan's economy and trade. The impact of the United States-Jordan Free Trade Agreement and the QIZ agreement appear to be marked. The EU-Jordan Free Trade agreement on the other hand has failed to boost the exports of Jordan destined to the EU. More generally, regardless of trade agreements Jordan is a party to, Jordan's exports have not been particularly dynamic in terms of its expansion into new markets or ability to introduce new products. It may be an important policy challenge for Jordan to explore different options to boost its exports especially along the extensive margin in both markets and products.