

## Assessment of the impact of trade liberalization between Ukraine and Jordan

*The summary of the research conducted  
by the Institute of Economic Research and Policy Consulting  
For presentation at the public discussion "Evidence-based policymaking - impact  
assessments of potential Free Trade Agreements of Ukraine" on 18 November 2021*

Ukraine is a small open economy, which pace of economic development depends on how successfully the country is embedded in global economic relations.

Ukraine has established free trade zones (FTAs) with several important partners, including the European Union, the United Kingdom, and most CIS countries. Negotiations with Turkey are ongoing. In addition, the conclusion of new free trade agreements with several countries of the Barcelona Process, particularly with Jordan, has been under consideration. It is the **FTA with Jordan that is the focus of this study**.

Although Ukraine is physically larger than Jordan, **economically, the countries are comparable**. Ukraine's GDP per capita in PPP is only 1.3 times above the corresponding figure for Jordan, and when measured in nominal dollars, Ukraine even lags.

**The current balance of Ukraine's trade with Jordan is positive**; the existing trade is small and does not reach even 0.5% of Ukraine's total trade. It is also non-diversified. Ukraine's goods exports consist of agro-food products and metals, and exports of services are travels. Goods imports are dominated by chemical products, including fertilizers and medicines, while imports of services are dominated by business and government services.

One of the **reasons for the low level of trade is the relatively high tariff and non-tariff barriers** faced by Ukrainian exporters in the Jordanian market. The level of tariff protection of the Jordanian market is about twice as high as the protection of the domestic market of Ukraine. **The average MFN import duty rate in Jordan is 10%** compared to 4.5% in Ukraine. Traditionally, import rates for food products in Jordan are higher than non-food.

Jordan does not apply tariff quotas and has just a few non-ad-valorem import duty rates. That makes its tariff schedule transparent and predictable. However, **Jordan actively uses export and import licensing**, including non-automatic licensing, creating additional trade barriers. Moreover, some goods can be imported only by companies that will carry out further processing of these goods, and for specific categories, the only possible importer is pre-selected.

Although Jordan's product safety system is based on WTO principles, **exporters face difficulties obtaining certificates** of compliance with sanitary and phytosanitary requirements due to the availability of the necessary equipment, the duration of procedures and the recognition of certificates by Jordanian partners.

**Jordan has a relatively vast network of free trade agreements**, covering its key partners in terms of trade and geography. **The majority of FTAs - 7 out of 9 in force - relate to trade in goods**, and only two to trade in services. The signed FTAs belong to the classic agreements envisaging trade liberalization by reducing/abolishing import duties. However, they have limited coverage of non-tariff barriers to trade, particularly the mutual recognition of standards or their harmonization. The exception is the agreement with the EU, which provides for harmonization in the field of SPS.

Ukraine and Jordan have **different "competitiveness profiles"**, which allow each other to **complement trade flows**, thus providing benefits for both partners, given that a free trade area is created. Ukraine has a high level of competitiveness in the Jordanian market, primarily in metallurgy and animal and vegetable origin products, mainly oils and grains. Instead, Jordan has a competitive advantage in exporting chemical and pharmaceutical products to Ukraine, including medicines, paints, fertilizers, and fresh vegetables. On the other hand, products for which Jordan has the highest RCA indicators in the global market (textiles and clothing) do not show a clear comparative advantage in the Ukrainian market.

**The analysis of the short-term consequences** of the FTA between Jordan and Ukraine, based on the SMART model, shows a **positive but low direct impact of the liberalization of import duties on mutual trade between** partners. According to the model results, the trade balance between Ukraine and Jordan will remain positive, the growth rates of exports and imports will be comparable - about 4%. **Among Ukraine's exporters, sunflower and chicken producers benefit the most, while the most significant increase in imports will be recorded for fertilizers.**

Analysis based on the general equilibrium model gives similar results. The simulation shows that the **FTA with Jordan will have a positive**, albeit not very significant, impact on the **population's well-being and GDP**. In particular, there will be a shift in the trajectory of real GDP by 0.04% and welfare - by 0.05%.

**The critical scenarios for gaining these benefits are to achieve liberalization of access to the Jordanian market by reducing both import duties and non-tariff barriers to trade.** At the same time, even the full liberalization of Ukraine's import duties on trade with Jordan will have a minimal impact on real GDP and welfare and other macroeconomic indicators.

According to the model, the **most significant increase in income will occur for unskilled labor**. Still, these workers are also most affected by changes in the economy and will have to look for new jobs. However, the scale of redistribution of factors of production between sectors will be insignificant.

The increase in exports will exceed the increase in imports due to Jordan's higher level of protection than Ukraine and the trade structure. Under the proposed scenarios, **we can expect an expansion of the trade surplus**

**Services do not play a significant role in trade with Jordan.** Therefore, the model does not show significant changes due to the almost complete absence of current trade flows.

**Among the sectors, the biggest winners are consumer electronics, fruits and vegetables, and oils and fats.** It should be noted that the growth of oil exports is the expected result of

the FTA with Jordan based on all three tools for assessing export potential (analysis of the identified competitive advantage, partial equilibrium model and general equilibrium model).

In sum, the **analysis shows the positive impact of the FTA with Jordan on the economy of Ukraine.**

*The full version of the analytical report will be available on the websites of the Ministry of Economy of Ukraine and the Institute for Economic Research and Policy Consulting on 19 November 2021.*