World Trade Organization
Organisation Mondiale du Commerce
Organización Mundial del Comercio

WTO Chairs

The Potential Economic Effects of FTA between Jordan and Canada

Taleb Awad Warrad[1]

As part of continuous efforts to boost economic growth via an export oriented strategy, Jordanian policy makers continue to pursue further trade liberalization and economic integration worldwide. To set the stage for implementing this strategy, Jordan implemented major economic and legislative reforms aimed at dealing with domestic market distortions, including modernization of investment and trade legislations, privatization and the liberalization of telecommunications and financial services. Further foreign trade liberalization of Jordan was achieved through the engagement into several regional and international trade arrangements. The most recent step in this direction was the signing of a free trade agreement with Canada on March 24, 2010. Once implemented, the Canada-Jordan trade agreement will immediately eliminate tariffs on the vast majority of traded goods between the two countries and will expand opportunities for businesses in both countries in a variety of sectors.

Jordan's current trade and investment position with Canada is modest. In 2010, Jordanian exports to Canada were valued at only $19.9 million and imports from Canada were valued at $66 million. For Jordan, bilateral, regional and multilateral trade agreements can play a vital role in enhancing competitiveness, achieving economies of scale and compensating for supply shortages and small market size.

Jordanian GDP per capita was about $4,500 in 2011, compared to $51,147 for Canada in the same year. According to the global competitiveness index, the Canadian economy is much more competitive than the Jordanian economy; the ranking of Jordan is 71 in 2012 compared to 12 for Canada. Although the ranking of Jordan has improved in 2013 to 64, it is still much lower compared to 14 for Canada. According to the World Bank Doing Business Index 2009-2013, Canada ranked 17 in terms of easiness of doing business in 2013, while Jordan was ranked 106 in the same year.

The figure 1 below illustrates that the trade balance development between Jordan and Canada was in favour of Canada in most periods since 2000. Jordan's trade deficit increased from $19.2 million in 2001 to about $52 million in 2011. This trade deficit is concentrated in the following sectors: Wood and articles of wood ($10.02 million), edible vegetables and certain roots and tubers ($10.8 million), vehicles other than railway, tramway ($9.5 million) and paper, paperboard, articles of pulp, paper and board ($ 8.9 million) and machinery & electrical- electronic equipment ($8.6 million).

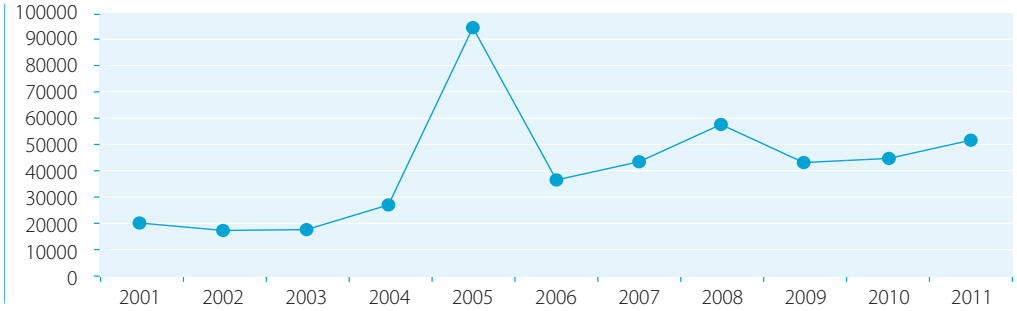
In addition to the long geographical distance between the two countries and the relatively high transportation cost, applied tariffs were another trade obstacle. Both bound and applied rates in the agricultural and non-agricultural sectors were lower in Canada than in Jordan. While the applied average tariff rate in Jordan were 18.2% and 8.8% for agricultural and non-agricultural products, the corresponding rates in Canada were 11.3% and 2.6%, respectively.

4th WTO Chairs Programme Annual Conference
Overcoming Supply Side Constraints: Issues for Policy Makers

1 The Author is grateful for the support and encouragement he has received from the council of higher education at the Ministry of Higher Education.

Research has shown that trade liberalization policy in Jordan, especially via free trade agreements, has contributed to the expansion of both exports and imports. However, the growth of imports has tended to be faster than the growth of exports due to supply side constraints. This has contributed to worsening the chronic trade deficit.

Figure (1): Trade balance between Jordan and Canada, thousand US Dollars



Source: ITC data base.

Comparative analysis shows that the Jordanian economy is smaller and more vulnerable to structural macroeconomic imbalances than the Canadian economy. In terms of reliance on trade Canada and Jordan are rather similar. This is explained by the values of exports reliance index which are very close to each other and to the world average. Analysis shows that there is a low trade intensity and high degree of trade complementarity between the two countries. All this implies that the FTA between the two countries will succeed in expanding trade creation more than causing trade diversion.

This is confirmed by when simulating the effects of a Canada-Jordan FTA on trade flows. Jordan's exports are predicted to increase in fertilizers, articles of apparel & accessories, salt sculpture, earth, stone, plaster, lime and cement, pharmaceutical products, inorganic chemicals, and edible vegetables and certain roots and tubers; exports from Canada to Jordan are predicted to increase in mineral fuels, oils, distillation products, wood and paper products, Aluminium and articles thereof, and aircraft, spacecraft and parts thereof.

The growth and welfare effects of the agreement are predicted to be positive. However, in light of the small size of Jordan's trade with Canada, the net effect on real economic growth is expected to be small and gradual in the short run. Furthermore, differences in market size, tariff structure and industry experience and competitiveness will likely produce unequal welfare benefits and asymmetric distributional effects within both countries.

Jordanian small businesses are, therefore, likely to face difficulties in the short-run from increased competition. Jordanian businesses are likely to gain in the long run by moving into a more efficient scale of operation, and by adjusting to the new larger markets and more competitive environment. On the other hand, consumers are expected to benefit in both countries as prices drop down due to tariff elimination and due to the increased level of competition. Consumers will have access to more varieties of goods and services, especially in the tourism sector. These consumers gains are expected to be large enough to outweigh any losses that may occurred to producers.

This document draws upon an intermediary draft of a working paper that the author has contributed to the WTO Chair Programme. Responsibility for opinions expressed in this document rests solely with the author, and publication does not constitute an endorsement by the World Trade Organization of the opinions expressed here.