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A general equilibrium analysis of Jordan's trade liberalization

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Abstract

With a computable general equilibrium model, we investigate Jordan's trade policies: implementation of the Uruguay Round (UR) and establishment of a Free Trade Agreement (FTA) with the European Union. Simulations suggest that the UR would improve Jordan's welfare and that the FTA, which presupposes the UR, would bring about further improvements in Jordan's welfare. Under these trade liberalization measures, the chemical and the agricultural sectors would expand while the nonmetal mineral sector would contract. © 2001 Society for Policy Modeling. Published by Elsevier Science Inc.

Keywords: Computable general equilibrium model; Trade liberalization

1. Introduction

Recently, economic integration is rapidly proceeding in two aspects: world-wide trade negotiations and regional economic integration. Among the latest achievements of the economic integration, the former is represented by the Uruguay Round (UR) in April 1994 and the latter by the regional integration within and around the European Union (EU).

These measures of trade liberalization are applied, of course, to developing countries like Jordan. Jordan will implement the UR agreements and furthermore currently plans to establish a Free Trade Agreement (FTA) with the EU. Jordan, which has kept strong trade barriers, would undergo important changes by the UR

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implementation and the FTA establishment. How will these trade measures affect Jordan?

A computable general equilibrium (CGE) study of the UR for the Middle East and North Africa (MENA) region was made by Diwan, Yang, and Wang (1995). The studies by Francois, McDonald, and Nordström (1995) and Harrison, Rutherford, and Tarr (1995) covered the UR on the MENA region. Impacts of the FTA with the EU on Morocco were analyzed by Rutherford, Rutström, and Tarr (1993). However, as far as the author knows, there has been no analysis about impacts of trade liberalization measures, such as the UR and the FTA, for Jordan.

To investigate impacts of the UR and the FTA with the EU, we develop a CGE model and perform trade policy simulations for Jordan. We set two scenarios: (a) the UR implementation and (b) the FTA establishment with the EU. Our main findings are that implementation of the UR and the FTA with the EU would improve welfare of Jordan and that the chemical and the agricultural sectors would expand most significantly while the nonmetal mineral would shrink most heavily.

This introductory section is followed by Section 2, which explains our CGE model and simulation scenarios. Section 3 examines the simulation results, and Section 4 concludes our paper.

2. The CGE model and simulation scenarios

Our CGE model describes a world economy with Jordan, the EU, and the rest of the world (ROW), each of which has nine sectors and a representative household. The model is essentially based on Devarajan, Lewis, and Robinson (1990). The model is calibrated to the GTAP database (version 3) and Jordan's input–output tables by JDS (1992). Government consumption, investment demand, and current account deficits are kept constant. Governments run zero deficits with lump-sum taxes on households.

Table 1
Size of sectoral value added, exports, imports, and tariff rates (%)

Sector	Abbreviation	Y/X	E/X	M/X	Y/GDP	Import tariff rates		
						Jordan	EU	ROW
Agriculture	AGR	57.0	14.7	37.2	8.0	11.4	36.8	35.9
Energy	ENG	17.2	6.7	31.8	2.1	13.7	0.3	4.5
Mining	MIN	53.3	72.6	10.1	4.6	7.2	0.0	4.5
Textile and apparel	TXA	23.4	35.8	139.1	0.6	41.0	10.1	25.0
Light manufacturing	LMN	28.9	14.7	57.3	5.2	15.6	9.5	23.4
Chemical	CHM	20.7	66.0	73.5	1.5	11.5	8.3	12.1
Nonmetal mineral	NMM	51.4	13.1	23.1	2.9	29.0	3.2	14.1
Other manufacturing	MAN	20.5	17.2	436.0	2.7	9.2	5.0	13.2
Service	SRV	57.4	20.6	4.4	72.4	0.0	0.0	0.0

Y: value added, E: exports, and M: imports. Source: JDS (1992).

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