

## The Impact of Jordan's Accession to the World Trade Organization on the Jordan Economy

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### Abstract

This study aims to show the impact of Jordan's accession to WTO on the Jordanian economy. The descriptive analytical approach was used to conduct this study, where, qualitative data was collected from published articles in Scientific Journals in order to identify the WTO in terms of objectives and membership conditions. The analytical side of this study relies on quantitative data related to a number of economic indicators namely; exports volume, foreign investments, foreign trade, inflation rates, and GDP rates, these data were collected from the reports issued by the official agencies such as the Central Bank of Jordan and Ports Corporation.

The main findings of the study show that Jordan's accession to WTO has a positive impact on exports, foreign trade and foreign investments, and no impact on inflation rates.

The researcher suggested exploiting the membership in WTO to build other relations with the members, such as, educational, tourist and therapeutic relations.

### • Introduction:

The World War II resulted in many economic, political, and geographical and social consequences, where defeated Germany was divided to two countries by Berlin Wall, and Europe has lost the world leadership that was shifted to the U.S and Soviet Union. For the social level, millions of people have become displaced, in addition of the killing of nearly 55 million, most of them civilians. While, the economical results of the War were; destroy most of factories in Europe, which led to shrinking the industrial production, and sabotage forests and farmland, and the deterioration of the value of European Currencies, and the emergence of the dollar as currency of global reference. These outputs and others have led to low standard of living for most of the world's population; the accumulation of debts owed to Europe for the United States and rising prices, especially food prices.

There is no doubt that rebuilding what was destroyed by this War in Europe requires the obtaining of raw materials, money, and manpower urgently. So, in such economic environment, victorious countries (the great countries) started in developing rules and principles for the post War economic. These endeavors resulted in the establishment of the International Monetary Fund and the World Bank for Reconstruction and Development in the Year 1944, through signing Breton Woods's agreement which has identified the tasks of IMF to organizing the banking system in the countries, and identifying the exchange rates of currencies. While the main task of the World Bank for reconstruction and development was assist Europe in reconstruction. And after that, Europe has achieved a great deal of economic boom, the bank became known as the World Bank, and the bank's main task became support the global banking system. Then ideas were occurred, calling for the need to find an international system to regulate the trade in goods between the countries, which resulted in the establishment of the World Trade Organization.

This study comes to discuss the world economy environment that led to the establishment of this organization, and the benefits and disbenefits of Jordan accession to WTO.

### • Problem statement and questions:

Through the refer to the related literature one can find that the economic impacts of accession of developing countries to the World Trade Organization has been evaluated as a negative decision, and as a positive beneficial decision by other authors. Therefore, the problem of this research takes the following statement: "Jordan received significant economic benefits, due to joining the World Trade Organization".

This problem was discussed according to the following questions:

1. Was Jordan's accession to the WTO useful for Jordanian economy?
2. How welcome the major industrialized countries about Jordan's accession to the WTO.
3. What were the economic benefits due to Jordan's accession to the WTO?

### • Study significance:

According to the conditions and objectives of the World Trade Organization, dilemma of expectation to the results of accession to this organization fluctuates between two hard factors; the first one relates in the ability

and willingness of a state to be a member in this organization, while the second one relates to the extent of acceptance the country's accession to the WTO by the developed industrial countries. Therefore, the state may take long time and high costs to rebuild its economic environment, includes modifying the laws, strong economic infrastructure in order to satisfy terms and conditions of WTO.

The importance of this study stems from its attempt to assess the benefits of accession to the WTO compared by the efforts of the country to be an accepted member in the Organization.

- **Study objectives:**

This study aims to achieve the following objectives:

- Definition of the World Trade Organization and membership conditions.
- Recognize the benefits derived by Jordan due to joining the World Trade Organization.
- Identify the economic effects of the accession represented by the growth in the volume of exports and attract foreign investment and foreign trade volume.

- **Methodology:**

This study was conducted according to the descriptive analytical approach by reference to the related literature for the theoretical side, and by analyzing some of macroeconomic indicators of Jordanian economy for the practical side.

- **Theoretical background and previous studies:**

- **Theoretical Background:**

The idea of organizing the trade of commodities and services between countries of the globe has started after signing Breton Woods Agreement. The United Nations has adopted these ideas through holding a conference in Havana in 1948, which resulted to establish the General Agreement on Trade and Tariffs (GATT). The aim of liberalization of international trade, and reduction of Tariff's barriers in order to reach a liberalized economy. 23 countries has signed on the convention in that time, the successively countries accession to this convention (Crowley, 2003).

After the massive economic and technological developments that the world has witnessed, which were of inevitable results of globalization, and this development has reached GATT, where it was ended to the signing the agreement of establishing World Trade Organization (WTO). The agreement was signed after several rounds of talks and negotiations that led to the signing in the Uruguay Round of talks on April 15, 1994 to become an alternative organization to GATT (Subramanian and Wei, 2006).

The goals of the World Trade Organization were in the line with the founding principles, which are: the principle of non-discrimination between member states or favoring a country from the rest of the members (Wade, 2003). In addition to not requiring the rest of the member states to grant a trading advantage similar to what the state gives to other member state. The agreement has focused also on relying on custom tariffs rather than quantitative restrictions as a kind of transparency, where countries that want to protect the national industry, or want to address the deficit in the balance of payments, will depend on the price policy, and tariff quotas, and not on quantity such as import quota.

Also, the WTO has adopted an international negotiate framework suitable to implement the provisions and dispute settlement. Moreover, the most important principle were adopted by the International Trade Organization, is the granting to the developing countries preferential trade relationships with advanced countries, in order to support the economic growth plans of these countries, and increase their proceeds of foreign currencies. The principle of reciprocal benefit requires the need for the state to reduce tariff barriers in the same level of reeducation granted by another state (Bagwell and Staiger, 2011).

Jordan became a member in WTO in 11/04/2000, because of the introduction of a series of reforms to the trading system, including changes in the legal environment in the line with the agreements of the organization. Where has been modified and development, intellectual property laws, and laws relating to specifications and standards, agriculture and protect domestic production, and sales tax, customs, import and export, as well as the foreign investment regime ([www.mit.gov.jo/En/pages/default.aspx](http://www.mit.gov.jo/En/pages/default.aspx)).

In order to assess the advantages and disadvantages of the accession of any country to WTO, it is beneficial to recall the functions of WTO as mentioned in agreements, these functions are as follows:

1. Facilitating the implementation and operation and administration, and further the objectives of this agreement and of the multilateral agreements, and also, providing the framework for the dimension mentioned above for the particular Trade Agreements. From the current researcher point of view, the accession to WTO may help the members to overcome any barriers in bilateral agreements.

2. The WTO shall provide the forum for negotiations among its members concerning their multilateral trade relations in matters dealt with under the agreement in the annexes of this agreement. Here, the current researcher sees to establish other relationships, such as educational, training, experience exchange and others.
3. The WTO shall administer the understanding on Rules and Procedures Governing the Settlement of Disputes. From the perspective of the current researcher, this will lead to great convergence between countries, and the resulting positive effects.
4. The WTO shall administer the Trade Policy Review Mechanism.
5. With a view to achieving greater governance in global economic policy-making, the WTO shall cooperate, with the International Monetary Fund and with the International Bank for Reconstruction and Development and its affiliated agencies. The current researcher sees that this function helps countries in their talk with these parties.

▪ **Previous studies:**

1. Qarni Study (2011), entitled: “Four years after joining the World Trade Organization”.

This study aimed to discern the bad economic effects suffered by the Saudi economy by the Kingdom’s accession to the World Trade Organization, where the researcher believes that the organization is considered as a form of colonialism, which aims to dominance the major powers, especially the United States on the world economy, and crush the poor nations, and the imposition of impossible conditions for accession to the WTO.

The researcher justifies his viewpoint through follow-up of the Saudi Stock Market. Within five years ago, it is depressing market goes horizontal lines, close to retreat despite the excellent economic situation in Saudi Arabia, and the increasing cash reserves in the country, and reduce the public debt, but the market still suffering of decline. Then, the researcher asks: Where is the promised foreign investment? But in fact, trading volume decline in 2010 by 40% from it was in 2009, in addition to the liquidity out of the market.

The current researcher believes that WTO was founded to organize and manage the international trade not stock markets, which are subject to many factors, such as; financial results of listed companies, Dividend Policy, and etc. also, the problem of foreign investment, the current researcher believes that business culture in Saudi Arabia may form an obstacle in this aspect.

2. Bashier and Talal Study (2007), entitled: “Forecasting Foreign direct Investment Inflow in Jordan. Univariate ARIMA Model”.

The study aimed to develop a Univariate time series model to predict the foreign direct investment inflow in Jordan over the period 2004 – 2025. The study was conducted on an annual sample time series date for the foreign direct investment in Jordan during the period 1976 – 2003. The data were collected from circulars issued by the Central Bank of Jordan. The researchers deliberately chosen the study period because this period came after signing the Jordan Israeli Peace Agreement in 1994, joining the European partnership, joining the WTO, establishing the Free Trade Zones, and passing new laws for encouraging and attracting foreign direct investment. The results showed that foreign direct investment inflow has increased from JD (0.1) million in 1971 to JD (1774.5) billions in 2003. Accordingly, the forecasting results showed an increasing pattern of foreign direct investment over the forecasted period. In the perspective of the current researcher, the increase in foreign investment is one of the benefits of joining to WTO.

3. Rose Study (2004) entitled: “Does the WTO make Trade More stable?”

The study aimed to examine the hypothesis that membership in the World Trade Organization (WTO) and its predecessor the General Agreement on Tariffs and Trade (GATT) has increased the stability and predictability of trade flows. The study used a very wide data for 175 countries covering the period 1950 – 1999, in order to reveal the effects of GATT / WTO membership on the coefficient of variation in trade computed over 25 – year sample. The results showed a poor evidence that membership in the GATT / WTO has a significant effect on trade volatility.

• **Analytical side:**

In this side, the researcher has examined some of microeconomic indicators that can show the advantages or disadvantages of Jordan’s accession to WTO. The figures of these indicators covered the period 1995 – 2004

(before and after the joining). The reason for not adding later years is that Jordan has entered into other agreement on the first of May 2002. The selected indicators for the purpose of this study were: the change in exports, foreign investment, foreign trade, inflation related and GDP growth rate.

Table No. 1 below, shows the annual rate of change of these indicators for the period 1995 – 2004.

**Table No. 1 Annual Rate of Change %**

| indicators          | 1995      | 1996      | 1997      | 1998      | 1999      | 2000       | 2001      | 2002       | 2003       | 2004      | Rate of period |
|---------------------|-----------|-----------|-----------|-----------|-----------|------------|-----------|------------|------------|-----------|----------------|
| Exports             | 26.5      | 3.50      | 2.60      | -1.90     | 0.50      | 2.80       | 25.1<br>0 | 15.10      | 7.60       | 37.6<br>9 | 11.95          |
| Foreign Investments | -9.56     | 29.0<br>6 | 63.6<br>7 | 24.8<br>4 | 18.9<br>4 | 138.0<br>1 | -6.68     | -<br>67.88 | -<br>36.29 | 94.8<br>0 | 29.03          |
| Foreign Trade       | 13.9<br>0 | 13.6<br>0 | -2.60     | -5.40     | -2.00     | 17.70      | 10.3<br>0 | 6.40       | 11.10      | 41.0<br>0 | 10.40          |
| Inflation           | 2.40      | 2.40      | 3.00      | 3.10      | 0.60      | 0.70       | 1.80      | 1.80       | 2.30       | 3.40      | 1.92           |
| GDP growth rate     | 5.40      | 2.10      | 3.10      | 2.90      | 3.10      | 3.90       | 4.90      | 4.80       | 3.30       | 7.70      | 4.04           |

Source: Central Bank of Jordan, annual Reports 1995 – 2004 cited in Kaddumi, 2006.

The table above shows that the exports annual rate of change, was high in 1995, then started to retreat since 1996 until 1999, then increased in the year of Jordan's accession to WTO, and then went to rise in subsequent years up to 37.69% in 2004, which means that Jordan has benefited by joining WTO.

For foreign investment, the change rate was minus 9.65 in 1995, then started to increase in the two subsequent years, then returned back to decline in 1998 and 1999, but it jumped dramatically after Jordan's accession to WTO to achieve increase amounted to 138% in the year 2000, also, it was exceeded the declines that happened in 2002, 2003, achieving increase in 2004 reached to 97.8, and this can be considered as interest for Jordan due to accession to WTO.

As for the ratio of the change in foreign trade, it was somewhat high, in the first two years and then fell sharply in the next three years, it has become negative to mean that foreign trade has declined, this situation remained in place until the year 2000, the year of Jordan's accession to WTO, where the ratio rose from -2% to 17.7%, and this ratio has reached to 41% in 2004, which means a positive effect for joining WTO on foreign trade in Jordan.

While for the two indicators; inflation and GDP, they show a stable trend in most of the years, except the year 2004, where GDP growth rate rose to 7.7%.

In order to verify these ratios, the researcher presents table No. 2 below to show the development of Aqaba Port traffic, because Aqaba is the only port in Jordan that used in foreign trade and export, as well as land and air export.

**Table No.2 Development of Aqaba Port Traffic (1995 – 2004)**

| Year | No. of ships | Exports in Tons | Changes   | Rate of change % |
|------|--------------|-----------------|-----------|------------------|
| 1995 | 2,383        | 6,679,115       |           |                  |
| 1996 | 2,735        | 7,396,376       | 717,261   | 10.7             |
| 1997 | 2,997        | 7,534,814       | 1,328,438 | 1.9              |
| 1998 | 2,608        | 7,310,256       | -224,558  | -3.0             |
| 1999 | 2,351        | 7,480,047       | 169,791   | 2.3              |
| 2000 | 2,505        | 7,192,948       | -287,099  | -3.8             |
| 2001 | 2,673        | 7,791,443       | 598,495   | 8.3              |
| 2002 | 2,789        | 8,872,683       | 1,081,240 | 13.9             |
| 2003 | 2,694        | 8,239,880       | -632,803  | -7.0             |
| 2004 | 2,888        | 8,770,887       | 531,007   | 6.4              |

Source: Ports Corporation, 2011, Changes and rate of change computed by the researcher.

Notably given the table above that the volume of exports, measured in tons has begun to rise to the highest

proportions in the years since Jordan's accession to the World Trade Organization, with the exception of 2003, which recorded a rate of decline 7%, and then returned to rise in 2004. Therefore, one can say that joining WTO led to revitalization of the Port of Aqaba movement represented by the maritime export.

- **Results and recommendations:**

- **Results:**

The main results of this study were as follows:

1. Jordan's exports have been affected positively, due to Jordan's accession to WTO.
2. Jordanian foreign trade has been affected positively, due to Jordan's accession to WTO.
3. The volume of foreign investments in Jordan increased after joining WTO.
4. There was a limited impact on GDP from joining WTO.

- **Recommendations:**

The researcher presents some recommendations for the policy makers in Jordan.

Membership in WTO can be exploited in building different relations with several countries, such as educational relations, tourist relations, therapeutic and etc.

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