CHAPTER 5

CONCLUSION AND SUGGESTIONS

5.1 Conclusion

Jordan liberalized trade when it joined the World Trade Organization (WTO) in 2000, and it became the first Arab country to establish a free trade agreement with the United States when signed the Jordan–United States Free Trade Agreement (JUSFTA). Jordan relishes progressive status with the European Union (EU), which has enabled better access to exports to European markets. Because of low-high energy and food subsidies, domestic growth, and a stuffed public-sector labour force, Jordan generally faces annual budget deficits.

Jordan is facing trade deficit throughout the period i.e. 1965-2017. It shows that their import is more than that of its exports. As far as the growth rate of export and import are concerned, exports growth rate is faster than import growth rate. The share of country’s export in world export is rising continuously except for few years. The table 2.1 shows that in 1965 export were observed as 27.75 million US dollars while the imports were 157.00 million US dollars. The data shows that import is higher than export which rises and reached 7511.48 and 20498.20 million US dollars for export and import respectively. As it is observed that there is prevalence of trade deficit which accounted for 129.25 million US dollars in 1965 and increases to 12986.72 million US dollars in 2017.

Initially, both the GDP and foreign trade rise or fall simultaneously and after certain period of time the gap between them widens i.e. foreign trade rises faster than GDP. In figure 2.1 it reveals that initially GDP was more than foreign trade i.e. 599.83 million US dollar as against 184.75 million US dollar in 1965. But for the first time in 2004 for foreign trade was observed higher than GDP i.e. 12062.43 and 11411.39 million US dollar. Due to liberalization of trade the gap between them widen continuously.

The table 2.2 clearly shows that export percentage in GDP was 4.63 percent in 1965 which rise and fall many times and reached to 18.75 percent. On the other hand import share in GDP indicates higher than export share i.e. 26.17 percent in 2017. The
share of export in GDP raises much in comparison to import but the actual share shows that import share is more than that of export share which observed 51.16 percent for import and 18.75 percent for export share in 2017. Overall the share of foreign trade in GDP clearly indicates that it was 30.80 percent in 1965 which was more than 100 percent in 2004 to 2008 and finally accounted for 69.90 percent in 2017.

The figure 2.2 shows the status of trade deficit in Jordan during the period between 1965 and 2017. The figure clearly indicates that like other developing economy Jordanian economy also faces the problem of trade deficit. It depict from the figure that during first four decades the gap between export and import was slightly unfavourable but after that the gap was widening continuously in which import was much higher than its export. This clearly indicates the larger trade deficit in Jordanian economy.

It clearly observed from the figure 2.3 that in 1966 the growth rate of import was observed as 21.56 percent while the growth rate of export was 4.92 percent. At the time of trade liberalisation i.e. in 2000, the growth rate of export has examined as 3.66 percent while the import growth rate was 23.68 percent. From 2001 to 2008, the growth rate of export as well as growth rate of import was positive and also very high. In this period the export growth rate lies in the range between 10.01 percent in 2007 and 38.64 percent in 2008. On the other hand the growth rate of import lies in the range from 4.21 percent in 2002 to 42.42 percent in 2004. Overall the growth of export lies in the range of -22.87 percent in 1983 to 111.33 percent in the year 1974 but in these period there is various ups and down prevails in the growth rate of export is concerned. On the other hand the import growth is concerned it lies in the range between -22.18 percent in 1989 and 50.09 percent in 1975.

The table 2.4 clearly shows the picture of Jordan's share in World's exports which was observed as very small or insignificant. On the other hand, it is increasing, showing an improvement in the performance of Jordan's export. In 1965 the share of Jordan's export in world's export was only 0.02 percent and it declined to 0.01 percent in 1970 while it increased to 0.03 percent in 1979. It further increased to 0.04 percent in 1981 and declined to 0.03 percent in 1990. However, Jordan's share in World's export has reached to its highest level of 0.05 percent in the years 2008-10, and 2015-16 while it again reached at 0.04 percent in 2017.
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From table 2.5 it observed that Jordan's share in World's import was more than that of its export. However, it is increasing, indicating an improvement in the performance of Jordan's import. It has some improvement over a period of time. It was witnessed at 0.8 percent in 1965 which rose to 0.9 percent in next year i.e. in 1966 and it decline in 1970. Further it starting rising from 1975 and reached its highest level i.e. 0.17 percent in 1982. Further it fluctuating and in 2017 it was 0.11 percent.

The variation in the growth rate of Jordan’s export ranged from -22.87 percent in 1983 to 111.33 percent in 1974. On the other hand, the range of variation in the growth rate of World's export is concerned it has varied between a minimum of -22.31 percent in 2009 and a maximum of 46.71 percent in 1974. As a result, there is more variation in Jordan's export growth rate than that of the World’s. From the figure 2.4 it can be easily said that on an average growth rate of Jordan's exports have accelerated at more than that of World's.

The figure 2.5 shows the variation in the growth rate of Jordan’s and of World’s. The growth rate of World’s ranged between -22.94 percent in 2009 and 46.19 percent in the year 1974. On the other hand variation in the growth rate of Jordan is concerned it was observed that it ranged from its minimum value of -22.18 percent in 1989 to 50.09 percent in 1975. As a result, there is almost same level of variation in Jordan's import growth rate and that of the World’s. From the figure 2.5 it can be easily believed that growth rate of Jordan's imports on an average have accelerated at the same pace that of World's import.

The table 2.6 shows the share of different commodities in Jordan’s export during 1990-2017. The data clearly reveals that total value export in 1990 was 2864 $ US million in which the share of total merchandise, manufactures, fuels and mining products and chemicals contributes more than 80 percent of total export value. On the other hand fuels, integrated circuits and electronic equipment, electronic data processing and office equipment and telecommunication equipment share is negligible (0.00, 0.03, 0.07 and 0.07 percent).

In 2017 total exports was slightly fall and reached to 22579 $ US million. Total merchandise was recorded as 33.17 percent and manufactures was 24.93 percent while chemical was examined as 9.53 percent. On the other hand the share of fuels was 0.04
percent and electronic data processing and office equipment was 0.19 percent while food and agriculture products separately accounted for more than 5 percent. It is clear from the analysis that trade liberalisation play very important role in Jordan’s export but only for first decade in which export rises promptly. As far as share is concerned total merchandise was highest but more or less stable throughout the period. There is improvement in clothing and manufactures while agriculture products and food improved marginally. Fuel, iron and steel and chemical share are stable.

Figure 2.6 and 2.7 clearly show the share of major products in Jordan’s export before and after trade liberalisation. It reveals that the total merchandise has highest share in Jordan’s trade and in terms of share trade liberalisation has negative effect. On the other hand manufactures trade liberalisation has positive effect on manufactures as its share increases from 20.71 percent in 1990 to 24.93 percent in 2017. Fuel and mining products and chemical also shows that it share decline in 2017. Machine and transport equipment share marginally declined but the share of clothes increased by almost 20 times i.e. from 0.38 percent in 1990 to 6.93 percent in 2017. But in terms of absolute value these products increased.

It is clearly shown in table 2.7 that some major products i.e. total merchandise, manufactures, agriculture products, food, machinery and transport communication, Fuels and mining products and fuels have major share in Jordan’s import. In 1990 total merchandise was 33.05 percent which in 1995 marginally declined to 32.53 percent while in 2000 its share increased to 34.33 percent. On the other hand after trade liberalisation its share lies in the range of 32-33 percent which shows minimal fluctuation but in absolute term it continuously rising. The second largest share in Jordan’s imports goes to manufactures which is recorded as 17.04 percent in 1990 which increases to 18.35 in 2017 but the actual share shows uninterrupted growth.

It is also noted that total Jordan’s import was 7868 $US million in 1990 which rose to 11364 $US million in 1995. In 2000 it marginally increases to 13364 $US million. Jordan has experienced a rapid rise in import in 2005 which is recorded as 13392 which again increased rapidly increased two time i.e. 32936 $US million. Total import of Jordan in 2010 was recorded as 47532 $US million and in 2015 it was examined as 62229 $US million while it has witnessed slight rise in 2017 and reached in 64177 $US million.
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The figures 2.8 and 2.9 show that the share of total merchandise in Jordan’s import has marginally declined but the share of manufactures has positive effect. Machinery and transport equipment rose to 8.69 percent in 2017 as it was 6.27 percent in 1990 while the share of agriculture product also declined by about 50 percent in 2017. Automobile products have the positive impact and transport equipment share also declined. As far as the share is concerned major products has slightly declined or remains stable but in absolute term its value increased.

The table 2.8 shows the share of some major countries in Jordan’s import. In 1995 Share of United States in Jordan’s import was 9.28 percent and that of Germany was 8.43 percent while the combined share of these two countries was 17.71 percent. Besides these two countries Italy contributed 5.36 percent and United Kingdom 4.81 percent while 4.60 percent is shared by France. From the major import partner UAE share was lowest that is 0.43 percent. Before trade liberalisation or at the time of trade liberalisation top most Jordan’s imports partner was Germany and United States. In 2000, that is at the time of trade liberalisation the share of Germany was increased to 11.55 percent and United States was 9.95 percent.

In 2017, China occupied the first position in Jordan’s imports (share of 13.55 percent), followed by Saudi Arabia (share of 13.50 percent), United States (share of 9.80 percent), UAE (share of 4.87 percent), Germany (share of 4.41 percent), Italy (share of 3.96 percent), Turkey (share of 3.34 percent), Japan, Korea, India, Spain and Egypt (share between 2-3 percent). While France and United Kingdom share declined to 1.94 percent and 1.76 percent.

The figures 2.10 and 2.11 clearly indicate the major import partner of Jordan. It observed that the share of China in Jordan’s import was only 2.28 percent in 1995 but in 2017 it rapidly increased and reached to 13.55 percent. On the other hand the share of Saudi Arabia has also increased by 4 times during the period 1995 to 2017. Before trade liberalisation Germany and United States were the major import partner of Jordan but in 2017 former was declined while later remain stable. The share of United Arab Emirate also has positive effect of trade liberalisation.

The table 2.9 clearly shows that Iraq, India, United States, Saudi Arabia and Free Zones recorded for a major portion of Jordan’s export. Before trade liberalisation the main portion of Jordan’s export was from Iraq, India, Free Zones and Saudi
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Arabia. The share of Iraq was 17.06 percent in 1995 and in 2000 was 9.26 percent. India accounted for the share of 9.21 percent in 1995 and rose to 12.83 percent in 2000. On the other hand the share of Saudi Arabia and Free Zones were recorded as same i.e. 6.12 percent in 1995 and formerly slightly rose and reached to 7.33 percent while later increased to 11.11 percent in 2000. Before trade liberalisation United States share was recorded as less than 4 percent while the share of Israel and Kuwait was negligible. Overall the share of the major countries as listed in table reveals 58.84 percent in 1995 and in 2000 rose to 65.91 percent.

In 2017 United States was on top position with a share of 21.46 percent followed by Free Zones (12.49 percent), Saudi Arabia (11.32 percent), Iraq (7.26 percent) and India (6.95 percent). UAE was observed as the most consistent which is recorded as about 4 percent share in Jordan’s exports throughout the given period i.e. from 1995 to 2017. The table clearly reveals that before trade liberalisation the share of Iraq was highest but it declined after trade liberalisation whereas the share of United States was less than 4 percent before trade liberalisation but after trade liberalisation its share rapidly rises and obtain the top spot in Jordan’s exports.

It is observed from figures 2.12 and 2.13 that before trade liberalisation the share of Iraq in Jordan export was highest i.e. 17.06 percent which declined to 7.26 percent in 2017. On the other hand the share of India was 9.21 percent but it also show declined trend during the period 1995-2017. United States has tremendously increased to 21.46 percent in 2017 whereas it was 3.86 percent in 1995. It also reveals that Jordan export to Saudi Arabia increased to just double. The Free Zone area shows that in 1995 its share was 6.12 percent which in 2017 reached to 12.49 percent.

The Jordan has followed the legacy of other developing countries by opening its door to the other nation to pump up domestic economy through international trade and foreign direct investment with changing institutional paradigm. This was very important juncture from not only Jordan point of view but also from global point of view as economies of all nations moving to make one single world economy. The trade liberalization will bring competition in to the international market due to comparative cost advantage theory of international trade which says that international trade will be beneficial to the both of nation if they have comparative cost advantage.
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The comparative cost advantage theory is the improvement version of absolute advantage theory of international trade which became failed, because it could not explain the fact that if country has absolute advantage in both goods the it will export both counties and will not import at all aftermath Ricardo gave comparative cost theory of international trade which become successful to explain that even if a country has absolute advantage in cost of production of both commodities and while on the other hand other country has absolute disadvantage in the cost of production of all goods even though they can trade each other. The country who has absolute advantage in both good then it will export that goods which has low opportunity cost as compare to other good and will import that goods in which it has high opportunity cost and in same way other country. As of now trade pattern has become changed. The modern international trade theory

The government of Jordan has made considerable efforts over the last 15 years to open up the economy and to enhance the integration of the economy into the world trading system. This process had accelerated since the late 1990s, as six free trade liberalization agreements have been ratified and put into force and the country has joined the WTO. As a result, Jordan is a potential candidate for an analysis of the effects of this outward strategy on international trade flows.

Balance of payment is said to be a systematic record of all transaction between the home countries with rest of the world during a given period of more often one year. The balance of payment is considered to be a very important aspect of international trade. As it is based on double entry book keeping, balance of payment always remain in balance in the accounting sense of the term. The current and capital are the two main components of the balance of payments statement. By the 1990s, it was hoped that the integration of all economies into single will increase pia of all countries, which could not turn to be true. The Jordon also thought in same way to improve not only the balance of payments situation but also to increase the economic development in aggregate.

Since trade linearization in Jordon, the condition of balance of payment did not improve. The current account has deteriorated further after trade liberalization particularly after 2004. The current account stayed negative since trade liberalization which does not make any sense to liberalize the Jordon economy if it has negatively
affected the current account. The deficit in current account reflects that Jordon is exporting less than import. The import has been shooting up after trade while on the other hand export has not increased.

The trade liberalization is known to be as ambassador of economic development, however in case of Jordon it has not been successful, instead it escalated problem in Jordon. The balance of payments in Jordon has not improved while it has become the problem of Jordon that after trade liberalization current account has been deteriorate further. The current account in Jordon has always been negative due to heavy import.

And export has not accelerated due to deep rooted structural bottlenecks in the country could not wiped out which has made Jordon feeble economically, however by the mid-1990s Jordon started to reform its economy but pace of the economic reform has been very slow. So it has been found that trade linearization do not have impact on balance of payments and has further worse off the balance of payment situation in Jordon.

As far as export is concern after trade liberalization, it has improved and contributed in raising the standard of living in Jordon. It would be suffice to say that trade liberalization has not reduce current account deficit. As matter of fact form the data, Jordon should promote the domestic industries to increase the export performance of domestic country and also should ensure the level playing field for infant industries of home countries. There should be single window for providing the permission to the small scale industries.

To extract the maximum benefit from the foreign direct investment then the government of Jordon should invest in social overhead capital or in human capital which can help the Jordon to develop faster as compare to other developing nation. This study examine the consequences of trade liberalization on Jordanian economy. Has trade liberalization been successful Jordon? To answer this question we have examine the impact of trade liberalization on balance of payments situation in Jordon. As far as Jordon is concern, the trade liberalization has negatively affected the balance of payments station, instead to improve it. As it has been seen in data that the current account of balance of payments has deteriorated since trade liberalization. It has been seen in data that current account stayed positive by the mid 2003s after that it gradually started to decline year by year.
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The current account remains positive consecutively for fine years since 1972 which show that the export of Jordon is greater than the import. It is very important to understand that the surplus or deficit in current account really matter a lot. When there is a surplus in current account it strengthens the home country at international level. There was a considerable turbulence in the current account in Jordon. The current account has been worst after the trade liberalization.

We find that trade liberalization does have significant relationship with economic growth and or trade deficits in short to medium-run. Current account deficits have sometimes increased because of trade liberalization in economies during the period 1970-2016. Our significant relationship between liberalization and trade deficits and economic growth and trade deficits is for Latin American and Asian economies for the latter decade. This seems to indicate that their capital financing requirements are much higher than the world community has been able to provide and rapid liberalization has often caused financial crisis and debt problems in Latin American and some Asian economies.

Every country strives to achieve a sustainable economic growth that could lead to economic development in the future. Financial system play crucial role on the growth potential of a country through mobilization and allocation of funds to various sectors of the economy. However, despite the contributions by the financial intermediaries to the economic growth in Jordan, the country is experiencing volatility in economic growth over the years. Unstable growth infuses the question on whether trade liberalization has a long-run causal effect on output growth in Jordan.

The study reviewed the empirical works of various constructos to the trade-growth relationship. Empirical evidence from those studies provided conflicting results on the relationship. This thesis had investigated the nexus between trade openness (trade liberalization), financial instability, gross capital formation, foreign direct investment and endogenous output growth in Jordan using annual time series data over a period of 1970 to 2016.

The theoretical frame work of this study was based on the works of Levine (1997) and the neoclassical growth theory (Solow, 1956; Swan, 1956). Levine (1997) highlighted the relevance of transaction cost and information cost to financial intermediaries that leads technological progress, innovation and investment which in
turns bring economic growth in the long-run. The underpinning theory of growth by the neoclassical school of thought show how labor and capital inputs are needed for producing the desired level of output with a given state of knowledge and technological progress.

The results suggesting the positive impact of trade liberalization on growth potential in the long run had been presented. Findings revealed that foreign direct investment did not have a meaningful contribution to output growth while financial instability retards growth significantly. Gross capital formation has impact on growth. Therefore, this thesis, offers the following recommendations in order to strengthen the financial system which will lead to improve trade openness (trade liberalization) and in turn accelerate economic performance in Jordan:

Proactive measures need to be established to sustain economic growth in the country through enhancing productivity level, encouraging savings culture and economizing resources to promote capital accumulation. Moreover, credit facilities need to be efficiently allocated for investment to thrive. Proper supervision of the entire financial activities should be enhanced to avoid possible distress in the financial system. This will avert economic recession in the future. The financial instability and trade openness with the rest of the world need adequate attention. There should be more checks and monitoring of risk prone portfolios for banks by the regulatory authorities and ensuring their adequate competition. This would help in promoting stable financial activities.

The concerned authorities must ensure that viable transactions are conducted in the stock markets as well as other financial markets. However, export-led industrialization strategies need to be put in place through diversifying the productive base of the economy such as agriculture, mining and service industries. Finally, there should be a proper design and implementation of policies that will overhaul the entire financial system. This will help boost economic growth and development in the long-run.

5.2 The policy implication and Future Research Suggestions

Based on the study results, trade liberalization has significant positive effect on economic growth in Jordan. But, this effect was less effective during the recent fall down of World crude oil price in 2015. The country has been importing more than exporting which led the country to suffer continuous trade deficits.
Therefore in order Jordan to enjoy fully the benefits of trade liberalization, the study recommends the following:

There is need to enhance trade balance through increasing Jordanian exports as much as possible. The study highly recommended exporting processed products because manufactured products achieve higher prices in the market. Therefore, Jordan industries must be developed in order to expand production and export capacity in the country.

1- There's need to attract more foreign trade and investments in order to enhance the economic growth, through provided an incentives for the investors who are interested in investing in Jordan.

2- The Jordanian government needs to make some reforms in order to adjust with changing economic environment, through elimination of trade barriers.

3- There is need for enhancing transport and communication means in order to facilitate foreign trade. In addition, the existing infrastructure need more develop because it's relatively not sufficient and weak. Also, there's need to rehabilitation of roads and railways in order to reduce transportation and transaction cost.

4- The results in this study have important policy recommendations with respect to future trade liberalization reforms in Jordanian economy. They suggest the need to improve the level of infrastructure in the region. This infrastructural development will increase the response of exports to trade reforms in the early stages and could potentially curb the risk of balance of payments problems stemming imports growing faster than exports. Also, further trade reforms should be accompanied by efficient export incentive schemes which may be in the form of exempting exporters from transportation taxes and duties on their inputs.

5- Finally, the success of alternative trade liberalization policy reforms requires external support in terms of finance, technical assistance and, most important, market access.