



Palestine Economic Policy Research Institute

Palestinian-Jordanian Foreign Trade: Reality and Future Prospects

**Prepared By:
Naser Al-Ardah**

**Supervised By :
Mahmoud El-Jafari**

September 2000



Palestine Economic Policy Research Institute

Palestinian-Jordanian Foreign Trade: Reality and Future Prospects

Prepared By
Naser Al-Ardah

Supervised By
Mahmoud El-Jafari

September 2000

The Palestine Economic Policy Research Institute (MAS) was founded in 1994 as an independent, non-profit institution to address the socio-economic policy making process through appropriate and relevant applied economic and social policy research.

MAS MISSIONS:

- ✧ Identifying developmental challenges and priorities and enhancing applied research.
- ✧ Promoting participation of civil society institutions in socio-economic policy formulation and decision-making.
- ✧ Providing technical support to PNA bodies to enable them to function more effectively.
- ✧ Broadening public debate on socio-economic issues and ensuring oversight of government performance.
- ✧ Disseminating information and enhancing transparency.
- ✧ Strengthening economic policy research capacity in Palestine.

Board of Trustees:

George Abed, Hani Abu Dayyeh/Deputy Chairman, Edmond Asfour/ Chairman, Kamal Hassounch/ Treasurer, Nadia Hijab, Taher Kanaan, Anis F. Kassim, Nabeel I. Kassis, Maher El-Masri, Hassan Abu-Libdeh/ Secretary, Mariam Mar'i, Ahmad Qurie, Ismail Al-Zabri, Ghania Malhis (Director).

Copyright © 2000 Palestine Economic Policy Research Institute (MAS)
P.O. Box 19111, Jerusalem and P.O. Box 2426, Ramallah
Tel: ++972-2-2987053/4, Fax: ++972-2-2987055,
e-mail: mas@planet.edu / Website: www.palecon.org



Palestine Economic Policy Research Institute

Palestinian-Jordanian Foreign Trade: Reality and Future Prospects

Prepared By
Naser Al-Ardah

Supervised By
Mahmoud El-Jafari

September 2000

Palestinian-Jordanian Foreign Trade: Reality and Future Prospects

Prepared by: Naser Al-Ardah: Research Assistant, MAS

Supervised by: Mahmoud El-Jafari: Research Fellow, MAS and Professor of Economics, Al-Quds University.

Editorial Assistants: Sami Kilani (Arabic)
Karen Mann (English)

Layout Lina Abdallah

Palestine Economic Policy Research Institute (MAS)
Jerusalem and Ramallah
September, 2000

©2000 MAS

Publication Standards at the Palestine Economic Policy Research Institute-MAS

The Palestine Economic Policy Research Institute –MAS- engages in the publication of applied research papers and studies related to the Institute’s program in the area of economics and social science and conducted by full or part time researchers.

The Institute abides by the following standards and procedures to ensure the high quality of its research publications:

1. The approved research project should be conducted or supervised by a specialist senior researcher. The research must not have been published previously or submitted for publication elsewhere.
2. The terms of reference of the study are approved by an internal MAS scientific committee (consisting of senior researchers) to ensure accurate goals, appropriate use of scientific methodology and procedures and the timetable for completion.
3. The internal scientific committee supervises the work of the researcher or team of researchers through periodic progress reports.
4. The initial draft of the study is reviewed by the scientific committee for objective content-related amendments to be added to the second draft.
5. The second draft is then submitted for evaluation in accordance with the terms of reference to two or three external academic experts specializing in the subject. Provided that there is a positive evaluation by at least two experts, the researcher is asked to review the study taking into consideration the objective recommendations of these experts.
6. The study is presented for discussion at a public workshop attended by academics, researchers, and representatives from public and private sector institutions related to the subject of the research.
7. Comments and feedback from the workshop are incorporated into the study and the final draft is reviewed by the scientific committee to ensure that the necessary amendments have been made. The study is then edited.
8. Research papers written in English are translated into Arabic and published in both languages. An executive summary in English is attached to research papers written in Arabic.

9. The author is not permitted to reproduce, in whole or in substantial part, from the research published by MAS without the express written permission of the Director of the Institute.

Abstract

This study aims to assess current Jordanian-Palestinian trade relations and to identify alternatives and options for future trade policies. The study monitors developments and changes that have affected relations during previous decades. An empirical model using detailed data for 1968-1998 was employed to determine the factors influencing the volume of trade between the two countries. Based on the empirical results and the existing situation, it was possible to identify future trade policy options between Palestine and Jordan.

The study reviewed the most important results of previous studies on Palestinian-Jordanian foreign trade, and Palestinian external trade in general, during 1968-1998. Quantitative analysis methods were utilized to evaluate this relationship. Trade similarity coefficients between Palestinian exports and Jordanian imports and between Palestinian imports and Jordanian exports at macro and micro level were calculated. The potential for nine groups of commodities comprising 62 products (third level of international unified classification) was projected. The minimum, maximum and projected trade volume between the two countries was calculated under the current structure of foreign trade and under free trade conditions. These were compared with the current volume of trade between the two countries to determine the potential for imports and exports to and from Jordan.

To identify the factors determining the flow of exports and imports, trade gravity equations of Palestinian export supply and import demand to and from Jordan were calculated based on three different periods (1968-1987, 1988-1994 and 1995-1998) to isolate the impact of political events on Palestinian – Jordanian foreign trade. The estimated equations showed that the flow of goods between the West Bank and Gaza Strip and Jordan were more responsive to and influenced by Jordanian economic variables. Additionally, Israel has imposed non-customs obstacles to impede Arab-Palestinian trade. A structural testing of Jordanian-Palestinian trade according to the Periods of time above found that the variables affecting trade ties between the two countries still exist. No positive signs of change have taken place. Recent changes in the political environment and economic policies in Palestine and Jordan have not exerted the substantial impact on Jordanian–Palestinian trade relations that was anticipated.

Findings

The findings of this study reveal that the projected volume of trade between Palestine and Jordan, in the context of free trade and the existing structure of foreign trade between them, could exceed \$700 million. Palestinian exports would account for a maximum of \$200 million. The average trade balance deficit between the two countries would exceed \$300 million in favor of Jordan. Therefore, directing trade relations towards Jordan would simply change the Palestinian trade balance deficit from Israel to Jordan.

This could be true to some extent in the short term. However, if future ties and trade agreements are to be established between Palestine and Jordan and with Arab and foreign countries, then internal measures must be implemented in the Palestinian economy if it is to benefit. An initial increase in Palestinian exports to Jordan to \$200 million would mean that total Palestinian exports to Jordan and other countries would reach \$800 million. This would certainly have a positive impact on the Palestinian economy. In the long run, this direction of trade would be advantageous to the Palestinian economy, albeit limited. There should not be a switch in Palestinian trade and trade balance deficit from Israel to Jordan without Potential benefit to the Palestinians.

Any form of trade relations between Palestine and Jordan following the interim period must take into consideration the current performance of both the Jordanian and the Palestinian economies. The findings of study were that there were many parallel aspects in the performance of the two economies.

Both economies, for example, are alike in the performances in macro-economic indicators, as the results of similarity trade coefficients showed. The similarity in import demand structures in both countries exceeded 60%. This is reflected in the burgeoning dependence on imports to meet local consumption in both countries. Nevertheless, the results do reveal some differences in each country's economy, for example, in export supply structures, which failed to exceed 40%. This reflects individual production trends in the two countries.

The most important conclusions on the formulation of Palestinian trade policy options with Jordan can be summarized as follows:

1. The Palestinian and Jordanian economies are alike in number of economic indicators. Economic standards in both countries are close given the similarity in per capita income. The GDP growth rate in each country is also close; 4% in Jordan and 4.5 in Palestine. Moreover, the two economies depend on remittances from abroad, thus increasing the non-real growth rates in their GDPs.

As a result, the structure of their respective GDPs comes mostly from services that do not produce goods for trade. The two economies therefore suffer from structural distortions due to imbalance in the performance of economic sectors. This finding showed the continuous rise in local demand due to the increase in disposable national income. This expands dependence on imports to meet the needs of the local market, as evidenced in the trade balance deficit of both economies. The ratio of deficit to GDP was more than 50%.

2. The result of trade similarity coefficients showed that 40% of Palestinian exports were similar to Jordanian exports. This indicates differences in production trends between the two countries, which reinforce the difference in the goods structure of Jordanian and Palestinian exports. The results also showed that the degree of similarity in imports was higher than in exports between the two countries.

The degree of similarity between Palestinian and Jordanian exports exceeds 60%. This is reflected in the close ratio of trade balance deficit to GDP in each country.

3. At macro level, the results of trade similarity coefficients showed that the minimum anticipated Palestinian exports to Jordan, under free trade conditions, would account for just 1.5% of Jordanian imports. However, it would account for more than 12% of Palestinian exports. The maximum Palestinian exports to Jordan could represent 5% of Jordanian imports, but would account for more than 35% of Palestinian exports. Palestinian imports from Jordan are projected to make up 11% of Palestinian imports and 14% of Jordanian exports. The maximum might exceed 24% of Palestinian imports and might even account for more than 30% of Jordanian exports.

4. At micro level, the results showed few commodities that require coordination concerning merchandise trade flows between Jordan and Palestine. It was found that Palestine would specialize in producing and exporting the following: (a) foodstuff and livestock; (b) beverages and tobacco; (c) raw materials and fuels;(d) machines and transportation machinery. Meanwhile, Jordan has a comparative advantage in exporting the following commodities: (a) oils, vegetable and animal fats; (b) agricultural produce; (c) chemical products.
5. The results estimate trade gravity equations of Palestinian exports to Jordan as well as of Palestinian demand for Jordanian imports. Coordination should take place between the two economies concerning Jordanian monetary policy. The policy of floating the exchange rate of the Jordanian dinar at the beginning of the 1990s exerted a negative impact on Palestinian exports to Jordan. However, the Policy had a positive impact on Palestinian imports from Jordan. Jordan must coordinate with the Palestinians concerning its monetary policy to avoid repercussions on joint trade and to boost the trade volume between the two countries.
6. Between 1995-1998, Palestinian-Jordanian trade relations were influenced by the same economic variables that existed during 1988-1994 in spite of changes in the political environment.
7. Diversification of import products, especially as regards finished products, to West Bank and Gaza Strip markets is insufficient to break the Israeli monopoly of the Palestinian market. Moreover, merchandise trade flows from Jordan to Palestine are expected to increase whether the final product is partially or totally produced in Jordan.

Recommendatons

In light of the results of this study, plus the current performance of the Jordanina and Palestinian economies and the many similarities between them, it appears that an expansion of trade relations between the two parties would require the implementation of a number of measures and policies. This study provides the following recommendations:

1. Coordination of production policies would strengthen specialization and diversify production. Furthermore, imbalances in production structures in both countries would be remedied. Jordan could specialize in chemical industries while Palestine could specialize in the production of paper, carton and textiles.
2. Palestinian –Jordanian cooperation in agricultural production and exports to European markets, during some seasons, in accordance with the European-Mediterranean Partnership Agreement.
3. The establishment of joint projects to produce goods in which neither country enjoys a competitive advantage in order to reduce imports and enhance job opportunities. These products include foodstuff, livestock, beverages, tobacco, raw materials and fuels.
4. Since the Jordanian dinar is circulated as currency in the West Bank and Gaza Strip, any devaluation of the dinar would increase the flow of goods from Jordan to Palestine and deepen the Palestinian trade balance deficit. There should therefore be joint coordination to avoid such a situation.