COVID-19: Opportunities to Improve Jordan’s Terms of Trade

21 April 2020
1. Introduction

In terms of economics, the impact of COVID-19 on the global economy is unique. First, it hit most of the largest economies in the world (i.e. the G7 economies and China). These economies account for about 60% of the world’s GDP and 65% of global manufacturing exports (World Bank Database). Second, COVID-19 has hit the supply and demand dimensions of economies. The supply side has witnessed significant disruptions in the global supply chain, factory closures, and cutbacks in many sectors. The demand side, on the other hand, has already experienced declines in business travel, tourism, and consumer spending in general.

Estimating the potential economic impact of the pandemic is not easy. There is so much uncertainty around the length of the crisis and the evolving nature of the responses (monetary and fiscal) of the affected countries. Given the high uncertainty, caused by COVID-19, one can understand why a myriad of international organizations, and professional and consultancy services firms have already modelled many “base case” and “disruption duration” scenarios. While one expects these forecasts to be up-dated continuously, the latest forecast stated that the “global economy is expected to contract by 3% in 2020” (IMF / April 2020 World Economic Outlook).
2. Some Observations

Nobody really knows what economic implications COVID-19 will have. However, the signs are clear.

1. At the Macro Level, as the global economy slows down, countries in general and developing countries in particular, could face serious issues. These include risk to national exports, investments, credit supply, banking systems, balance of payments, and to their budgets. With weaker, if not negative, economic growth rates, general government revenues will fall, and hence their ability to meet their obligations in providing public goods and services will be seriously weakened.

2. At the Micro Level, all businesses, regardless of size, could face serious challenges. Sustaining business operations will be especially difficult for Small and Medium Enterprises (SMEs). They face a real threat of significant declines in revenues, insolvencies and job losses. Given the current environment of uncertainty, and probably fear, enterprises in general are likely to delay investments, purchases of goods and hiring of workers.

One way or another, the world will succeed in containing COVID-19. What is less clear, however, is how the virus will affect the World Order. Indeed, one might expect a myriad of issues will change. These include public policy at the national level, politics at the national level, and international political and economic relations. As if these were not enough, priorities of societies in general, and households and individuals in particular, might also change.

COVID-19 is a Tragedy. However, while many business entities struggle with immediate concerns, they should look into the future and for the “hidden opportunities” within the tragedy. COVID-19 could be, as sad as this might sound, beneficial, for some economies more than others, and for some sectors more than others.

Within the context of the above-mentioned observations and arguments, all relevant Jordanian stakeholders should be aware that COVID-19 has dealt a serious blow to oil prices. “Oil prices declined by 50 percent in the first quarter of 2020. Risks to oil prices are large, stemming from both supply and demand shocks. A combination of increased oil supply and weak global demand could lead to low oil prices for a long period” (IMF Fiscal Monitor May 2020). This observation is extremely important for the well-being of the Jordanian economy.

A. Jordan’s fuel imports constitute a high proportion of total merchandise imports (World Bank Database).
Based on the IMF’s April 2020 Fiscal Monitor, during the period 2012-2019, the Jordanian economy’s “terms of trade” has improved by 11.6%. Terms of trade measures a country’s export prices in relation to its import prices. When terms of trade improve, for every unit of exports sold, a country can buy more units of imported goods. Potentially, a rise in the terms of trade is a benefit in terms of how many goods need to be exported to buy a given amount of imports. It can also have a beneficial effect on domestic inflation: Improvement in terms of trade indicates falling import prices relative to export prices.

B. Despite the fact that fuel constitutes a high proportion of Jordan’s merchandise imports; the economy has managed to improve its terms of trade. In other words, the “fall in oil prices”, if well managed, should lead to improving the terms of trade even further.
Recovery of Employment and Production Platform

Figure 4: Fuel Imports Versus (2012-2018) Vs. Terms of Trade (2012-2019)
3. In a Nutshell

Within the context of the “low” oil prices, all relevant stakeholders should make the economy’s “exports more competitive”, and move production to sectors that can benefit from falling oil prices and hence become competitive in the international market. Jordan must focus on the following steps in the post pandemic period:

1- Enabling the ICT sector in accessing new markets and creating the conditions that promote the growth of this sector.
2- Moving forward with the needed legislative reform to enable e-commerce and logistics sectors.
3- Providing incentives to the most competitive exporting sectors to improve their productivity and to encourage other sectors to improve.
4- Renegotiating Jordan’s trade agreements to make them more responsive to the post pandemic conditions.