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# THE ASSESSMENT OF IMPLEMENTATION OF REGIONAL TRADE AGREEMENTS IN THE ARAB COUNTRIES AND THE ECONOMIC AND REGULATORY POLICY IMPLICATIONS OF THEIR OVERLAPPING.

## CASE STUDY: JORDAN

Research Report Series: No. 0426

Ibrahim Saif  
*Center for Strategic Studies  
University of Jordan*

Simon Neaime  
*Department of Economics  
Institute of Financial Economics  
American University of Beirut*



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# I. Introduction

New economic and legislative reforms have been introduced in Jordan aiming at modernizing the Jordanian economy. In November 2001, a new socio-economic plan announced by the government expressed the need to improve the pace of economic reform, hence improving living conditions and creating job opportunities for the young and rapidly growing population. The suggested plan involves trade openness and integration into the globalizing world economy. Jordan, one of the most liberal Middle Eastern countries, was able to successfully join the World Trade Organization (WTO), sign a free trade agreement with the United States (US), enter into an association agreement with the European Union (EU), and improve its ties with the other Arab countries through its active participation in the Greater Arab Free Trade Area (GAFTA) in a very short period of time. Those developments are expected to enhance Jordan's economic situation in general and its foreign direct investment in particular. The country should transform the positive outcomes of greater trade liberalization into enhanced growth, welfare, and standards of living.

Jordan joined the WTO on April 10<sup>th</sup>, 2000. It has agreed to assume all its WTO obligations upon accession. The country engaged in bilateral negotiations with 16 WTO member countries in 1999, showing interest in adopting trade liberalization policies. Jordan has signed two plurilateral agreements one on government procurement and the other on trade in civil aircraft. Jordan's accession package includes market-access commitments on goods and services. The country had to employ major economic and legislative reforms in order to bring the Jordanian foreign trade regime into conformity with WTO requirements. Adjustments were made to many existing laws like the Intellectual Property Right law, other laws were newly introduced and some existing ones had to be replaced because they did not conform to the WTO requirements. Privatization schemes were also pursued, and Jordan promised to provide free access to foreign suppliers and investors on a wide range of services sectors. Tariff rates were lowered, ranging from 0 to 30 percent, with an expected maximum bound rate of 20 percent by the year 2010.

On October 24<sup>th</sup>, 2000 Jordan became the fourth country to sign a free trade agreement with the United States (JUSFTA). The agreement entered into force in December 2001, after the two parties had completed the required domestic legal procedures. The agreement is anticipated to grant the Jordanian market a unique access to the US market and vice versa, and strengthen social and economic ties between the two countries, therefore positively affecting investment opportunities, employment, and standards of living. JUSFTA calls for the gradual elimination of all duties and quotas on trade between the two countries by the year 2010. Tariffs will be removed according to a mutual time schedule. Quotas imposed by the Jordanian government on some goods when exported to the US should be eliminated before 2010. However, there is no quota restriction on goods destined to Jordan from the US. Jordan is given a 15-year transition period during which it is allowed

to apply safeguard measures in order to protect its small industries from the threat of competition. The agreement also allows Jordanian treaty-traders and treaty-investors to get visas subject to applicable provisions of US immigration and related laws and contains supplies related to electronic commerce including digitized products, supplies of services through electronic means and others, environment and labor.

Jordan was the first Mashrek country to conclude an Association Agreement with the EU. The latter was signed on November 24<sup>th</sup>, 1997 and entered into force on May 1<sup>st</sup>, 2002. Within the context of Euro-Mediterranean Partnership, the association agreement tackles the economic, political, and social aspects of Europe and Jordan. The main aim is to eliminate tariff and reduce non-tariff barriers in order to achieve free trade by the year 2010 and help increase economic growth, to create a common Euro Mediterranean area of peace and stability through the reinforcement of political and security dialogue and to encourage understanding between cultures and exchanges between civil societies. It is agreed that financial and technical support will be granted to Jordan by the EU for the purpose of enhancing the capacity of industries that have the potential to export to and compete in the EU markets. Jordanian industries receive funds to overcome the negative effects that may result from the implementation of the agreement and to improve their export capacity as well as their competitiveness. Jordan believes that the success of the partnership is highly dependant on the establishment of peace in the region, an issue which is also of concern to European countries.

On June 21<sup>st</sup>, 2001, Jordan signed a free trade agreement with the member countries of the European Free Trade Association (EFTA): Iceland, Liechtenstein, Norway and Switzerland. The accord, which came into force on January 1<sup>st</sup>, 2002, expects to establish free trade between Jordan and the EFTA countries by 2012, thus complementing the efforts made by the parties to ameliorate trade and economic integration within the EU-Mediterranean Partnership. The agreement covers economic cooperation, technical assistance in a number of fields and trade in industrial, agricultural, and marine products. Once the agreement entered into force, EFTA states abolished customs duties and other charges on imports of industrial products originating in Jordan, while Jordan will progressively remove customs duties on the same products originating in the EFTA states in a period of 12 years and in three phases. The first is within the first four years, the second within 12 years, leaving tariffs on only a limited number of categories of products to be negotiated after four years from the date the agreement is ratified. Attention will be given to the Jordanian sectors, which face difficulties<sup>1</sup>.

Arab countries have been attempting to reach economic unity since 1957. Many agreements, such as the Arab Common Market in the 1960s, were negotiated but never put in place. Regional integration arrangements followed but had only limited impact. In 1989, Jordan established with Egypt, Iraq and Yemen the Arab Cooperation Council. However, it was

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<sup>1</sup> The main motivation to sign this agreement was that EFTA members must abide by any European agreements such as the association agreement. Therefore it was de facto for those countries to sign this agreement.

suspended in 1992 because of the Iraqi invasion of Kuwait. The Arab Free Trade Agreement signed by Jordan and ten other Arab countries got implemented on March 9<sup>th</sup>, 1998 and is a new initiative to revive unsuccessful regional integration efforts. The agreement states that all traded Arab products will be considered as national goods. Trade frontiers should be gradually eliminated at an annual rate of 10 percent, in order to establish a free trade zone by the year 2008. By then, their dependency on tariff revenues should be lowered significantly and dependence on sales tax should be emphasized. By 2004, member countries had lowered their duties by 70 percent and had adopted a common list defining the products that cannot be imported because of religious, health or security reasons. Countries submitted the list of agricultural products that are exempted from the gradual tariff reduction in times of peak production and proved to be respectful towards the rules of the 7-month peak period and 45-month maximum. In 2000, Jordan, along with five other Arab countries, was granted an approval for their exception list for three years. GAFTA was implemented in order to strengthen intra-economic ties especially after Arab countries started signing bilateral trade agreements with Europe. GAFTA is expected to generate several positive aspects if implemented correctly. It can facilitate Arab's integration in the world trading system and its accession to WTO; it might increase the volume of intra-Arab trade and promote development and it is very likely to create confidence among domestic and foreign investors, thus encouraging investment flows and attracting both FDI and technology. Jordan has signed agreements guaranteeing 100 percent trade with Bahrain, Kuwait and Libya, and is undergoing free trade negotiations with Saudi Arabia. These will facilitate the achievements of the targets of GAFTA. Moreover, on February 25<sup>th</sup>, 2004, Jordan signed a free trade agreement with Egypt, Tunisia and Morocco constituting an important step for the expected creation of the Euro-Mediterranean free trade area by the year 2010. The accord signed among the previously mentioned four countries will create an integrated market of more than 100 million people and a free zone also subject to be open to other Arab countries like Algeria, Libya, Mauritania, Syria, and Lebanon.

It is thus clear that Jordan has engaged in a number of free trade agreements and is working on liberalizing its economy. The country is attempting to enhance growth through increased openness and a higher degree of integration. Although these trade agreements do not contradict each other, they may overlap in several areas and respects. Currently, Jordan is opening up to the world through WTO, to Europe, (with stronger relations with the EFTA countries), to the United States and to some Arab countries.

With the above in mind, this research project is set out to overview the main trading agreements Jordan has signed over the past two decades with an objective to study carefully how these trade agreements overlap and how they complement each other. Particular emphasis will be placed on the economic and regulatory policy implications of these regional trade agreements and their overlap.



The rest of the study is divided as follows. In the next section we present a general review of the main Regional Trade Agreements. This section carefully highlights the description of each agreement, its purpose, membership, and its sectoral coverage. Section III analyzes trade flows, trade structure, as well as trade creation and diversion under each regional trade agreement. The alignment of these regional trade agreements and their commitments with domestic trade policy directions are highlighted in section IV. Section V describes the legislative, regulatory and administrative commitments of the RTAs. Section VI sheds light on the issues identified in the preceding sections by emphasizing existing similarities and dissimilarities between commitments of the various RTAs and WTO agreements that Jordan is a party to, as well as the economic costs of compliance. Finally, Section VII provides policy recommendations on how to reconcile for lack of harmonization between commitments, and identifies the gains from and shortcomings of membership in multiple RTAs.

## **II. Overview of the Main RTAs <sup>2</sup>**

Jordan's External trade is regulated mainly by five multilateral agreements and several bilateral and plurilateral ones. The main multilateral agreements are: the WTO, EURO-MED, EFTA, GAFTA, and the USA-FTA.

### **A. WTO**

#### ***a. Description***

Jordan engaged in bilateral negotiations with 16 WTO member countries in 1999, proving the interest it has in adopting liberalization systems. Jordan has signed two plurilateral agreements on government procurement and on trade in civil aircraft. Jordan's accession package includes market-access commitments on goods and services. The country had to employ major economic and legislative reforms in order to bring the Jordanian foreign trade regime into conformity with WTO requirements. Adjustments were made to many existing laws like the Intellectual Property Right Law. Other laws were newly introduced and some existing ones had to be replaced because they do not conform to the WTO requirements. Tariff rates were lowered ranging from 0 to 30 percent; it is expected to have a maximum bound rate of 20% by the year 2010. The Jordanian market is today more stable than in the past because it is guaranteed under WTO rules.

#### ***b. Purpose***

In addition to liberalizing trade in goods and services, Jordan committed itself to comply with the WTO Multilateral Agreements on Trade Related Aspects of Intellectual Property Rights (TRIPS), Customs Valuation, Import Licensing Procedures, Technical Barriers to Trade, and Sanitary and Phytosanitary Measures.

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<sup>2</sup> Table A. I in the Annex illustrates the various agreements and commitments under the RTAs in Jordan.

### ***c. Membership***

Jordan joined the WTO on April 10<sup>th</sup>, 2000. It has agreed to assume all its WTO obligations upon accession.

### ***d. Sectoral Coverage***

In services, Jordan's commitments covered the majority of services sectors. From a total of 155 sub-sectors, classified within 12 sectors, Jordan made commitments in 128 sub-sectors.

## ***B. Jordan-EU***

### ***a. Description***

The Euro-Mediterranean Association Agreement aims to create a new climate for economic and cultural relations, in particular for the development of trade, investment and economic and technological cooperation. The Agreement establishes an association between the Parties. It establishes a free-trade area over a transitional period lasting a maximum of 12 years starting from the date of entry into force of the Agreement.

### ***b. Purpose***

The objectives of the Agreement are: to provide an appropriate framework for the political dialogue; establish the conditions for the gradual liberalization of trade in goods, services and capital; to foster the development of balanced economic and social relations between the Parties through dialogue and co-operation; to improve living and employment conditions and enhance productivity and financial stability; to encourage co-operation with a view to the consolidation of peaceful coexistence and economic and political stability; to promote co-operation in others areas which are of reciprocal interest.

### ***c. Membership***

The EU-Jordan Agreement, which established an association between the EU and the Hashemite Kingdom of Jordan, was signed on November 24<sup>th</sup>, 1997 and entered into force on May 1<sup>st</sup>, 2002.

### ***d. Sectoral Coverage***

The Agreement covers services, social and cultural affairs, and financial co-operation. All industrial products and natural resources originating in Jordan would enter duty free in the European Union (EU) immediately, while EU industrial products benefit from annual duty reductions over the 12-year implementation period.

## **C. EFTA**

### **a. Description**

The accord, which came into force on January 1<sup>st</sup>, 2002, expects to establish free trade between Jordan and the EFTA countries by 2012, thus complementing the efforts done by the parties to ameliorate trade and economic integration within the EU-Mediterranean Partnership. The agreement covers economic cooperation, technical assistance in a number of fields, and trade in industrial, agricultural, and fish and marine products. Upon entry into force of the agreement, EFTA states abolished customs duties and other charges on imports of industrial products originating in Jordan, whereas Jordan will progressively remove customs duties on the same products originating in the EFTA states throughout the period of 12 years and in three phases (the first is within the first four years, the second within a 12 year period while leaving tariffs on a limited number of categories of products to be negotiated after four years from the date the agreement is put into effect). Attention will be given to the Jordanian sectors that face difficulties.

### **b. Purpose**

The objectives of the Agreements are to establish the necessary conditions for the gradual and reciprocal liberalization of trade in goods.

### **c. Membership**

On June 21<sup>st</sup>, 2001, Jordan signed a free trade agreement with member countries in the European Free Trade Association (Iceland, Liechtenstein, Norway and Switzerland).

### **d. Sectoral Coverage**

Due to the different agricultural policies of the EFTA States, trade in basic agricultural products is covered in three bilateral agricultural agreements negotiated between the respective EFTA States (Iceland, Norway, and Switzerland) and Jordan. The Agreement covers trade in fish and other marine products. Duties and other restrictions are eliminated with some minor exceptions. The EFTA States and Jordan have committed themselves to liberalize substantially all trade in these products under the FTA upon entry into force of the Agreement. The tariff dismantling will take place over a period of up to three years.

## **D. GAFTA**

### **a. Description**

The GAFTA is a new Arab League initiative that attempts to revive unsuccessful regional integration efforts. The new Arab League initiative is mainly about liberalization of traditional trade barriers on goods. It consists of the implementation of an Executive Program for gradual liberalization of tariffs and tariff-like charges over ten years by 10 percent per year,

starting in 1998. Regarding liberalization of industrial products, member countries were allowed to draw up a list of products excluded from the tariff reduction scheme for three years. Such exceptions are intended to enable the local industry to carry out the restructuring needed to improve their competitiveness before having to face competition from other GAFTA countries' imports.

#### ***b. Purpose***

The GAFTA was implemented in order to strengthen intra economic ties between Arab countries, especially as those Arab countries started signing bilateral trade agreements with Europe. GAFTA is expected to generate several positive aspects if implemented correctly. It can facilitate Arab's integration into the world trading system and its accession to WTO. It will also increase the volume of intra-Arab trade and promote development, and it is very likely to create confidence among domestic and foreign investors, thus encouraging investment flows and attracting both FDI and technology.

#### ***c. Membership***

In February 1997, the Arab League launched a free trade program, known as the Greater Arab Free Trade Area, in which member states were asked to come up with specific commitments regarding the elimination of tariffs, non-tariff measures and rules of origin. The so-called Executive Program was an effort to revive the 1981 Agreement for Facilitation and Promotion of Trade among the members. The countries are: Jordan, The United Arab Emirates, Bahrain, Tunisia, Algeria, Djibouti, Saudi Arabia, Sudan, Syria, The Republic of Iraq, Somalia, Oman, Palestine, Qatar, Kuwait, Lebanon, Libya, Morocco, Mauritania, and Yemen.

#### ***d. Sectoral Coverage***

Agricultural and animal-based commodities, whether in their original form or after introducing changes thereon to render them fit for consumption; metallic and non-metallic raw materials, whether in their original form or in the form appropriate thereto in the manufacturing process; and semi-finished products as set forth in the schedules approved by the Council, if these are included in the production of industrial commodities.

### ***E. USA-FTA***

#### ***a. Description***

JUSFTA calls for the gradual elimination of all duties and quotas on trade between the two countries by the year 2010. Tariffs will be removed according to a mutual time schedule. Quotas imposed by the Jordanian government on some goods when exported to the US should be eliminated before 2010. However, there is no quota restriction from the US on Jordan. The FTA provides protections for trademarks, copyrights, and patents, and specifically mentions the protection of software and pharmaceuticals, two categories of products whose copyrights and

patents are especially prone to violation. Among other things, Jordan has undertaken to ratify and implement the World Intellectual Property Organization (WIPO) Copyright Treaty, and WIPO Performances and Phonograms Treaty within two years. These treaties establish several critical elements for the protection of copyrighted works in a digital network environment, including creators' exclusive right to make their creative work available online.

#### ***b. Purpose***

The agreement is anticipated to grant the Jordanian market a unique access to the US market and vice versa, and strengthen social and economic ties between the two countries, therefore positively affecting investment opportunities, employment and standards of living.

#### ***c. Membership***

On October 24<sup>th</sup>, 2000 Jordan became the fourth country to sign a free trade agreement with the United States. The agreement entered into force in December 2001, after the two parties had completed the required domestic legal procedures.

#### ***d. Sectoral Coverage***

Although there is no negative list, special arrangements exist for tariff reductions on sensitive products such as apples, poultry, tobacco and some tobacco categories, cars, and alcohol. In services, Jordan already enjoys a near complete access to the U.S. market, whereas it maintains a number of restrictions in its own service market. Jordan's commitments under the GATS cover the majority of services sectors: from a total of 155 sub-sectors, classified within 12 sectors, Jordan made commitments in 144 sub-sectors. However, Jordan maintains a number of exemptions in all service sectors. Under the FTA, specific liberalization has been achieved in many key sectors in which Jordan had made commitments, and new ones were introduced in the rail and internal waterways transport sub-sectors. Electronic commerce is explicitly covered in the FTA. Jordan and the United States committed themselves to promote a liberalized trade environment for electronic commerce that should encourage investment in new technologies and stimulate the innovative use of networks to deliver products and services. Both countries agreed to avoid imposing customs duties on electronic transmissions, imposing unnecessary barriers on market access for digitized products, and impeding the ability to deliver services through electronic means.

### ***F. The Agadir Declaration***

#### ***a. Overview and Objectives***

After almost seven years of the Euro-Med Partnership Agreement, the Arab partners began to appreciate the asymmetry of power and influence between them and the EU. Therefore, many among them started to think of sub-regionalism as the only venue to acquire more weight in their dealings with the EU.

Against this background, on May 8<sup>th</sup>, 2001; Egypt, Jordan, Tunisia, and Morocco signed the Agadir Declaration which calls for the establishment of a free trade area that encompass the four states to be open for other Arab countries. The declaration came in light of the special relations of the four countries that are linked by four agreements: bilateral agreements among themselves, their association agreements with the EU, the membership of the GAFTA to be completed by 2007, and their membership in the World Trade Organization WTO.

The Aghadir Declaration has the following objectives: First: coordinating among the four state regarding trade with the EU. Second: realizing industrial and economic integration among the four states in a way to guarantee the production of manufactured goods with a competitive advantage to enter the EU markets. Third: benefiting from laws of rules of origin, cumulation of multilateral origin included in the associations agreements with the EU in order to increase their exports to the EU countries. Fourth: encouraging investment in industrial areas between the four countries. Fifth: supporting and increasing economic and trade exchange among the four countries<sup>3</sup>.

#### ***b. The Potential for AD Success***

Viewing the above three agreements reveals that freer trade among these countries is the grand objective. What makes AD even more appealing is the desire of the four countries to take a far reaching step and abolish any NTBs that could hinder trade, simply because the four countries are aware of the potential benefits that could be exploited from such co-operation.

It is worth noting that such an agreement has a potential success not only for economic reasons but also for political ones. It is clear that a minimum level of political understanding is necessary if economic cooperation is to succeed. One could safely argue that the four countries are like-minded states that are governed by moderate regimes and maintain good relations. The four countries underwent major structural adjustment programs under the auspices of the World Bank and the IMF. Similar policies have been adopted with the private sector assuming an emerging role in these countries. They had already abolished many trade restrictions and non-trade barriers in the process of integration with the rest of the world.

In addition, the manufacturing sector would be marginally affected due to the limited amount of trade currently taking place among the four countries as Table (I) shows. Furthermore it is expected that trade would take place in goods and commodities that could be employed as intermediate inputs to produce other final products that have the potential to penetrate the EU market. This means that AD would result in "trade creation" between the involved countries more than "trade diversion" as a result of adopting common rules of origin. The table below exhibits some of the common features among the Aghadir Declaration countries:

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<sup>3</sup> The Ministry of Trade and Industry, Jordan.



**Table 1: Common Features among AD Countries**

	GNP per Capita		Trade in goods as a percentage of GDP		Tariff Barriers	
	USD 2000	PPP*	1990	2000	Simple mean tariff	Weighted mean tariff
Egypt	1490	3670	27.4	18.9	20.5	13.7
Jordan	1710	3950	91.1	77.2	22.8	18.9
Tunisia	1180	3450	73.8	74	30	28.8
Morocco	2100	6070	42.9	56.7	33.6	25.8

Source: World Development Indicators 2002, WB.

\* Purchasing power parity (PPP) measures the real purchasing power of the income taking into considerations the level of domestic and international prices and level of inflation.

### III. Trade Analysis under Regional Trade Agreements<sup>4</sup>

#### A. Trade Flows Analysis

Any evaluation of the impact of trade on the Jordanian economy must include the impact on both imports and exports. Supporters of free trade agreements usually tout the benefits of exports while remaining silent on the effects of rapid import growth. However, although increasing exports lead to job creation and growth in the economy, rapidly increasing imports might have an adverse effect. In order to analyze the impacts of the different free trade agreements on the Jordanian economy, a deep analysis of export and import flows must be undertaken.

##### a. Export Flows

Table 2 indicates that on the export side, there is an obvious increase in exports from Jordan to its different trading partners. The most noticeable is the increase in exports to the US, due to the US-Jordan FTA. Indeed, upon entry into force of the FTA in 2001, imports have been constantly increasing. Jordan joined the WTO in 2000. After entry into force of the agreement, exports from Jordan to the different WTO members have been increasing continuously (see also Figure 1).

##### b. Import Flows

On the import side (Table 2 and Figure 2), there is no indication of a dramatic increase in imports from the different trading partners to Jordan. Imports from the US to Jordan have been relatively constant, with a slight decrease throughout the 2000-2003 period. Imports from the EU have been fairly stable, whereas imports from EFTA countries have increased slightly. Imports from WTO countries have increased slightly, whereas imports from GAFTA countries have been varying somewhat with no sharp changes in any direction.

<sup>4</sup> Annex A2 presents the structure of foreign trade between Jordan and the various trade partners.

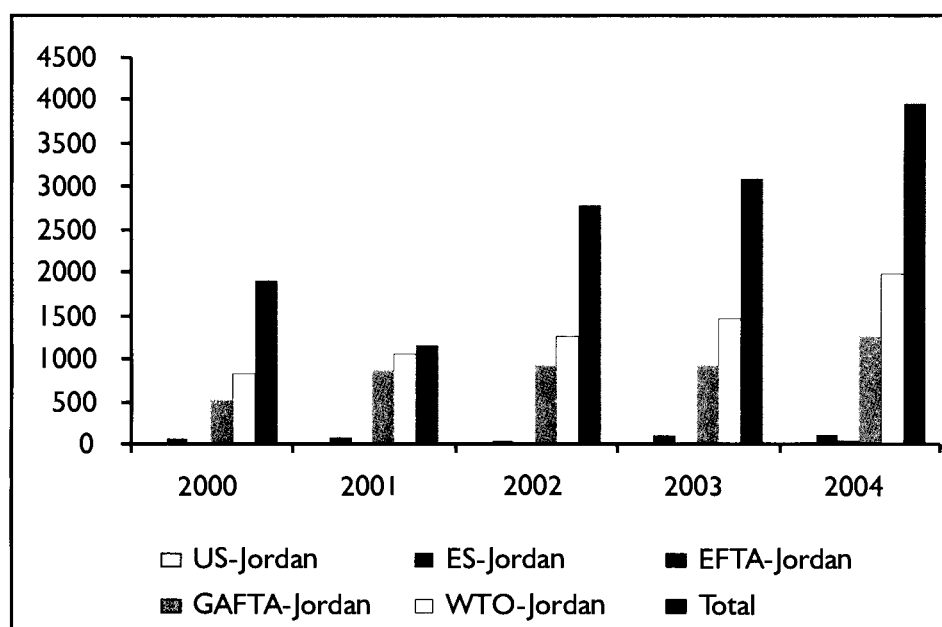
**Table 2: Trade Flows in Millions of US Dollars**

		2000	2001	2002	2003	2004
<b>US-Jordan</b>	Export	66	234	431	664	1016.61
	Import	452	396	364	391	550.5
<b>EU-Jordan</b>	Export	50	71	27	94.5	102.39
	Import	1,513	1,534	1,452	1,527	1914.56
<b>EFTA-Jordan</b>	Export	1	3	0	1	27.2
	Import	58	60	65	80	118
<b>GAFTA-Jordan</b>	Export	525	865	924	916	1251.4
	Import	1,090	1,157	1,253	972	2494.4
<b>WTO-Jordan</b>	Export	827	1,054	1,251	1,468	1982.59
	Import	3,489	3,713	3,811	4,188	5798.6
<b>Total Deficit</b>	Export	1901.6	1151.8	2773.8	3086	3955.22
	Import	4603.6	4878.1	5026.8	5751.4	8139.68
	Deficit	2702	3726.3	2253	2665.4	4184.46
	% GDP	31.9%	41.8%	24%	27%	38%

Notes: exchange rate 0.71 JD/USD

Source: UNCTAD and the Jordanian Ministry of Industry and Trade

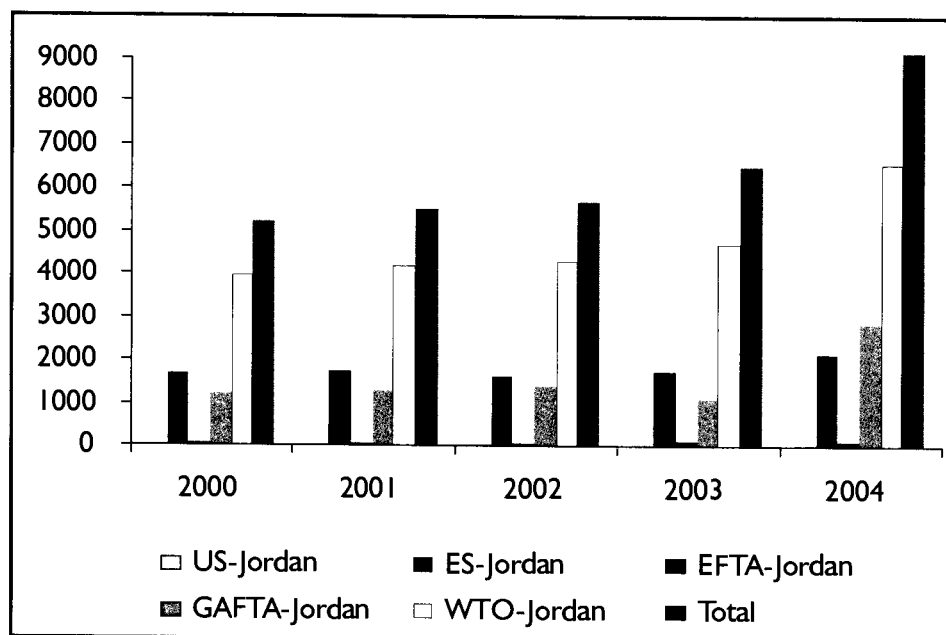
**Figure 1: Egypt's Trade with GAFTA**



Source: UNCTAD and the Jordanian Ministry of Industry and Trade

The trade data indicates that import flows did not vary or change significantly in any direction due to the free trade agreements. There is no indication to suggest that Jordan has benefited more than its trading partners from the increased liberalization of trade with the respective parties. With the exception of trade with the US, no dramatic change has been registered. The EU and the Arab countries as groups remain the leading trade

**Figure 2: Import Flows (in Millions of US dollars)**



Source: UNCTAD and the Jordanian Ministry of Industry and Trade

partners. Trade deficit with the EU during the period 2001-2004 has been widening suggesting that Jordan has not benefited from the agreement with the EU<sup>5</sup>.

### **c. Net Trade Flows**

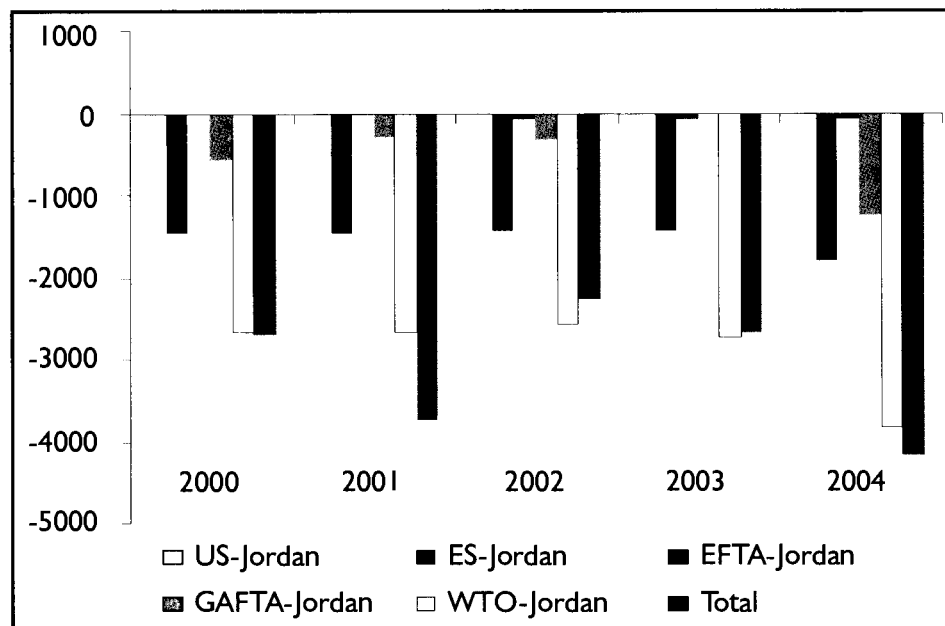
Net trade flow is defined as exports minus imports. The analysis of net trade flows enables a more rigorous understanding of the net effect of the various FTAs on the Jordanian economy. From Figure 3, it is clear that Jordan is a net importer of goods and services. This is due to rising domestic demand for foreign goods, growing at a faster rate than foreign demand for Jordanian goods.

Although almost all of the FTAs have helped in increasing demand for Jordanian products, none of the FTAs has transformed Jordan from a net importer to a net exporter of goods and services except perhaps for the Jordan-US FTA. This is due to the fact that the FTAs, while gradually liberalizing the Jordanian market, have increased imports into the country more than the exports. Trade deficit has deepened in both absolute terms, and relative to GDP during the period 1999-2003 as Table 2 above indicates. Trade deficit reached a level of 38 percent in 2004, which is one of the highest rates registered during the last five years.

As mentioned earlier, only the Jordan-US FTA enhanced Jordan's exports to the US without affecting the level of imports into the country. Jordan thus became a net exporter of goods and services to the US since 2002.

<sup>5</sup> We will elaborate more on this when we discuss the EU agreement.

**Figure 3: Net Trade Flows (in Millions of US Dollars)**



Source: UNCTAD and the Jordanian Ministry of Industry and Trade  
 Notes: Net Trade flow is measured as exports minus imports.

## **B. Trade Structure Analysis under Regional Trade Agreements**

### **a. Jordan's Total Trade Structure**

The recent gains in Jordan's economic growth can be explained by the sharp increase in overall trade resulting from the signing of the various trade agreements. Exports rose by 12.5% to JD 1.68 billion (or US\$2.37 billion) in the first eight months of 2006. Though substantial, the pace of expansion is slower than the 30% gain recorded in 2005 - a development that reflects the higher base as well as conditions in Iraq, where ongoing insecurity is proving a drag on economic growth, and thus on increases in demand for Jordanian exports. After an initial surge following the enactment of the free-trade agreement with the US, demand growth from that market is also beginning to moderate.

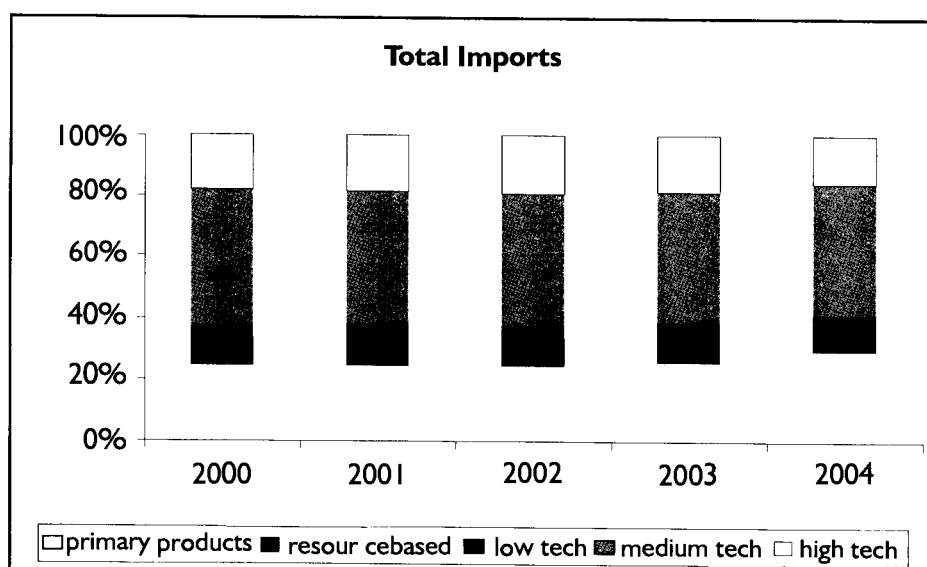
Nevertheless, a number of sectors performed particularly well, including ready-made clothing, exports of which rose to JD 495 million (or US\$698 million) in the first eight months of the year, and from JD 447 million for the same period of the previous year, confounding fears that Jordan might lose its markets in the US following the end of the Multi-Fibre Arrangement in January 2005. Vegetable exports also showed significant growth over the first two-thirds of the year, reaching JD 107 million, compared with JD 87.4 million for the same period in 2004, and pharmaceutical exports continued their steady improvement, rising to JD 130 million from JD 110 million. Jordan's heavy industry also contributed to the rise in exports, with exports of phosphoric acid rising to JD 45 million from JD 35 million and of potash to JD 124 million from JD 99 million.

The rise in export earnings was however accompanied by increases in import spending. Fuel imports were the main driver of growth, with spending on crude oil rising from JD 511.8 million during the first eight months of 2004 to JD 765.4 million for the same period of 2005. Spending on petroleum products over the same period rose to JD 219.4 million from JD 112 million. The rise in the cost of imports is a result not only of higher prices but of increased volumes because of rising industrial activity. The influx of Iraqi refugees into Jordan, and the consequent growth in the size of the resident population has also added to energy demand.

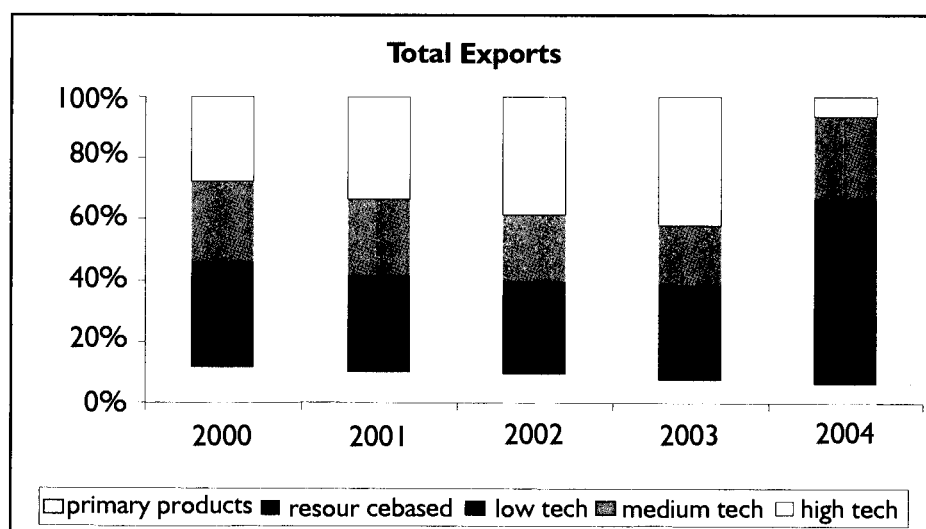
Figure 4, highlights the structure of Jordan's exports and imports with the rest of the world between the years 2000-2004. According to that figure, the structure of Jordan's total imports has been constant over the period under consideration. The three products with the largest weights are: medium tech products constituting 40% of total imports, primary products 25%, and high tech products 20%.

The structure of exports has not been as consistent. There has been a gradual decrease in the share of resource based products, from 30% in 2000 to 20% in 2004, and in medium tech products from 30% in 2000 to 10% in 2003. Products that have gained a share in trade are high tech products from 25% in 2000 to 40% in 2003, followed by a large drop in trade share in 2004. High tech products produced by Jordan comprise transport equipment and parts. It is to be noted that the decrease in trade share of high tech products does not necessarily indicate a drop in the volume of high tech products exported to the world but could be the result of an increase in the volume of trade of other products exported to the world. Low tech products have witnessed a surge in their trade share in 2004 from a persistent 3% in the period 2000-2003 to almost 40% in 2004. The year 2004 witnessed a noticeable change in exports structure which was due to a gain in exports share of low tech products and a drop in exports share of high tech products.

**Figure 4: Structure of Total Jordanian Trade: 2000-2004**



**Figure 4: cont.**



Source: Ministry of Trade.

### **b. Jordan's Trade Structure with GAFTA**

Jordan signed the GAFTA agreement in 1998, since then, the bulk of imports from the GAFTA region has been in the form of resource based products- mainly oil, which constitute almost 75% of total imports from GAFTA. Figure 5 highlights the structure of Jordanian trade with GAFTA. According to that figure, the structure of imports has not changed significantly over the past 5 years. Medium tech products constitute 20% of total imports, primary products 5% and low tech products almost 3% of total imports. However, the composition of exports has changed. Jordan exports to GAFTA mainly consist of primary products (food products, construction materials...) which had an exports share of 60% in 2000 and dropped to 50% in 2004. The year 2004 witnessed a surge in high tech products resulting from an increase in parts and accessories of transport products. The share of high tech products varied from 5% in 2000 reaching 40% in 2004. In 2004, medium and low tech products lost their weight in exports to GAFTA from a persistent 20% each in 2000-2003 to merely 5% of exports share in 2004.

**Figure 5: Structure of Jordanian Trade with GAFTA: 2000-2004**

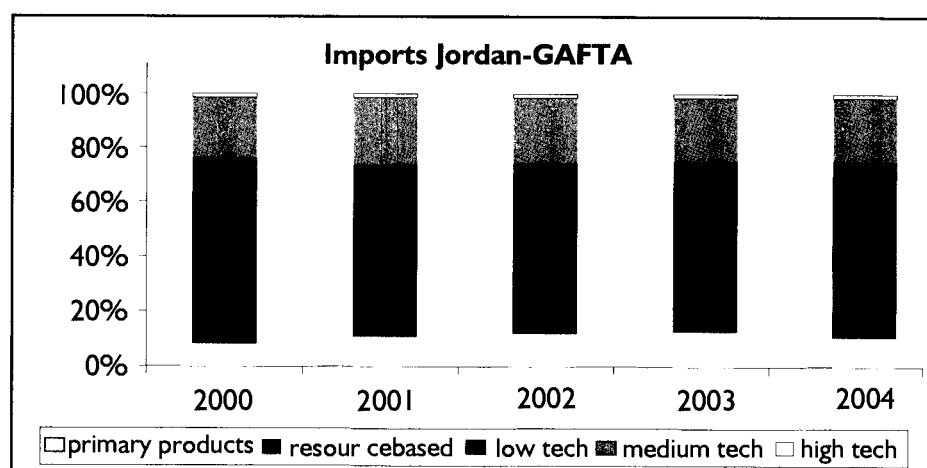
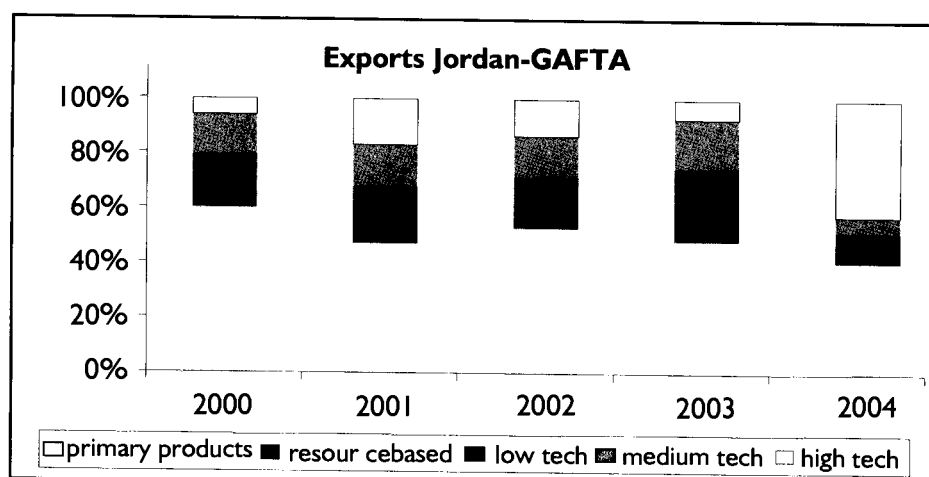




Figure 5: cont.

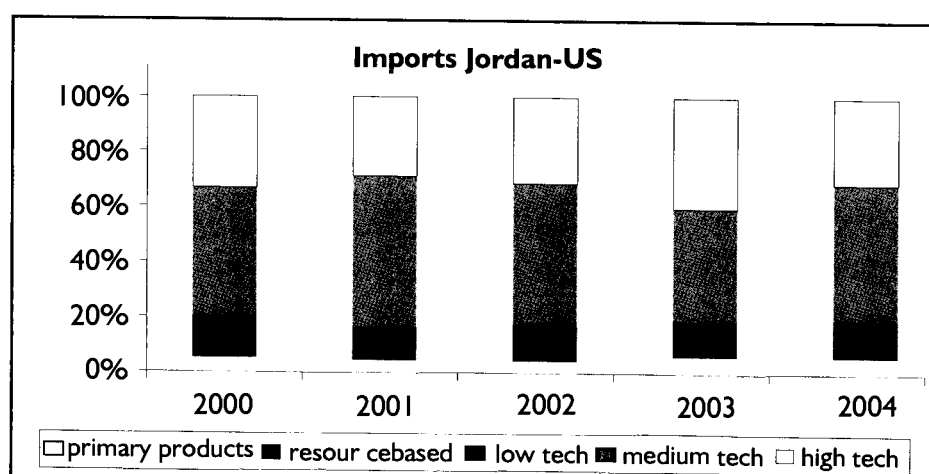


Source: Ministry of Trade.

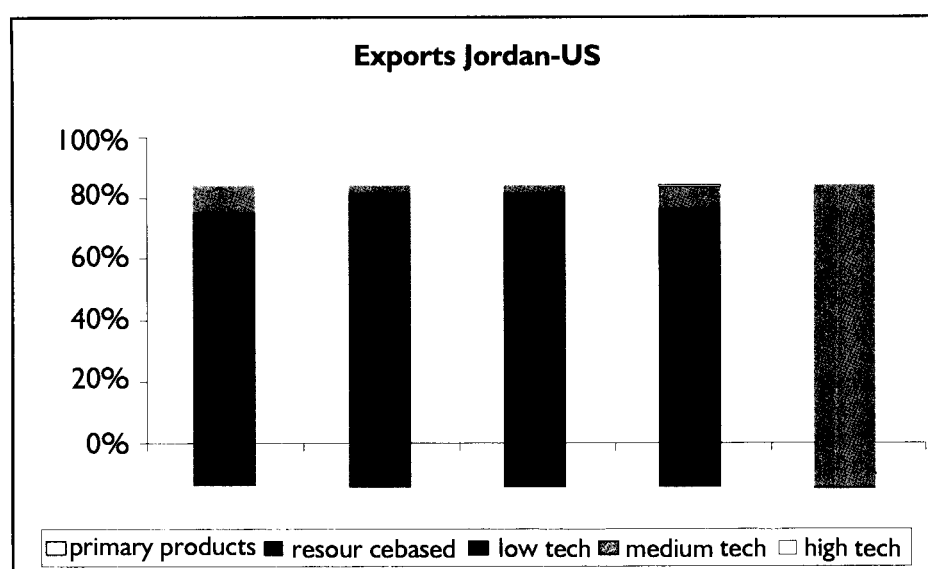
### c. Jordan's Trade Structure with the US

The main origin of Jordan's imports is the US. Even after the ratification of the US-Jordan trade agreement in 2001, Jordan's import structure from the US remained relatively unchanged. Imports from the US consist of a variety of products ranging from high tech products, pharmaceuticals, consumer goods, and capital goods. According to Figure 6, which highlights the structure of exports and imports between the US and Jordan, the two main product categories are medium tech products and high tech products. Medium tech products constituted almost 45% of imports from the US over the five-year period under consideration, while high tech products covered almost 35% of imports. Before 2004, exports to the US mainly consisted of low tech products including some consumer goods and food products which had an export share of almost 95%. However in 2004, there was an upward surge in medium tech products- consisting mainly of intermediate goods and consumer durable goods, accompanied by a sudden drop in low tech exports which resulted in an exports weight of medium tech products of 99% during that year.

Figure 6: Structure of Jordanian Trade with the US: 2000-2004



**Figure 6 : cont.**



Source: Ministry of Trade.

#### **d. Jordan's Trade Structure with the EU**

Jordan signed the EU trade agreement in 2002. The agreement has so far not had an impact on the structure of import flows. According to Figure 7 which highlights the structure to exports and imports between the EU and Jordan, imports from the EU consist mainly of high tech products, which constitute 40% of total imports. Jordanian high tech products imported from the EU consist mainly of cars and auto parts from Germany and other EU-countries. In fact, Jordan imports 6.8% of its total imports from Germany. A major component of Jordan's imports of high-tech products from the EU consists of aircrafts and aircrafts parts. Another component of Jordan's imports from the EU is medium tech products which constitute about 40% of all imports from the EU. An interesting point to make is that 80% of all imports to Jordan from the EU consist of medium and high tech products, and we see that this ratio has not changed over time. Therefore, one should consider these two categories of products as sensitive to any trade agreement between these two parties.

*Jordan's imports from the EU mainly come from Germany, France, the U.K and Italy. Imported items consist of transport machines and equipment, electrical appliances and spare parts, chemicals, plastics, pharmaceutical industry inputs, manufactured items such as paper, clothes, textiles and shoes, in addition to iron and steel, processed foods, and live animals.*

*Jordan exports to the EU mainly resource based and medium tech products which include consumer products and some food products. The weight of resource based products has varied over the years from 40% to almost 60% of total exports to the EU in the year 2000 and 2004 respectively, whereas the weight of medium tech products has varied from 10% in 2000 and 2004 to 50% in 2001. After the ratification of the agreement in 2002, one can notice an increase in exports of resource based products as well as a decrease in the export share of medium tech products.*

Major export items include: chemical products, plastics, textiles and clothing, wood pulp, cellulose, paper and packaging materials, metals and metal products, mining products, vegetables, processed foods, beverages and tobacco, precious metals, precious and semi-precious stones, leather products such as saddles, luggage and handbags, arts, antiques and collectors items, in addition to various types of floor covers, carpets, and electrical parts and appliances.

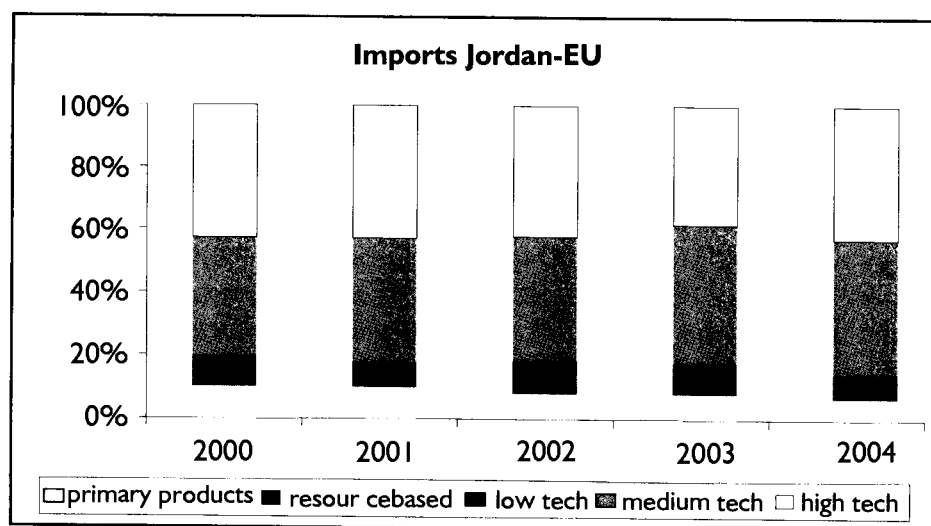
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Jordan exports to the EU mainly resource based and medium tech products which include consumer

**Figure 7: Structure of Jordanian Trade with the EU: 2000-2004**



Source: Ministry of Trade.

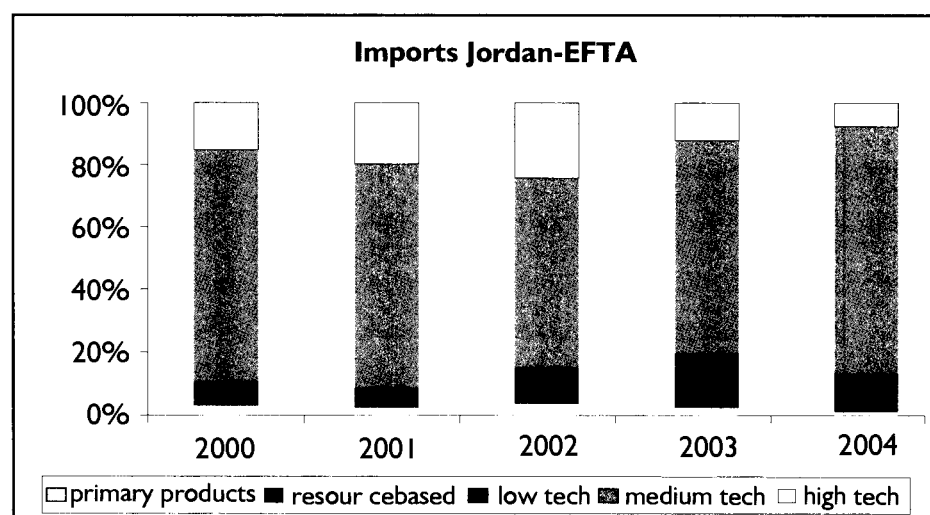
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Major export items include: chemical products, plastics, textiles and clothing, wood pulp, cellulose, paper and packaging materials, metals and metal products, mining products, vegetables, processed foods, beverages and tobacco, precious metals, precious and semi-precious stones, leather products such as saddles, luggage and handbags, arts, antiques and collectors items, in addition to various types of floor covers, carpets, and electrical parts and appliances.

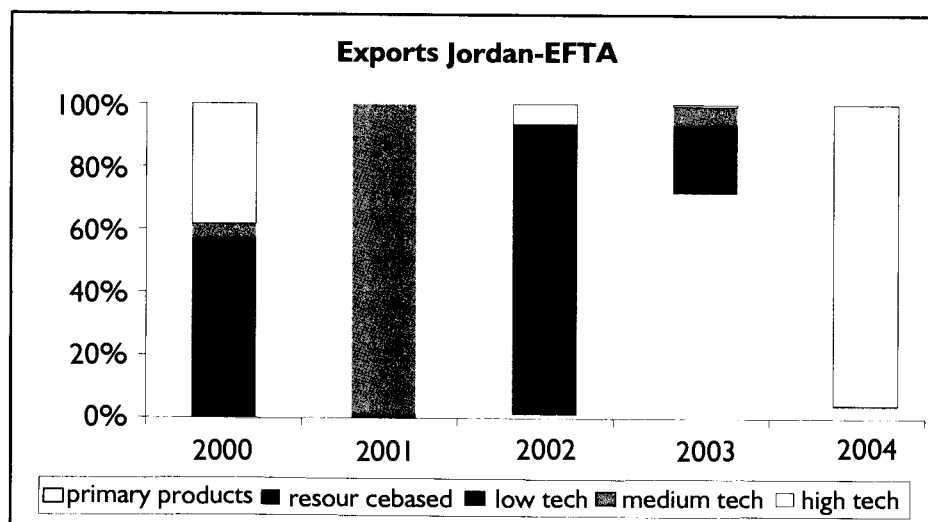
#### **e. Jordan's Trade Structure with the EFTA**

The volume of trade with EFTA is quite low relative to other regions. According to Figure 8 which highlights the structure of exports and imports between the EFTA and Jordan, Jordan imports from EFTA mainly pharmaceutical products and consumer goods. In fact, 75% of imports from EFTA consist of medium tech products, and this percentage has been constant over the past 5 years. It also imports high-tech products which consist mainly of transportation material (cars, aircrafts...). The ratification of the EFTA trade agreement in 2002 has not had any significant impact on the structure of imports from EFTA. However, after the entry into force of the agreement, there has been an increase in the share of primary products exported to EFTA countries. With regard to the structure of exports from Jordan to EFTA, there is no apparent trend or consistency in the structure of trade. In 2000 and 2002, exports mainly consisted of low tech products, whereas in 2001 the bulk of exports consisted of medium tech products. In 2004, exports to EFTA comprised mainly high-tech products. Given this trend in exports, one cannot make any conclusion given the very low volume of trade with EFTA. A small and negligible decrease in one product class affects largely the structure of trade.

**Figure 8: Structure of Jordanian Trade with EFTA: 2000-2004**



**Figure 8: cont.**



Source: Ministry of Trade.

### *C. Trade Creation and Trade Diversion under RTAs*

This section uses a simple simulation technique constructed by the UNCTAD Secretariat to quantify the effects on Jordanian trade flows induced by changes in market access conditions as a result of the various trade agreements. In particular, it projects the impact of the tariff phase down proposed in the FTA Agreements between the EU, the US, GAFTA, EFTA on the one hand and Jordan on the other.

In order to project the impact of these agreements, it is useful to analyze separately the import and the export side, and then combine the two to assess the net impact. On the import side, the total effect of a reduction in tariffs on Jordanian imports from the EU is represented as the sum of two components, namely: (1) Trade creation (TC), which measures the increase in Jordanian imports from the EU owing to a decrease in the relative price of these imports vis-à-vis domestically produced goods, resulting in a net increase in Jordan's total imports and a net decrease in Jordan's domestic production; and (2) Potential Trade (TD) diversion, which measures the maximum potential increase in Jordan's imports from the EU owing to a decrease in the relative price of these imports vis-à-vis imports from other countries resulting in a different geographical composition of imports, whereby imports from the EU increase at the expense of imports from other sources, with no change in total Jordanian imports.

The same calculations need to be performed on the export side to assess the impact of the Agreement on Jordan's exports to the EU, which, as a result of the agreement, will also increase at the expense, on the one hand, of domestic EU production (trade creation) and, on the other hand, of imports by the EU from other sources (trade diversion). These quantitative analyses are performed at the eight digit level of the Harmonized System. The results are subsequently summed up to obtain the total trade effect for Jordan exports to the EU.

Although the calculation of trade creation and trade diversion is a straightforward exercise, it is useful to show the step-by-step calculations, so as to clarify the assumptions underlying the analysis. In particular, trade creation (based on Viner, 1950) depends on three factors: (i) The current volume of imports from the relevant commercial partner (M); (ii) The elasticity of import demand ( $E_m$ ), defined as the percentage change in the demand for imports when the price of the imports on the domestic market increases by 1 percent; and (iii) The change in the tariff.

$$\text{Formally, } TC = E_m \times M \times \frac{T_1 - T_0}{T_0}$$

where M represents Imports;  $E_m$ : Elasticity of import demand with respect to the domestic price of imports; TC: Trade creation; and 0, 1 subscript, where 0 = before liberalization, 1 = after liberalization.

To investigate the effects on trade diversion and trade creation, we estimate the trade effects of the different five agreements. The highest expected effect in absolute terms is likely to result from dismantling tariffs with the WTO, GAFTA, followed by the EU, US and then the EFTA (see Table 3). In relative terms, where trade diversion is calculated as a percentage of the respective regional exports, EFTA has the lowest share, whereas the WTO has the highest share. The results obtained are anticipated if we consider the percentage of the expected trade diversion value in relation to total exports from different regional blocks. The FTA with the highest trade diverting potential is the one with the WTO, mainly because of the high volume of trade, whereas the one with the lowest trade diverting potential is the EFTA.

The total trade creation projected to result from the EU-FTA after all the stages are fully implemented is 17.87% of 2004 exports. This increase in Jordan's exports to the EU will be realized incrementally, as the commitments contained in the EU negotiating proposal are gradually implemented. It should, however, be highlighted that this increase results from two distinct components. On the one hand, the commitments which are contained exclusively in the EU proposal to Jordan, and on the other those that are contained both in this proposal and in the EU scheduled tariff reductions. Therefore, this trade creation effect will only be realized when all the commitments and tariff reductions have been fulfilled.

The total trade creation projected to result from GAFTA after all the stages are fully implemented is 23.28% of 2004 exports. This is the result of the relatively high share of Jordanian imports from the GAFTA region. The WTO agreement has a very high trade creation potential (54.12% of 2004 exports) also due to the high volume of trade with WTO countries.

Although the US-Jordan FTA is the only trade agreement that had a positive impact on the Jordanian trade balance, it has a relatively low trade creation potential due to the fact that US exports to Jordan account for only 6% of total imports to Jordan. Finally, the Jordan-EFTA has the lowest trade creation potential (1.10%); this is the mere result of the low volume of trade between both parties.



**Table 3: Trade Creation and Trade Diversion Estimates for 2004 (Millions of USD)**

	2004 Exports	2004 Imports	Tariffs before FTA <sup>7</sup>	Tariffs as of end 2004	TC as a Percentage of 2004 Exports	Potential TD* as Percentage of 2004 Exports
<b>US-Jordan</b>	1016.61	550.50	99%	4.52%	5.14%	5.73%
<b>EU-Jordan</b>	102.39	1914.56	7.99%	4.52%	17.87%	-22.26%
<b>EFTA-Jordan</b>	27.20	118.00	7.99%	4.52%	1.10%	-1.12%
<b>GAFTA-Jordan</b>	1251.40	2494.40	7.99%	4.52%	23.28%	-15.27%
<b>WTO-Jordan</b>	1982.59	5798.60	7.99%	4.52%	54.12%	-46.88%

Notes: 1- The elasticity of import demand is assumed to be -0.85, which is consistent with the previous literature for developing countries (import demand is relatively inelastic).

2- Tariffs before and after the FTA are assumed to be the simple weighted average applied tariff rate for 2000 (as Tariff before FTA) under the WTO for Jordan. The tariff commitments under the WTO are considered to be the rule and common denominator for all the others agreements.

3- Trade creation is measured as a percentage of total exports to the region.

4- \* The trade diversion index was calculated according to the following formula: Maximum trade diversion = minimum (NX<sub>aj</sub>, -NX<sub>bj</sub>); Where NX<sub>aj</sub> = X<sub>aj</sub> - M<sub>aj</sub> > 0; NX<sub>bj</sub> = X<sub>bj</sub> - M<sub>bj</sub> < 0; X<sub>ij</sub> = country i's exports of commodity j; M<sub>ij</sub> = country i's imports of commodity j; And i takes the value a or b.

5. TC: Trade Creation and TD: Trade Diversion.

## D. Gap Analysis

Gap analysis could be conducted at two levels. The first refers to the level of trade compared to the envisaged or expected level. The second concerns the implementation and application of the commitments stipulated in the original agreements. Regarding the first level, it is obvious that one of the primary goals of the agreements has been to bridge the trade deficit gap, a target that has been missed so far for several reasons, chief amongst them is the weak domestic production capacity and consumer patterns that have developed since the Oil Boom in the 70s.

The second level refers to the *dejure* vs. *defacto* policies that analyze to what extent Jordan has met its obligations and commitments. According to government officials, Jordan has a good record of living up to its commitments. With the exception of the GAFTA agreement, Jordan met most of its obligations. However, meeting obligations and issuing decrees is not the same as enforcing and applying policies. For example, Jordan has been trying to enforce the property rights laws since the year 2000 but has not succeeded in doing so. It was only after signing the JUSFTA when Jordan introduced trade and patents laws in order to meet commitments stipulated in the agreement. According to the provisions of the agreement, Jordan should have adhered to the protection of property rights two years after the agreement came into force. However, due to the nature of the laws and the delays in endorsing the law by the Parliament, Jordan could not meet its original commitments.<sup>6</sup> Moreover, labor and environmental issues have only appeared under the JUSFTA and not under the rest of the agreements.

<sup>6</sup> Interview with Maha El-Ali, Director of the Trade Agreements Directorate, MIT, Jordan. April 2005.

In the case of the association agreement, several Jordanian officials interviewed for the purpose of this study admitted that this agreement was the first to be signed in the context of liberalizing trade at that scale. The driving force behind the accelerated process of negotiation and the signing of the agreement was the assistance package that associated that agreement. This partly explains why such an agreement was located in the Ministry of Planning and not in the MIT. In addition, little attention was paid at the beginning to the institutional arrangements concerning the follow up and the implementation of the commitments stipulated in the agreement. Trade development went against expectations as was mentioned earlier, and many officials lost the motivation to continue the process of implementation in sectors such as the manufacturing sector, which determines the pre-requisites to meet the EU standards and specifications. The EU rules of origin are complicated and in several cases have been unclear. This stalemate justifies the introduction of the Aghadir declaration in the hope that this will enhance trade relations between the countries involved in the process. The private sector as far as the EU agreement is concerned, was not motivated because it was difficult to penetrate the EU market and because many stakeholders within the private sector felt excluded from the negotiation process, henceforth they perceive the association agreement as a government "product" that does not concern them very much, though they have to face the agreement ramifications in reality.

The other front where Jordan is not fulfilling its commitments within the association agreement is government procurement. According to the Euro-Med partnership agreement, Jordan should liberate government procurement within two years. The implementation mechanism of such an important and sensitive sector has been vague since that was the first time Jordan declares its intention to liberate the government procurement. The implementation proved very problematic and Jordan is currently involved within the WTO in negotiating the procurement agreement. What would be achieved in this negotiation will form the basis for other member countries that signed the agreement as members in the WTO. The EU countries accepted the terms and hence are negotiating the Jordanian case under the WTO umbrella. According to the Jordanian officials, Jordan could not simply start liberating its government procurement before it reached an agreement that would be accepted by the rest of the world despite the fact that, in principle, they agreed to open up within the context of the EU-MED association agreement.

In the case of GAFTA, delay in the implementation was the result of sometimes procedural matters. Trade flows between Arab countries were subject to excessive bureaucratic measures and sophisticated application of the unified rules of origin. Effectively there are still few NTBs that are imposed and result in delays, such as licensing, health regulations, and a pre-approval to import certain commodities.

**Table 4: Institutional Arrangements**

Agreement	WTO 2000	FTA with USA 2001	AA with EU 2002	FTA with the EFTA states 2002	FTA with Singapore 2004 ( not enforced yet)	Aghadir Agreement 2004 (not enforced yet)
Action	Create JFTP department at the Ministry of Industry and Trade and issue the official notice No.16 for the year 2001	Joint committee meet annually (met 2 times) And Information Desk at the JFTP department at the Ministry	Joint Committee and Joint Council, both meet annually, and a Special Assistance Unit in the Ministry of Planning translated to be part of the duties of the International Cooperation Department at the Ministry of Planning	Joint Committee (met 1 time)	Joint Committee , did not meet yet	Technical Unit (TU), with a support unit financed by the UE to establish the TU  (under construction)

Source: Authors' Estimates.

Although there is a commitment to abolish all kinds of involvement in state trading, the government still retains the consumer associations. This has some political implications and these associations are sometimes used to influence the private sector's behavior.<sup>7</sup>

In several cases, delay was a matter of reciprocity, when other countries did not meet their obligations, Jordan was following suit.<sup>8</sup> It has been argued that Jordan has an action plan and institutional arrangements in order to ensure the implementation of the signed agreements. Table 3 below exhibits the main institutional arrangements which followed the signing of the various trade agreements. The table indicates that sometimes proper institutions could be created, however it is still too early to judge how efficient they are in achieving the desired goals. Indeed the Directorate for Trade Agreement in the MIT was created as a small unit to follow up the WTO agreement before it has been expanded to a directorate that employs 15 individuals. On the other hand, agreements such as the Singapore FTA or Aghadir have not come into force yet. But there are some institutional arrangements included.

As far as tariff reduction is concerned the government has lived up to its commitment because that is something easy to monitor from other trade partners and due to the fact that this is consistent with the general economic policy of the country.

<sup>7</sup> This is based on an interview with Mohammed Dabbas, Deputy Secretary General, MIT.

<sup>8</sup> This is based on a personnel interview with Dr. Mohamed Halikeh, who served as a Deputy Prime Minister and as a Minister of Trade and Industry.

## **IV. Alignment of RTA Commitments with Domestic Trade Policy Directions**

There are still several policies and regulations, which regulate internal trade and foreign trade policy in Jordan. In the following section we will briefly present some of these policies, which might represent violations of Jordan's commitments to the GATT agreement.

### ***A. Pricing Policies***

There are several products that are still subject to price control in Jordan such as Wheat, seeds used for sowing, Flour, Bread, Bran, liquid Gas Butane Leaded Gasoline, Super Gasoline Medicament for human use, Electrical Energy, Medicine for Veterinary use, and Barley. The Government has been removing price controls gradually on certain commodities hoping to get to the eventual liberalization of all prices at the retail level. Jordan applied price and profitability control, as well as price cap control, on certain domestic and imported products. In the past, a committee - comprising representatives of merchants and the Ministries of Supply and Agriculture - set prices based on costs, and allowed a 17 percent profit margin for wholesalers and retailers. The same maximum profit margin applied in case of similar imported products.

Currently there are two groups of commodities that are still subject to price control. The "Strategic Commodities" which are normally subsidized such as wheat, barley and other products made of them such as bread. Imports of such products are subject to prior approval by the MIT. In theory anyone can import these commodities, however, since these products are sold domestically at prices lower than those prevailing in the international market, it is almost impossible to sell imports domestically. Since these products are subsidized the government set their prices for social and political reasons. The other group of products called "Basic Products". These include commodities such as cement, Iron, rice, and sugar. Normally these products constitute an important share in household consumption. These products are subject to a pre-approval from the MIT with any interested party in a position to import these products. The council of the minister is entrusted to adding to the list of basic commodities. The government also has the right to intervene in these products when there is a strong fluctuation in their prices. For example, quite recently the Jordanian market witnessed a sharp increase in the prices of Iron, the government threatened to import directly from the international market in order to stabilize the market. The government could import directly (the MIT) or through agencies established back in the mid-eighties known as consumer associations. For example the Jordan Civil Consumers Corporation (JCCC) was an enterprise organized for the benefit of government employees. JCCC operated on a commercial basis and sold imported and domestic products at its outlets at prices slightly below the regular market prices. Furthermore there was the Military Consumer Association (MCA). Currently these

institutions are not anymore exclusive to their members but are open to the public thus creating some price distortions. In addition, prices for utilities (electricity, water, solar heating, and natural gas) are controlled to support low-income groups. Electricity prices had recently been raised to rationalize the use of energy and increase the financial viability of electricity production. Water charges had also been increased, including the adoption of a progressive tariff for irrigation water, to rationalize use and ensure cost recovery for water and sanitation services. Indeed the management of water distribution has been privatized with a French company operating this vital sector. Indeed utilities in general are sectors that are functioning as monopolies including telecommunications. Prices are monitored by regulatory bodies that have been created after the de-regulation or the privatization of these sectors. These commissions include: transportation, telecommunication, and electricity. Consumers are underrepresented in these institutions and there are no clear compensation mechanisms for consumers when a default occurs or the services are interrupted. The market in all these sectors is expected to be fully liberated in the next few years. However, clearly there is uncompetitive practice that takes place now.

The government, aware of the importance of regulating the market and to lessen the uncompetitive practice has adopted a competition law. The law entrusted the MIT with the power to apply the law in case uncompetitive practice occurs. According to the competition law any group of consumer can advance a case if there is a suspicion of uncompetitive practice, if there is enough evidence the MIT through the competition directorate can pursue a case and can have access to enterprises books.

## *B. Import Regulations*

Customs law had been revised and amended to make it compatible with WTO requirements, ensuring transparency and simplified customs procedures. A Customs Law, replacing the Customs Law of 1983, had been published on the 1<sup>st</sup> of October 1998, and had entered into force in January 1999. Jordan had begun using the Harmonized System nomenclature in January 1994, and the HS 96 nomenclature had entered into force in March 1997. The Customs Law No. 20 for 1998 had been reviewed to assess its WTO conformity.

Although the Customs Law No. 20 for 1998 largely conformed to WTO requirements, certain amendments were needed in order to bring it into full conformity. The new law had cancelled all import duty exemptions for government-owned firms and government institutions (except grants and donations). In the new law duty exemptions remained for several companies.

The import duty exemptions were set to expire automatically on the date stipulated in the concessions and agreements. The beneficiaries are private or shareholding companies with significant private participation such as the Jordan Phosphate Mines and the Jordan Petroleum Refinery Company, the Arab Bridge Maritime Company, the Arab Potash Company, the Jordanian Electric Company, and the Irbid Governorate Electric Company.

Products subject to import duty exemptions were used by the exempted companies for production and operations purposes. The following goods imported by these companies are not exempted from import duties: cars and spare parts, tires, petroleum products, vans and buses and their spare parts, stationery, computer devices, air-conditioners, hand tools, consumption materials, goods and materials used for housing employees, and products similar to Jordanian products. These companies were not exempt from income tax, and the tariff exemptions were not contingent upon export performance. Details of these companies are attached in Annex 2.

### *C. Application of Internal Tax*

There are certain commodities such as cement and Iron that are subject to a special tax. For example there is a JD 50 "special tax" per ton special sales tax that is imposed on imported Iron in addition to the traditional tariff, which averages 25%. This tax is not applicable on domestically produced goods; this differential treatment is a violation of Article III of the GATT 1994.<sup>9</sup> The Council of the Ministries decides which product should be subject to special tax. The other products that are subject to a different kind of taxes are alcohol and cigarettes. But these commodities may be subject to special taxes according to the GATT agreement provided that there is no discrimination between domestically produced and imported goods.

### *D. Banned Imports*

There are still some banned imports such as Plastic Waste and Passenger Cars using a fuel other than Benzene. A list of banned imported items appears on the MIT regulations for exports and imports. The justification in many cases is for health, security and/or environmental reasons. Domestic protection is regulated by a special law for national protection.

Some would argue that Jordan's ban on imports such as plastic waste, used cars, and cars using fuel other than petrol, were intended to limit imports and were inconsistent with Article XI of the GATT and the Agreement on Agriculture. However, it is quite clear that for environmental reasons Jordan can apply some restrictions without running the risk of violating the GATT rules.

Prior approval to import is applied over 48 products. Amongst these products are: Rise and Sugar, Live animals, dry milk, and fresh and frozen meat and Chicken. Also there are few agricultural products such as Potato, Onion and fruits and vegetables, and maize. An annex is available for these products. The price of this group is determined by market forces. However, due to the nature and sensitivity of these products, the ministry monitors

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<sup>9</sup> Official reason for such special tax is to protect the "infant industry". However, in reality there is a strong lobby behind the steel industry. Two ex- Prime ministers are among the biggest investors in this industry. Few important decisions concerning this industry were taken during their tenure.



the storage of these commodities and the MIT has the right to intervene and import directly if there is a shortage in the market.

### *E. Internal Policies Affecting Foreign Trade*

The industrial policy in Jordan had become more market-friendly since 1988. The Government had reduced its involvement in the supervision of industrial organizations. The Ministry of Industry and Trade assisted the development of the industrial sector by (i) helping to develop a business services sector responding to the increasing needs of the industrial sector; (ii) strengthening upstream and downstream industrial linkages; and (iii) promoting industrial subcontracts and partnerships.

There is no direct incentive that could influence resource allocation. The MIT strategy is based more on regulating the market and enhancing the sector's competitiveness. In the past there used to be some favorable interest rate but even the industrial bank applies the market rate, however, quite recently, the government has changed its policies towards applying the market rate.

### *F. Preliminary Assessment*

When we discuss the possible implications of the several agreements, the focus is rather on the potential than on the actual. So far, little time has elapsed before the undertaking of a comprehensive assessment. Looking at trade indicators supports such claim. The outcome of the several agreements has been disappointing. For example, the level of trade between Jordan and the EU remains limited and the chronic trade deficit between the two parties has even deepened. Jordan has not witnessed a significant growth in productivity and the amount of the FDI coming from the EU has been negligible. In agriculture, comprehensive trade liberalization is not envisaged. For specific agricultural products, however, the Association Agreement (AA) consolidates, and in some cases improves, the existing preferential mutual access. The agreement allows Jordanian agricultural products to enter the EU market as follows:

- a) Free of customs duties and with neither tariff quotas nor time restrictions: *molokheya*, okra, certain types of pepper, dates, dried vegetables, citrus juices, grapefruits, and oranges;
- b) Free of customs duties and with no tariff quotas, but within an agreed timetable: tomatoes, garlic, cucumber, beans, egg plant, sweet pepper, parsley, zucchini, fennel, melon, watermelon, and celery;
- c) Within agreed tariff quotas and timetables, and with reduced customs duties: carrots, onions, figs, mangoes, guavas, mandarin oranges, and lemon.

Indeed sectors where Jordan could increase its level of exports to the EU market, in particular in the agricultural sector, have been restricted. While according to Annex II of the agreement most of the customs and quotas on industrial products will be eliminated.

For the industrial products listed in Annex II of the agreement and originating in the EU, Jordan will continue to impose for the first four years from the entry into force of the agreement import tariffs (i.e., up till May 1<sup>st</sup>, 2006), provided that these do not exceed their comparable levels on January 1<sup>st</sup>, 1996. In effect, the pact provides a transitional period to allow local Jordanian industries that may be harmed by the AA to adapt to the new competition. Pursuant to Article 11(2) in the AA, customs duties and charges on products listed in Annex II will be abolished at a rate of 10 percent a year, starting from the fourth year of the entry into force of the agreement (i.e., from May 1<sup>st</sup>, 2006) until a 50 percent reduction of the basic duty is achieved on May 1<sup>st</sup>, 2010. To protect local manufacturers, Article 13 of the agreement gives Jordan, subject to some time limitations, the right to take the exceptional measures in the form of an increase or reintroduction of customs duties to protect infant industries or certain sectors undergoing restructuring or facing serious difficulty, particularly where major social problems occur.

For industrial goods listed in Annex III (A), customs duties and charges will be progressively abolished at a rate of 20 percent a year, starting May 1<sup>st</sup>, 2002, until free trade is established on May 1<sup>st</sup>, 2006. The list covers basic consumer commodities, medical equipment, some mining products, leather products, processed foods, some types of wood, spare parts for industrial machinery, industrial inputs (including chemicals), pharmaceuticals, and fertilizers. Jordan is following the schemes and has been reducing customs on these products. For products covered by categories in Annex III (B), tariffs will be phased out at an annual rate of 10 percent, starting May 1<sup>st</sup>, 2006, until total free trade is established, by May 1<sup>st</sup>, 2014. This annex includes, among many other products, artificial flowers; optical appliances; clocks; watches; musical instruments; and some types of processed foods.

Recent trade flows between the two parties have stagnated. While some of these problems have to do with the rules of origin and product standards required by the EU, others highlight weaknesses in Jordan's productive capacity. At the same time, the EU's attempts to develop links with manufacturers in the Kingdom have not been very fruitful, insofar as Jordan's industrial exports to EU member-states are concerned.

### *G. Implementation versus Commitments*

According to the MIT sources, the only significant areas where Jordan is not living up to its commitment are regarding IPR with the USA within the context of the FTA. And the second major issue is the application of the rules of origin as stipulated in the GAFTA agreement. On the second issue reasons for not living up to its commitment to GAFTA is that other Arab countries did not agree on the common rules of origin. As discussed in the Gap analysis section, there are several NTBs that still prevail.

## **V. Legislative, Regulatory and Administrative Commitments of the RTAs**

### **A. WTO**

#### ***a. Tariff Reduction***

Tariffs are to be bound at a 20 percent ceiling by the year 2010, with the exception of certain items that are to be bound at 35 percent. Jordan's tariff schedule has six advalorem rates: 0 percent, 5 percent, 10 percent, 20 percent, 30 percent and 35 percent. Tariff reductions will be implemented in March of every year. Jordan will levy no duties and charges on imports other than ordinary customs duties and fees and charges for services rendered.

#### ***b. Rules of Origin***

The Rules of Origin Agreement requires WTO members to ensure that their rules of origin are transparent; that they do not have restricting, distorting or disruptive effects on international trade; that they are administered in a consistent, uniform, impartial and reasonable manner; and that they are based on a positive standard. For the longer term, the agreement aims for common ("harmonized") rules of origin among all WTO members, except in some kinds of preferential trade — for example, countries setting up a free trade area are allowed to use different rules of origin for products traded under their free trade agreement.

#### ***c. Dispute Settlement Systems***

Settling disputes is the responsibility of the Dispute Settlement Body (the General Council in another guise), which consists of all WTO members. The Dispute Settlement Body has the sole authority to establish "panels" of experts to consider the case, and to accept or reject the panels' findings or the results of an appeal. It monitors the implementation of the rulings and recommendations, and has the power to authorize retaliation when a country does not comply with a ruling.

First stage: consultation (up to 60 days). Before taking any other actions the countries in dispute have to talk to each other to see if they can settle their differences by themselves. If that fails, they can also ask the WTO director-general to mediate or try to help in any other way.

Second stage: the panel (up to 45 days for a panel to be appointed, plus 6 months for the panel to conclude). If consultations fail, the complaining country can ask for a panel to be appointed. The country "in the dock" can block the creation of a panel once, but when the Dispute Settlement Body meets for a second time, the appointment can no longer be blocked (unless there is a consensus against appointing the panel).

#### ***d. Competition Law***

The WTO is sometimes described as a “free trade” institution, but that is not entirely accurate. The system does allow tariffs and, in limited circumstances, other forms of protection. More accurately, it is a system of rules dedicated to open, fair, and undistorted competition. The rules on non-discrimination-MFN and national treatment-are designed to secure fair conditions of trade. So too are those on dumping (exporting at below cost to gain market share) and subsidies. The issues are complex, and the rules try to establish what is fair or unfair, and how governments can respond, in particular by charging additional import duties calculated to compensate for damage caused by unfair trade. Many of the other WTO agreements aim to support fair competition: for example in agriculture, intellectual property, and services. The agreement on government procurement (a “plurilateral” agreement because it is signed by only a few WTO members) extends competition rules to purchases by thousands of government entities in many countries.

#### ***e. Conformity Assessment and Accreditation***

In addition to liberalizing trade in goods and services, Jordan committed itself to comply with the WTO Multilateral Agreements on Trade Related Aspects of Intellectual Property Rights (TRIPS), Customs Valuation, Import Licensing Procedures, Technical Barriers to Trade, and Sanitary and Phytosanitary Measures.

#### ***f. Trade Remedies***

Jordan has eliminated export subsidies by the end of 2002. Jordan will not apply any anti-dumping, countervailing or safeguard measures to imports from WTO Members until it has notified and implemented appropriate laws in conformity with the provisions of the WTO Agreements.

The WTO agreement allows governments to act against dumping where there is genuine (“material”) injury to the competing domestic industry. In order to do that the government has to be able to show that dumping is taking place, calculate the extent of dumping (how much lower the export price is compared to the exporter’s home market price), and show that dumping is causing injury or threatening to do so.

#### ***g. Intellectual Property Rights***

The WTO Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS), negotiated at the 1986-94 Uruguay Round, introduced intellectual property rules into the multilateral trading system for the first time. As in GATT and GATS, the starting point of the intellectual property agreement is basic principles. And as in the two other agreements, non-discrimination features prominently: national treatment (treating one’s own nationals and foreigners equally), and most-favored-nation treatment (equal treatment for nationals

of all trading partners in the WTO). National treatment is also a key principle in other intellectual property agreements outside the WTO. The TRIPS Agreement has an additional important principle: intellectual property protection should contribute to technical innovation and the transfer of technology. Both producers and users should benefit, and economic and social welfare should be enhanced, the agreement says. The TRIPS agreement ensures that computer programs will be protected as literary works under the Berne Convention and outlines how databases should be protected. Under the TRIPS Agreement, industrial designs must be protected for at least 10 years. The agreement states that patent protection must be available for inventions for at least 20 years. Patent protection must be available for both products and processes, in almost all fields of technology. Trade secrets and other types of “undisclosed information” which have commercial value must be protected against breach of confidence and other acts contrary to honest commercial practices. The owner of a copyright, patent or other form of intellectual property right can issue a license for someone else to produce or copy the protected trademark, work, invention, design, etc.

## ***B. Jordan-EU***

### ***a. Tariff Reduction***

Industrial products originating in Jordan are imported into the EU free of customs duties and charges having equivalent effect. Customs duties and charges having equivalent effects applicable on imports into Jordan of products originating in the EU other than those listed in Annexes 2 to 4 are abolished upon entry into force of the Agreement. Customs duties and charges having equivalent effects applicable on imports into Jordan of products originating in the Community listed in Annex 2 are partially eliminated over a period of eight years beginning four years after entry into force of the Agreement.

The progressive elimination of customs duties and charges having equivalent effects does not apply to products listed in Annex 4 of the agreement. The arrangements to be applied to these products shall be re-examined by the Association Council four years after the entry into force of the Agreement. At the time of that re-examination, the Association Council will establish a tariff-dismantling timetable for all products listed in Annex 4. Quantitative restrictions on imports and measures having equivalent effects on trade between the Community and Jordan shall be abolished upon the entry into force of the Agreement. No new quantitative restrictions on imports and measures having equivalent effects shall be introduced in trade between Jordan and the EU. The Agreement does not include any provision for the establishment of a common external tariff.

### ***b. Rules of Origin***

The EUROMED Agreement's Rules of Origin include the three criteria defined below with emphasis on the specified process criterion of origin. It confers origin to the

manufactured product based on predefined lists of working or processing operations when carried out on non-originating input materials. The added-value criterion requires transformation to incorporate added-value equivalent to or greater than 40 percent. Debate is continuing among member states of the League regarding the calculation of such value. The issue is whether to include the packaging activities with the production process (i.e. calculate the added-value at the final ex-factory value of the good) or to consider strictly the production process (i.e. calculate the added-value at the end of the production cycle excluding packaging and similar activities).

The specified process criterion of origin requires that the manufactured product be subject to specific workflow or processing operations carried out on non-originating input materials. The change in tariff classification criterion considers the change in tariff classification of the "Harmonized System of Tariff Nomenclature". As a general rule, imported materials, parts, or components are considered to have undergone substantial transformation when the resulting manufactured product is classified at a different HS level from the non-originating inputs.

#### ***c. Dispute Settlement Systems***

Either Party may refer to the Association Council any dispute relating to the application or interpretation of the Agreement: differences are settled by means of a decision. In the contrary case, either Party may notify the appointment of an arbitrator to the other Party, which must then appoint a second arbitrator within two months. The Association Council shall appoint a third arbitrator. The arbitrators' decisions are taken by majority vote. So there is no mentioning that trade disputes may be referred to the WTO dispute settlement panel. Reasons for this may have emanated because Jordan signed the association agreement before the country became a member in the WTO.

#### ***d. Conformity Assessment and Accreditation***

The Agreement states that the Parties should aim at reducing differences in conformity assessment. Co-operation in that field should aim at increasing the application of Community rules.

#### ***e. Trade Remedies***

Exceptional measures of limited duration, which derogate from the tariff elimination schedule, may be taken by Jordan in the form of an increase or reintroduction of customs duties. These measures may only concern infant industries or certain sectors undergoing restructuring or facing serious difficulties, particularly where these difficulties produce major social problems.

These measures shall be applied for a period not exceeding five years unless a longer duration is authorized by the Association Committee. They shall cease to apply at the latest upon the expiry of the maximum transitional period of 12 years.

The EU or Jordan may take appropriate measures, where the increase in imports of a product occurs in such quantities and under such conditions as to cause or threaten to cause serious injury to domestic producers of like or directly competitive products in the territory of one of the parties, or serious disturbances in any sector of the economy, or difficulties that could bring about serious deterioration in the economic situation of a region. In the selection of measures, priority shall be given to those that least disturb the functioning of the Agreement. In the case of serious balance of payment difficulties, or threat thereof, the EU or Jordan may adopt, for a limited period, restrictions on current transactions, in accordance with the conditions established under the GATT and Articles VIII and XIV of the Articles of Agreement of the International Monetary Fund. These restrictions may not go beyond what is strictly necessary to remedy the balance of payments situation.

If one of the Parties finds that dumping is taking place in its trade with the other Party, the EU or Jordan may take appropriate measures in accordance with the WTO Agreement on Implementation of Article VI of GATT 1994, its related internal legislation, and respecting the information exchange procedures established by the Agreement. In the selection of measures, priority shall be given to those which least disturb the functioning of the Agreement.

#### ***f. State Aid***

Any public aid distorting or threatening to distort competition is incompatible with the proper functioning of the Agreement in so far as it affects trade between the Parties. The Association Council shall adopt within five years of the entry into force of the Agreement the necessary implementation rules. During the first five years of the entry into force of the Agreement, any State-aid granted by Jordan is assessed taking into account the fact that Jordan is regarded as an area identical to those areas of the Community benefiting from aid for development. The Member States and Jordan progressively adjust, without affecting commitments made under GATT, any state monopolies of a commercial character. This is to ensure that, by the end of the fifth year following the entry into force of the Agreement, no discrimination exists regarding the conditions under which goods are procured and marketed between nationals of the Member States and of Jordan.

#### ***g. Intellectual Property Rights***

The Agreement commits the Parties to providing and ensuring adequate and effective protection of intellectual, industrial and commercial property rights in line with the highest international standards. To this end, the Agreement identifies a number of relevant multilateral conventions, to which Jordan should accede according to the provisions stipulated in Annex 7 of the Agreement. In addition, the Parties confirm the importance they attach to the obligations arising from certain other relevant multilateral conventions, to which they are both already party. If any difficulties arise in this area affecting trade, the Parties agree to consult bilaterally in order to resolve them.

## **C. GAFTA**

### ***a. Tariff Reduction***

GAFTA's implementation program stipulates the elimination of all tariff barriers and taxes with similar effect on products of Arab origin traded within the Arab region in a gradual manner over ten years at the rate of 10 percent per year, starting in 1998. It also stipulates the elimination of non-tariff barriers (NTBs) and administrative barriers. GAFTA is designed to be compliant with WTO rules. It allows preferential treatment for the least developed countries among Arab countries.

### ***b. Rules of Origin***

The program offers rules of origin for duty-free treatment. The GAFTA value added requirement is set at 40 percent, and there are two methods for calculating origin. The first is based on the local value added approach. The other is the net cost approach, which subtracts specified imported expenses from the transaction price to determine the base for calculating the ratio of foreign to domestic content. An important feature of the program is the ongoing scheme for the elaboration of detailed preferential rules of origin for GAFTA-made products. This scheme adopted rules for full cumulation of origin among the GAFTA countries. This means that materials obtained from, for example, Jordan, and incorporated into a product made in Egypt, may be considered as if they were obtained in Egypt. Finally, the program also calls for the need for harmonization of preferential rules of origin to comply with the Euro-Mediterranean free trade agreements underway.

### ***c. Dispute Settlement Systems***

Disputes arising from the application of this Agreement are presented to an assigned council in order to resolve them. However, the Council is entitled to refer these to one or more sub-committees authorized by it with part of its functions. It is also entitled to apply thereto the rules of the settlement of disputes set forth in chapter six of the unified agreement for the investment of Arab capitals (funds) in Arab countries, and its appendix. However, the Council determines the method for the settlement of the dispute respective of each case.

### ***d. Competition Law***

The party countries are required to cooperate in facilitating the transport and communications among themselves through various means on preferential bases, and also in respect of facilitating the transit trade associated with the exchange of Arab commodities among party countries. The party countries have to cooperate among themselves, in order to consolidate and coordinate their economic and commercial relations with other countries or with international and regional economic organizations and blocs, bilaterally or jointly.



They are also required to take unified stands at economic international conferences and forums compatible with their common interests.

#### ***e. Trade Remedies***

International (WTO) rules and standards are considered in dealing with dumping, subsidies, and balance of payments problems resulting from the implementation of the program.

#### ***f. Competition Issues-State Monopolies***

GAFTA member countries cooperate with each other in the field of technology and in scientific research.

#### ***g. Intellectual Property Rights***

International (WTO) rules and standards will be considered in dealing with intellectual property rights.

### ***D. JUSFTA***

#### ***a. Tariff Reduction***

Under the FTA, tariffs will be eliminated on virtually all trade between the two countries within 10 years. Tariff reductions will occur in four stages:

1. Current tariffs of less than 5 percent will be phased out in two years
2. Those that are now between 5 and 10 percent will be eliminated in four years
3. Those between 10 and 20 percent will be eliminated in five years
4. Those that are now more than 20 percent will be eliminated in 10 years. Although there is no negative list, special arrangements exist for tariff reductions on sensitive products such as apples, poultry, tobacco and some tobacco categories, cars, and alcohol.

#### ***b. Rules of Origin***

The FTA rules of origin have three major components:

1. Quantitative definition of origin: goods imported into the United States must be made entirely in Jordan or, if any third-country materials are used, those materials must be “substantially transformed” into Jordan origin products as a result of a Jordan manufacturing or processing operation. This holds true for the United States as well.
2. 35 Percent Domestic Content Requirement: 35 percent of the customs value of the imported product must be attributed to Jordan origin materials and/or to Jordan direct costs of processing. The cost or value of United States-origin materials incorporated

in the imported product can be counted, but only up to 15 percent of the customs value of the good.

3. **Direct Transport Requirement:** To ensure that Jordanian qualifying goods are not mixed with non-qualifying goods while en route to Jordan, the FTA contains a “direct transport” requirement. This requires that the goods be shipped directly from Jordan to the United States, with certain exceptions.

### ***c. Dispute Settlement Systems***

Under Articles 16 and 17 of the FTA, the United States and Jordan have incorporated a multi-step consultation and dispute settlement process. Any disputes must try to be resolved first through consultation and will then be referred to the Joint Committee if unresolved. The dispute will be referred to a dispute settlement panel consisting of three members determining a non-binding opinion. This report from the dispute panel is then taken into consideration when the Joint Committee determines its final ruling. If the dispute is not settled by the committee, the affected Party “shall be entitled to take appropriate and commensurate measures.”

The time frame for the consultation and dispute settlement process is as follows:

Consultations must occur within 60 days of the submission of the request. If the problem is not resolved through consultation, then it is referred to the Joint Committee. The Joint Committee has 90 days after the dispute was referred to it to resolve the problem. If it is not resolved within 90 days, either Party may refer the matter to the dispute settlement panel. The dispute settlement panel, once it is formed, has 90 days to present the involved Parties with a report detailing all facts, its determination, and any recommendations for resolving the dispute.

### ***d. Trade Remedies***

It is hoped that the FTA will lead to an expansion of trade between the U.S. and Jordan to the benefit of both countries. If, however, Jordan's reduction of tariffs results in an increasing quantity of U.S. imports that are a substantial cause of serious injury, or threat of injury, to Jordanian producers of like or directly competitive products, the FTA provides that Jordan may take temporary safeguard measures against the U.S.-origin imports. Jordan was granted a 15-year transition period during which it is allowed to apply safeguard measures under this agreement. Special consideration is given to infant industries in the application of such measures.

### ***e. Intellectual Property Rights***

Both sides committed to a two-year grace period in the Intellectual Property Rights Section of the FTA<sup>10</sup>. Measures of IPR protection covers: Copyrights; Performers and Sound

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<sup>10</sup> This is one of the commitments which Jordan failed to meet for reasons that will be elaborated later.

Recordings; Process and Product Patents; New Plants Types; Trade Secrets Industrial Property, including Industrial Designs, Printed Circuits, and other Designs; Trade Marks and Service Marks; and Geographical Indicators.

## ***E. EFTA***

### ***a. Tariff Reduction***

A free trade area will be created between Jordan and the EFTA states over a 12-year period through the gradual dismantling of tariffs. In line with the deal, the EFTA states will abolish all customs on imports of industrial products originating in Jordan, from day one of entry into force of the agreement. However, Jordanian customs on EFTA's industrial items will be reduced between year 4 and 12. The first of EFTA's industries to benefit from lowered Jordanian customs during the first four years are mainly those that are not produced in the local market, such as machinery. Items that are produced by the two partners, such as textiles, will see no tariff decreases during the first four years, and will be negotiable only after that date. This contradicts what has been stipulated in the EU agreement where the list exceptions are more focused on agricultural products and there will be a unified tariff phase-out to be implemented in the next five years.

### ***b. Rules of Origin***

Protocol B of the Agreement lays down the rules of origin. In general, origin is confirmed when: The good is wholly obtained or produced in the territory of a Party; or Each of the non-originating materials used in the production of the good undergoes an applicable requirement as set out in the specific rule for that good (detailed in Protocol B of the agreement), and the good satisfies any other applicable requirement set out in that rule, as a result of production in the territory of a Party; and the good satisfies other particular circumstances as set out in Protocol B of the Agreement. The rules of origin enable bilateral cumulation of origin between the Parties; i.e. materials originating in a Party shall be considered as materials originating in the other Party when incorporated into a product obtained there. The Agreement also enables diagonal cumulation of origin, subject to certain conditions. However this proves to be one of the controversial issues and it was very difficult to enhance Jordanian exports to the EU countries.

### ***c. Dispute Settlement Systems***

The Agreement includes in Article 31 an arbitration procedure for disputes between the Parties relating to the interpretation of the Agreement. Article 31 states the consultations procedures between the Parties. Disputes, which have not been settled through direct consultations or in the Joint Committee within 90 days, may be subject to written notification from one Party to the other. Provisions on the constitution and functioning of the arbitration panel are provided for in Annex VII of the Agreement.

#### ***d. Competition Law***

Regarding competition, the agreement includes provisions on co-operation and exchange of information in the Joint Committee meeting with the aim of ensuring that the benefits of the Agreement are not frustrated by private anti-competitive behavior.

#### ***e. Trade Remedies***

Article 25 of the Agreement lays down the procedures for the application of safeguards between the Parties. Direct consultations are to be held between the Parties prior to the initiation of safeguards measures. There are no specific provisions in the Agreement related to global safeguard actions, thus the WTO provisions are applicable.

Article 21 of the Agreement provides procedures and conditions for the application of emergency actions between the Parties. In accordance with these provisions, each Party may take appropriate measures when the increase in imports of a product of one Party leads to serious injury to the domestic industry of like or directly competitive products, or serious disturbances in any sector of the economy, or serious difficulties which could bring about serious deterioration in the economic situation of a region of the importing Party.

In case there are sectoral difficulties, Article 22 provides for the possibility to apply or reintroduce customs duties in case where infant industries are concerned or where certain sectors of the economy undergo restructuring or face serious difficulties provided they lead to major social problems. Such exceptional measures shall be applied for a period not exceeding five years unless a longer duration is authorized by the Joint Committee. They shall cease to apply at the latest on the expiry of the maximum transitional period of twelve years.

Furthermore Article 24 allows for the application of measures when a Party experiences serious balance of payment difficulties. A party in serious balance of payments difficulties, or imminent threat thereof, may, in accordance with the conditions established under the GATT 1994 and the Understanding on Balance-of-Payments provisions of the GATT 1994, adopt trade restrictive measures, which shall be of limited duration and non-discriminatory.

#### ***Anti-Dumping and Countervailing Measures***

Article 20 of the Agreement provides for the Parties' rights and obligations in respect of the applications of anti-dumping measures in accordance with Article VI of the GATT 1994, the Agreement on Implementation of Article VI of the GATT 1994, and in accordance with the procedures laid down in Article 25.

#### ***f. State Aid***

Article 19 of the Agreement refers to subsidies: Paragraph 1 sets out that the rights and obligations of the Parties relating to subsidies and countervailing measures are governed by Article XVI of the GATT 1994 and the WTO Agreement on Subsidies and Countervailing Measures, except as otherwise provided for in this Article. Paragraph 2 foresees that transparency of subsidy measures shall be achieved through the notification process foreseen already under the WTO. Paragraph 3 lays down the procedures for notification and consultations with respect to the initiation of an investigation to determine the existence, degree, and effect of any alleged subsidy.

#### ***g. Competition Issues-State Monopolies***

According to Article 11.1 of the Agreement, the EFTA States and Jordan should ensure that after a period of five years, any state monopoly of a commercial character will be adjusted so that no discrimination regarding the conditions under which goods are procured and marketed exists between nationals of the Parties. These goods should be procured and marketed in accordance with commercial considerations. So far there are still few state monopolies. It was not easy for the government to dismantle all SOEs within the period of five years. In addition there was no follow-up mechanism to what has been stipulated in the agreement, and there also have been interest groups that resist the complete dismantling of the state's monopolies.

#### ***h. Intellectual Property Rights***

In accordance with Article 17 of the Agreement, the Parties are required to grant and ensure adequate, effective and non-discriminatory protection of intellectual property rights in accordance with the provisions listed in Annex VI of the Agreement and the international agreements referred to. Article 17.2 states that the Parties should accord each other's nationals treatment not less favorable than that accorded to their own nationals. Exemptions to this rule must be in accordance with Article 3 of the WTO TRIPS Agreement. Paragraph 3 of Article 17 stipulates that the Parties shall grant each other's nationals treatment not less favorable than that accorded to any other State. Finally, paragraph 4, foresees that the provisions on the protection of intellectual property rights shall be reviewed at the request of any Party with a view to further improve the level of protection.

## **VI. Existing Similarities and Dissimilarities between RTAs and WTO**

### **A. GAFTA versus WTO**

#### **a. Compliance with WTO Rules**

1. Compliance with the general rules set by WTO regarding the formation of a free trade area, stated in Article 24 of the WTO Agreement. GAFTA has set a 10-year timetable as a maximum date for the conclusion of its implementation program, as required by WTO.
2. Abolition of Non-Tariff Barriers (NTBs): The Economic and Social Council of the League of Arab States, which is the institutional body responsible for the implementation program of GAFTA, has set many rules that dictate the abolition of NTBs in all their forms: quantitative, administrative, and financial.
3. Adherence to the “national treatment” rule and transparency in trade exchange among Arab countries.
4. Compliance with the “special treatment” rule towards the least developed countries.
5. Protection of intellectual property rights.
6. Rules of origin, standards, subsidies, safeguard conditions, rules for dumping and balance of payments difficulties are treated within GAFTA in accordance with WTO rules.

#### **b. Differences with WTO**

1. WTO applies the reciprocity principle while preferential treatment is applied in GAFTA with respect to the least developed countries. Although WTO implements the special treatment principle towards the least developed countries, it is for a specific period only in order to allow countries to adjust to WTO agreements. However, in the context of GAFTA, this special treatment is defined according to the demands and the economic conditions of every State.
2. While WTO permits monopoly in the field of technology, GAFTA member countries cooperate with each other in the field of technology and in scientific research.
3. WTO has successfully abolished the application of NTBs by converting them into tariff charges. However, the application of NTBs persists in GAFTA until the date of its conclusion, namely in 2007, except for Arab countries that have already joined WTO.
4. WTO dictates that trade through bilateral agreements should end by 2005, and the most favored nation (MFN) principle should be applied instead, unless those bilateral

agreements stem from a free trade area or customs union among concerned States. By contrast, GAFTA has allowed the conclusion of bilateral agreements provided they do not contain privileges that exceed what is stated in the implementation program of GAFTA. Moreover, these bilateral agreements should end by 2007, the date of the conclusion of the implementation program of GAFTA.

## ***B. Overlap of the Jordanian Trade Agreements***

Realizing the interdependence of the economies of the world, Jordan has taken the lead in a number of areas aimed at integrating its economy with the Middle East and the world. Focusing on trade relationships, Jordan is determined to further liberalize its trade regime in order to improve efficiency of Jordanian firms and meet the challenges of increased international competition. Jordan has undertaken significant steps to achieve these goals by first establishing agreements with other countries, regionally and internationally, and through the accession to the World Trade Organization in 2000.

### ***a. Date of Entry into Force and Trading Partner***

Jordan joined the WTO in 2000, and upon its accession, has integrated the world market. Jordan has signed an agreement with Arab countries (GAFTA), which entered into force in 1998 and will reach full implementation by 2005. Another agreement, creating a free trade area between Jordan and the United States, has entered into force in 2001 and will reach full implementation by 2010. Lastly, two agreements entered into force in 2002, the first one between Jordan and the EU, and the second between Jordan and EFTA countries, both agreements will reach full implementation by 2014.

### ***b. Industrial and Agricultural Products***

GAFTA is the only agreement that has reached full liberalization of trade in industrial and agricultural products between Jordan and the Arab countries. The EU-Jordan Association Agreement as well as the EFTA agreement exempt industrial products manufactured in Jordan and exported to the EU/EFTA countries from customs taxes and fees. Numerous industrial and agricultural products will enjoy privileged access to the EU markets by means of a range of custom tax and quota exemptions. Whereas, under the JUSFTA, the United States and Jordan agreed to stage reduction of tariffs in order to provide their industries with enough time to adjust to increased competition that may occur due to loss of tariff protection. Products are grouped into several different staging categories, "A" through "M", which will determine the rate at which tariffs will be eliminated. Industrial products originating from Jordan will benefit by 2005 from 98 percent liberalization, while agricultural products follow the calendar set by the agreement.

### ***c. Benefits and Special Features***

Accession to the World Trade Organization brings new opportunities and challenges to Jordanian businesses. WTO membership assures not only access to the entire world market for Jordanian manufactured products, but will also expose Jordanian companies to direct competition with international companies. The government has revised its laws, particularly those governing Intellectual Property Rights and Trade Secrets, in order to come into regulatory compliance with WTO standards. Additionally, the government introduced laws to protect domestic industries (Protection Domestic Industries Law) which aims at providing protection to industries that face unfair competition from imports.

The entry into force of the EU-Jordan Association Agreement indicates further advances in the already existing bilateral ties. In addition to benefits in the political, social and cultural areas, the new partnership agreement promises to play an important role in Jordan's economic development. The accord will encourage more direct European investments into Jordan, as industrial products manufactured in Jordan and exported to the EU will be exempted from customs taxes and fees. Numerous industrial and agricultural products will enjoy privileged access to the EU markets by means of a range of custom tax and quota exemptions.

The US-Jordan FTA achieved significant liberalization across trade areas including electronic commerce, services, and intellectual property rights. It will eliminate tariffs between the United States and Jordan on virtually all industrial goods and agricultural products within ten years. This Free Trade Agreement will eliminate tariffs on all virtual trade between the two countries within 10 years through four stages. Those tariffs of less than 20 percent will be terminated within 5 years, other tariffs that are higher than 20 percent will also be terminated within 10 years.

What distinguishes this agreement from others is that for the first time in the body of a free trade agreement, the US-Jordan Free Trade Agreement includes a separate set of provisions about the environment, labor and e-commerce.

Regarding the environment, each country agreed to avoid relaxing environmental laws to encourage trade. In addition, Jordan and the US have mutually committed to promoting a liberalized trade environment for electronic commerce. This action would encourage investment in new technologies and stimulate the innovative uses of networks to deliver products and services. Both countries agreed to avoid imposing custom duties on electronic transmissions, imposing unnecessary barriers to market access for digitized products, and impeding the ability to deliver services through electronic means. In addition, the US-Jordan Free Trade Agreement includes in its body key provisions that reconfirm that free trade and the protection of the rights of workers can go hand in hand.

In the service sector, Jordan has already enjoyed nearly complete access to the U.S.



services market in recent years. The Free Trade Agreement will open the Jordanian services market to U.S. companies. Specific liberalization has been achieved in many key sectors, including educational, financial and health service sectors.

Like all of the other agreements with the exception of GAFTA, the US-Jordan agreement includes provisions for the protection of intellectual property rights. These provisions incorporate the most up-to-date international standards for copyright protection; these provisions also include guidelines for protection of copyrighted works in a digital network environment and protect exclusive right for the creators' work available online.

Last but not least, consultation and dispute settlement is also an area concerned. The United States considers that most questions on the interpretation of the agreement should be settled by either informal or formal contacts. The Free Trade Agreement provides dispute settlement panels to issue legal interpretations of the Free Trade Agreement; this process includes strong provisions on transparency.

GAFTA, which aims at creating a free trade between Jordan and other Arab states, is the only agreement that has succeeded, in early 2005, in creating a free trade area between the concerned parties in agricultural and industrial products. However the agreement does not provide any provisions concerning Intellectual property rights, labor or the environment.

The Free Trade Agreement concluded between the four member states of the European Free Trade Association (EFTA) – Switzerland, Norway, Iceland and Liechtenstein – and Jordan contains provisions on the protection of intellectual property rights (IPRs) which go far beyond the obligations already imposed on these countries under the framework of the World Trade Organization (WTO). TRIPS makes no reference to UPOV, a convention that was crafted in Europe 42 years ago as a special kind of IPR protection system for commercial plant breeders and to which until recently mostly industrialized countries subscribed. The agreement also encourages more direct European investments into Jordan, as industrial products emerging from Jordan and exported to the EU will be exempted from customs taxes and fees. The agreement offers no provisions concerning the environment or labor. Like all of the other agreements with the exception of the GAFTA, the agreement offers special tariff reductions for agricultural products according to a specific calendar mentioned earlier.

#### ***d. Rules of Origin***

While the potential for rules of origin to distort trade is simple to identify in theory, empirical evidence is scant. It is easy to understand why. On the one hand, the rules' technical opaqueness makes it difficult to quantify the severity of particular rules of origin. For example, where the main text of a typical Association Agreement between the EU and a Barcelona process country is between 20–30 pages long, the annex covering the

rules of origin for thousands of individually mentioned products is close to 100 pages long. Moreover, one often requires detailed information about the industry to understand the true impact of a particular rule. On the other hand, even if one could accurately measure the severity of the rules, intrinsic empirical difficulties make it hard to isolate the impact of rules of origin; rules of origin are formulated and come into force concurrently with the preferential trading agreements, so it is exceedingly difficult to separate the impact of rules of origin separately from the impact of the trade deal itself.

Rules of origin may act as trade barriers via two main channels. First, they impose administrative costs on exporters. In this way they act as transactions costs that tend to offset the bilateral trade creation. Second, they may induce firms to switch suppliers in order to meet the rules of origin. In this way, they tend to exaggerate the classic trade diverting effect of preferential liberalization. The two effects are as follows.

**Transaction cost effect:** When a free trade agreement (FTA) is signed, two factors affect the bilateral trade between the partners. The bilateral tariff drops to zero, but firms need to prove 'origin' in order to get duty-free treatment. This leads to two simple points. First, the administrative burden of rules of origin tends to offset the impact of the bilateral tariff liberalization. Second, the burden of the Rules of origin -as-transaction-costs channel is limited by the level of the non-preferential tariff. After all, firms can avoid all the rules of origin administrative costs by paying the non-preferential tariff. This limits the potential for rules of origin to distort trade between the partners.

**Switching supplier effect:** When two countries sign a free trade agreement, they lower tariffs on bilateral trade while simultaneously establishing rules of origin. As per the classic trade-creation-trade diversion analysis, the FTA will lead to some supply switching from third nation suppliers to FTA suppliers; preferential tariffs change the relative price of imports from partner nations versus third nations and so naturally induce supply-switching in favor of partner-nation firms. The classic analysis only considers the impact of the preferential tariff. As noted above, however, rules of origin can also induce FTA-based firms to reduce their purchases of inputs from third nations.

Rules of origins in GAFTA and the JUSFTA conform to WTO specifications, whereas for the EU-Jordan and the EFTA-Jordan agreements, rules of origin are treated in accordance with the Pan European System of Cumulation. The GAFTA value added requirement is set at 40 percent, and there are two methods for calculating rules of origin. The first is based on the local value added approach. The other is the net cost approach, which subtracts specified imported expenses from the transaction price to determine the base for calculating the ratio of foreign to domestic content. An important feature of the program is the ongoing scheme for the elaboration of detailed preferential rules of origin for GAFTA-made products. This scheme adopted rules for full cumulation of origin among

the GAFTA countries. This means that materials obtained from, for example, Jordan, and incorporated into a product made in Egypt, may be considered as if they were obtained in Egypt. Finally, the program also calls for the need for harmonization of preferential rules of origin to comply with the Euro-Mediterranean free trade agreements underway.

In order to qualify for duty-free treatment under the US-Jordan FTA, the goods imported into Jordan must be made entirely in the United States or, if any third-country materials are used, those materials must be “substantially transformed” into US origin products as a result of a US manufacturing or processing operation. The FTA requires that 35 percent of the customs value of the imported product must be attributed to US origin materials and/or to US direct costs of processing. However, the cost or value of Jordanian-origin materials incorporated in the imported product can be counted, but only up to 15 percent of the customs value of the good. To ensure that US qualifying goods are not mixed with non-qualifying goods while en route to Jordan, the FTA contains a “direct transport” requirement. This will require proof that the goods are shipped directly from the United States to Jordan, with certain exceptions.

The EUROMED Agreement's Rules of Origin include the three criteria defined below with emphasis on the specified process criterion of origin. It confers origin to the manufactured product based on predefined lists of working or processing operations when carried out on non-originating input materials. The added-value criterion requires transformation to incorporate added-value equivalent to or greater than 40 percent. Debate is continuing among member states of the League regarding the calculation of such value; the issue is whether to include the packaging activities with the production process (i.e. calculate the added-value at the final ex-factory value of the good) or to consider strictly the production process (i.e. calculate the added-value at the end of the production cycle excluding packaging and similar activities). The specified process criterion of origin requires that the manufactured product be subject to specific workflow or processing operations carried out on non-originating input materials. The change in tariff classification criterion considers the change in tariff classification of the "Harmonized System (HS) of Tariff Nomenclature". As a general rule, imported materials, parts, or components are considered to have undergone substantial transformation when the resulting manufactured product is classified at a different HS level from the non-originating inputs.

The EU is Jordan's main source of imports, accounting for around one third of Jordan's total imports. It consists mainly of machinery, transport material, and chemical and agricultural products. Jordanian exports concentrate on a few products, most of which have poor international market prospects and thus reduce Jordan's export competitiveness: mineral products 25%, chemicals 50%, and oil 12 %. The impact of this trade liberalization on Jordanian businesses depends on the magnitude of existing protection from foreign competition, as well as the effect that bilateral trade liberalization will have on the cost of their inputs. A significant proportion of Jordanian goods and products qualify for preferential treatment in the long term. Depending on the tariff group classification of the

imported input product, rules of origin requirements will raise the cost of Jordanian industries trying to meet the requirements by shifting to higher cost inputs from domestic sources or to benefit from the “cumulation” principle, directly importing them from the EU. Moreover, duty drawback practices are to be terminated on the end of the fourth year of the Agreement effectiveness date, thus significantly impacting the costs of production carried on by respective manufacturers. The Association Agreement may therefore be trade diverting if there is a shift from lower to higher cost sources of supply, rather than having the desired effect of being trade creating by shift production from higher to lower cost sources of supply.

However, EU companies may find good opportunities in importing production inputs from Jordan, as they benefit from the immediate tariff liberalization that Jordanian products would enjoy when imported to the EU. It is worthwhile to note that in the long run the effects are highly dependent on the form of the structure of the industry and its market.

In addition to these requirements, there are a wide variety of factors affecting access to the EU market. These may be grouped into the following categories: (1) Regulatory requirements covering: product standards, testing and certification procedures in general, phytosanitary requirements for agricultural products, registration requirements for pharmaceutical products, business practices, competitive behavior, consumer protection and permissible marketing practices; and (2) Market driven requirements such as: cultural, economical, and social differences and conditions that affect consumer behavior and thus, reflect on the sustainability of product presence and success in any one given market.

The Jordan-US FTA opened many opportunities for Jordan to expand its exports to the U.S. market. The greatest opportunities occurred in the emerging export products that have the highest degree of trade compatibility with the United States. These products include Dead Sea cosmetics, orthopedic appliances, rugs, and machinery. Although Jordan’s traditional exports are somewhat less compatible with U.S. foreign needs, there are nevertheless opportunities in such products as apparel and clothing accessories, aluminum bars and rods, animal feed, and insecticides. Among the small and medium size exports, there are opportunities in such wide-ranging products as olive oil, luggage, pharmaceuticals, household appliances, ceramic sinks and wash basins, paints and varnishes, jewelry, awnings, kitchenware, fruit and vegetable juices, chocolate, and antibiotics. Jordan’s ability to exploit these opportunities depends on several key factors determining its international competitiveness. Its macro dynamics are favorable to investment, but there are mixed reviews on its factor and infrastructure costs, and movements in the real exchange rate has undermined Jordan’s competitiveness relative to nearly all other Middle Eastern countries.

Second, U.S. exports to Jordan grew as a result of the FTA. Since there is a large amount of two-way trade in many traded products, the elimination of trade barriers between Jordan and the United States will favor the most efficient producers. In Jordan, inefficient industries with particularly high levels of protection will be most vulnerable, and the FTA will liberate valuable resources from less productive sectors for use in Jordan’s true comparative advantage industries.

Jordan's services sectors are considerably more protected. The FTA will therefore open more new opportunities for U.S. businesses in Jordan than for Jordanian businesses in the United States. While these service inflows will lower Jordan's current surplus in the services account, they bring with them much needed FDI associated with technological transfers and provide other types of externalities to the Jordanian economy. Recognition of these changes will help Jordanian businesses adjust and exploit these new opportunities under the FTA.

In the EFTA agreement, origin is confirmed when the good is wholly obtained or produced in the territory of a Party; or when each of the non-originating materials used in the production of the good undergoes an applicable requirement as set out in the specific rule for that good, and the good satisfies any other applicable requirement set out in that rule, as a result of production in the territory of a Party; and the good satisfies other particular circumstances as set out in Protocol B of the Agreement. The rules of origin enable bilateral cumulation of origin between the Parties; i.e. materials originating in a Party shall be considered as materials originating in the other Party when incorporated into a product obtained there. The Agreement also enables diagonal cumulation of origin, subject to certain conditions.

#### ***e. Non-Tariff Barriers***

Although the GAFTA program calls for a schedule to reduce non-tariff barriers, at this point the GAFTA countries have not tackled these barriers. A committee on non-tariff barriers has agreed on a list of goods whose imports are prohibited for religious, health, environment, and national security reasons, and the list is to be reviewed on a yearly basis. The committee is also supposed to sort out other goods submitted by members and start negotiations for their elimination.

The US-Jordan trade agreement eliminates all tariff and non-tariff barriers to bilateral trade on virtually all industrial goods and agricultural products within ten years. It is the first trade agreement to include substantive provisions addressing electronic commerce, a step that should help advance a global free trade agenda in a sector critical to American high technology and multimedia companies. Jordan becomes the first country to legally bind itself to no customs duties on electronic transmission (WTO members currently only have political commitments in this area).

One of Jordan's main commitments under the EU-Jordan Association Agreement is the removal of non-tariff barriers. To that end, no new quantitative restriction on imports and measures having equivalent effect shall be introduced in trade between the Community and Jordan. In addition, quantitative restrictions on imports and measures having equivalent effect on trade between the Community and Jordan shall be abolished upon the entry into force of this Agreement. Finally, the EU and Jordan shall not apply to exports between themselves either customs duties or charges having equivalent effect, or quantitative restrictions or measures having equivalent effect.

## VII. Conclusions and Policy Recommendations

Jordan is committed to liberalize its foreign trade in order to create a more competitive environment. However, Jordan has committed itself to various agreements and sometimes could not live up to meet these commitments. In general, Jordan has demonstrated a great deal of adherence to commitments as far as tariff reductions are concerned. Regarding services and procurements the story was less rosy.

Failure to meet stipulated commitments emanates for different reasons, which we have tried to demonstrate in this study. For example, delays in fulfilling the GAFTA agreement were blamed on other partners. There were many NTBs which were systematically enforced in other Arab countries, and Jordan, in response to its private sector pressure, had to respond and take what could be described as countervailing measures. For example, Jordanian pharmaceutical products were some times banned from entering other Arab countries such as Egypt as a result of the NTBs, which were arbitrarily enforced.

As far as the JUSFTA agreement is concerned, Jordan has failed to meet its commitments in the IPR where the agreement stipulated the adoption of copyrights within two years. Jordan made that commitment but it lacks the technical staff and the institutional capacity to meet what has been committed to; leaving aside the genuine desire within the government apparatus to adhere to the IPR as agreed upon. Currently, this is one of the contentious issues between the US and Jordan; and the MIT is trying to enforce the regulations which govern such issue. The government in that regard passed several laws, but the parliament sometimes delayed and amended the draft laws as submitted, hence creating further delays in its implementation. The private sector from its side has lobbied the parliament not to pass such a law based on the ground that the country is too small and cannot allocate resources to R&D. Other aspects in this agreement cover labor and environmental issues, while other agreements are silent about these issues.

With regard to the association agreement, Jordan was unable to meet its commitments in liberalizing government procurement. The agreement was unclear about this issue and the government of Jordan was not sure as to how to proceed with the details of such an agreement before signing the procurement agreement with the WTO. Therefore, vague clauses and weak institutional capacity explain the inability to meet the commitments.

As far as the rules of origin are concerned, the general principles that guide the process are quite similar. However, the method that each trade partners adopts to estimate the domestic value added varies. The EU rules of origin are causing considerable controversy in Jordan, and the private sector has been demanding from the government to re-visit it in order to facilitate access to the EU market.

The timing of the liberalization of foreign trade is crucial. Particularly important is the fact that Jordan is committed to a full fledged liberalization with the US by 2010, while a free

trade area with EU countries will only be established in 2014. This causes confusion and many observers wonder whether Jordan is going to have free trade with the US while it still imposes tariffs and restrictions on EU members.

Finally, weak outcomes in terms of exports and imports (trade deficit) of the various agreements over the past five years discourage policymakers from exerting efforts in order to fulfill the government's commitments. Furthermore, several stakeholders utilize these weak results to protest against further liberalization processes. In other words, there is no wide political support for more trade liberalization.

The main recommendation of this study would be to focus on streamlining the existing commitments and to draw a strategic goal regarding the services sectors. There is a need to enhance the institutional capacity that follow-up and monitor the implementation of the various trade agreements. Furthermore there are several governmental institutions assuming tasks which are not part of their mission, a mere example would be the fact that the EU agreement is hosted at the MoP and not at the MIT where it should be.

It was also clear that most of the RTAs were signed by government officials with little consultation with the private sector which is primarily concerned with such agreements. It is highly recommended that the private sector should be strengthened and represented to reflect the various sectors' needs. A technical unit funded by the government to assist and monitor the various agreements can be useful to advocate the culture of foreign trade and to answer the many questions that emanate from various stakeholders, be it private sector or civil society, in order to gain the political support to further trade liberalization measures.

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# Annex I

Table A.1. 2005 Concessions within each Agreement Jordan is member

Agreement	Partner	Date of Entry into Force	Coverage	Concessions by 2005			Rules of Origin	IPR	Environment	Labor	Services	Implementation of Full Free Trade
				Industrial Goods		Agriculture Goods						
				Jordan	Partner	Jordan	Partner					
<b>GAFTA</b>	16 Arabic country	*01/01/1998	Goods	100% free *	100% free	100% free	100% free	40% of VA, Accumulation (20%,20%), certificate	NO	NO	Negotiations stage => WTO +	01/01/2005
<b>US-FTA</b>	USA	17/12/2001	Goods & Services	MFN, Gradual Liberalization	98% free	Calendar	Gradual Liberalization of Tariffs and Quotas	35% of VA, Accumulation (20%,15%), No certificate	YES	YES	WTO +	01/01/2010
<b>EU-AA</b>	EU	05/01/2002	Goods	MFN, Gradual Liberalization	100% free	Calendar	Calendar with Quotas	Specific (Accum: Pan-Euro Med), Euro 1 certificate	YES	NO	WTO	2014***
<b>EFTA-FTA**</b>	EFTA countries	**09/01/2002	Goods	MFN, Gradual Liberalization	100% free	Calendar	Protocol with each country	Specific (Accum: Pan-Euro Med), Euro 1 certificate	YES	NO	WTO	2014

\* Syria, Lebanon, Palestine, Egypt, Sudan, Tunisia, Morocco, Libya, Qatar, Saudi Arabia, Oman, UAE, Bahrain, Kuwait, Iraq, Yemen

\*\* EFTA countries are Switzerland, Liechtenstein, Norway, Iceland

\*\*\* 2014 is the official date of implementation within the text of Agreement, but it need to take in account that the AA as it is part of the Barcelona process, the implementation may take place in 2010

**Table A.2. Difference between the QIZ and the FTA**

<b>QIZ</b>	<b>FTA</b>
Exported goods are duty free	Goods will initially be 70% duty-free. Thereafter, duties will be dismantled according to a schedule and over the span of 10 years.
Only industrial activities are covered in the program.	Industrial activities and services are covered
35% value added can be divided among various parties, including 8% Israeli inputs.	35% value added has to be strictly Jordanian.
Jordanian goods are exported to the US in accordance with the FTI between the US and Israel.	Jordanian goods will be exported to the US in accordance with the US- Jordan FTI.
Both direct and indirect costs contribute to production costs.	Only direct are calculated into production costs.
Jordanian and Israeli	
Manufacturers can share these costs.	

**Table A.3. Regional Trade Agreements that Jordan is Member - Bilateral**

<b>Number</b>	<b>Agreement</b>	<b>The Other Party</b>	<b>Date of entry into force</b>	<b>Coverage</b>
1	Economic Cooperation	Saudi Arabia	October 30, 1962	Trade in: Goods
2	Trade Cooperation	Pakistan	1965	Trade in: Goods
3	Trade Cooperation	Sri Lanka	1966	Trade in: Goods
4	Trade Cooperation	South Korea	1972	Trade in: Goods
5	Trade Cooperation	Taiwan	1973	Trade in: Goods
6	Trade Cooperation	Somalia	August 7, 1973	Trade in: Goods
7	Trade & Economic Cooperation	Hungary	1975	Trade in: Goods
8	Trade Cooperation	Mexico	1975	Trade in: Goods
9	Trade & Economic Cooperation	India	1976	Trade in: Goods
10	Trade Cooperation	N. Korea	1979	Trade in: Goods
11	Trade Cooperation	China	1979	Trade in: Goods
12	Trade Cooperation	Turkey	1980	Trade in: Goods
13	Trade & Economic Cooperation	Qatar	August 7, 1980	Trade in: Goods
14	Trade Cooperation	Ethiopia	1984	Trade in: Goods
15	Trade Cooperation	Djibouti	April 3, 1984	Trade in: Goods
16	Trade & Economic Cooperation	Canada	1986	Trade in: Goods
17	Trade & Economic Cooperation	Oman	February 18, 1986	Trade in: Goods
18	Economic Cooperation	Kuwait	October 19, 1986	Trade in: Goods
19	Trade & Economic Cooperation	Australia	1988	Trade in: Goods

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<b>Number</b>	<b>Agreement</b>	<b>The Other Party</b>	<b>Date of entry into force</b>	<b>Coverage</b>
20	Trade Cooperation	Brazil	1989	Trade in: Goods
21	Trade Cooperation	Libya	January 20, 1992	Trade in: Goods
22	Trade Cooperation	Lebanon	October 1, 1992	Trade in: Goods
23	Trade Cooperation	Malaysia	1994	Trade in: Goods
24	Trade Cooperation	Palestine National Authority	January 26, 1995	Trade in: Goods
25	Trade Cooperation	Yemen	June 18, 1995	Trade in: Goods
26	Trade & Economic Cooperation	Israel	1995	Trade in: Goods
27	Trade & Economic Cooperation	Uzbekistan	1995	Trade in: Goods
28	Trade Cooperation	Iran	1995	Trade in: Goods
29	Trade Cooperation	Romania	1995	Trade in: Goods
30	Trade Cooperation	Philippine	1996	Trade in: Goods
31	Trade Cooperation	Vietnam	1997	Trade in: Goods
32	Trade Cooperation	Algeria	January 31, 1999	Trade in: Goods
33	Free Trade Area	Tunisia	June 16, 1999	Trade in: Goods
34	Free Trade Area (list)	Morocco	October 3, 1999	Trade in: Goods
35	Free Trade Area (list)	Egypt	December 28, 1999	Trade in: Goods
36	IT & Trade & Economic Cooperation	UAE	May 21, 2000	Trade in: Goods
37	Trade Cooperation	Bulgaria	2001	Trade in: Goods
38	Free Trade Area	UAE	November 24, 2001	Trade in: Goods
39	Free Trade Area	USA	December 17, 2001	Trade in: Goods & Services & IPR
40	Trade Cooperation	Ukraine	April 23, 2002	Trade in Goods
41	Association Agreement	EU	May 1, 2002	Trade in: Goods & IPR +
42	Free Trade Area	Syria	May 21, 2002	Trade in Goods
43	Free Trade and Economic Cooperation	Bahrain	May 29, 2002	Trade in: Goods
44	Free Trade Area	EFTA	September 1, 2002	Trade in: Goods & IPR
45	Trade Cooperation	Slovakia	June 24, 1905	Trade in: Goods
46	Free Trade Area	Sudan	February 6, 2003	Trade in: Goods
47	Trade Cooperation	Guiana	Not Yet	Trade in: Goods
48	Trade & Economic Cooperation	Bella Russia	Not Yet	Trade in: Goods
49	Free Trade Area	Singapore	Not Yet	Trade in: Goods & Services & IPR +

## **Annex 2. Companies that Enjoy Monopolies**

### *Jordan Phosphate Mines*

The company has exclusive mining rights of Phosphate for four different mines in Jordan, which are granted based on Natural Resources Law No. 12 for 1968. Mining rights are usually granted for thirty years and are subject to renegotiations and renewal once they expire. The company also has the exclusive right (indefinite term) to import, store and sell explosive materials used in the local market for mining and quarrying purposes.

### *Jordan Petroleum Refinery Company*

The Concession Law No. 19 for 1958 was issued to approve the concession agreement signed between the Jordanian Government and the Petroleum Refinery Company. The term of concession grants the company the exclusive right to refine oil and sell in Jordan. The company alone shall have the right to import oil and Hydrocarbon necessary to the local market. The concession expires in 2008.

### *Arab Potash Company*

The Arab Potash Company has a concession agreement, which was granted in 1958 for 100 years according to Law No. 16 for 1958, issued to approve the concession agreement. The company has the exclusive right to mine and extract Dead Sea minerals from the Dead Sea. The concession expires in 2058.

### *Jordan Electric Company*

The Jordanian Electric Co. has a concession agreement that was granted in 1961 for fifty years according to a Law approving the concession agreement. The company has exclusive right to distribute electric power to Amman, Zarqa, Madaba, and Salt areas and suburbs. The concession expires in 2012. The company is not engaged in international trade activities and does not have exclusive right to generate power. Its main objective is to distribute electric power in the above-mentioned areas (natural monopoly with regard to power distribution at the local level).

### *Irbid Governorate Electric*

The Irbid Electric Co. has a concession agreement that was granted in 1961, for fifty years, according to Law No. 1 for 1961 approving the concession agreement. The company has the exclusive right to distribute electric power to Ajlun, Irbid, Mafraq, and Jerash areas. The concession expires in 2011. The company is not engaged in international trade activities and does not have exclusive right to generate power. Its main objective is to distribute

electric power in the above-mentioned areas (natural monopoly with regard to power distribution at the local level).

## **The most important companies amongst these have been:**

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The Arab Potash Company has a concession agreement, which was granted in 1958 for 100 years according to Law No. 16 for 1958, issued to approve the concession agreement. The company has the exclusive right to mine and extract Dead Sea minerals from the Dead Sea. The concession expires in year 2058.

### *Jordan Electric Company*

The Jordanian Electric Co. has a concession agreement that was granted in 1961 for fifty years according to a Law approving the concession agreement. The company has exclusive right to distribute electric power to Amman, Zarqa, Madaba, and Salt areas and suburbs. The concession expires in 2012. The company is not engaged in international trade activities and does not have exclusive right to generate power. Its main objective is to distribute electric power in the above-mentioned areas (natural monopoly with regard to power distribution at the local level).

### *Irbid Governorate Electric*

The Irbid Electric Co. has a concession agreement that was granted in 1961, for fifty years, according to Law No. 1 for 1961 approving the concession agreement. The company has the exclusive right to distribute electric power to Ajlun, Irbid, Mafraq, and Jerash areas.

activities and does not have exclusive right to generate power. Its main objective is to distribute electric power in the above-mentioned areas (natural monopoly with regard to power distribution at the local level).