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واقعها وآفاقها المستقبلية

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## Abstract

From 1967 onwards, the economies of the West Bank and Gaza Strip (WBGS) were completely engaged in a one-sided customs union (CU) with that of Israel. At the same time, economic ties between the WBGS and Jordan were subjected to Israeli regulations and interests through the "Open Bridges policy". Israel did not allow the free passage of goods from Jordan to the WBGS while Jordan allowed only Palestinian agricultural goods into its markets. The import of Palestinian manufactured products into Jordan was completely restricted. The Arab boycott of Israel also indirectly limited the flow of goods from the WBGS to Jordan since goods produced in the WBGS using Israeli inputs, or produced in plants established after 1967, were not permitted to enter Jordanian markets.

After the severance of the legal and administrative ties between the WB and Jordan in 1988, the relationship entered a new phase that lasted until the end of 1994. During that period, Palestinian merchandise trade flows to Jordanian markets were dependent on Jordanian demands. In 1995, the Palestinian National Authority (PNA) and the Jordanian government signed a bilateral agreement to stimulate merchandise trade flows between the two areas.

This research attempts to analyze the potential for merchandise trade flows between the WBGS and Jordan. Two quantitative methods are employed to assess this potential. These are (1) trade similarity coefficients and (2) gravity trade equations for export supply and import demand. The empirical results are utilized to examine trade policy options and alternatives. A trade similarity coefficient has been used in this study to examine potential trade compared to actual merchandise trade flows between Palestine and Jordan. A gravity trade equation is used to explain bilateral trade. This approach has been highly regarded as a complementary tool to the trade similarity coefficient approach. Time-series data are used to estimate the model for the period 1970-1998. The empirical results indicate that merchandise trade flows between the WBGS and Jordan would exceed \$700 million under free trade conditions. Jordanian exports to WBGS would approximate \$500 million while Jordanian imports from



WBGS would be greater than \$200 million. Also, under free trade conditions, Jordan would specialize in producing and exporting chemical and pharmaceutical products, while WBGS would have a competitive advantage in producing and exporting leather products, furniture, textiles and vegetable oils.

The estimated results of the gravity trade model signify that merchandise trade flows between Palestinian and Jordanian markets have been influenced by the same variables. Structural change tests reveal that trade relations during the transitional period 1995-1999 did not differ from the previous period 1967-1988. In fact, trade relations were regulated and arranged subject to the bilateral agreement signed in 1995. Therefore, stimulating trade between the two neighboring markets, particularly in the aftermath of the transitional period, requires several measures to be applied. This could be attributed to the fact that the performance and functioning of the WBGS trade sector were found to be similar to those of the Jordanian trade sector. For example, trade similarity coefficients (TSCs) between Jordanian and Palestinian imports were found to be greater than 60% while Jordanian exports were found to be similar to WBGS exports when  $TSCs = 40\%$ . As a result, this study has reached the following conclusions.

1. The capacity of the Jordanian and Palestinian economies could be improved through cooperation and integration in both output and input markets. Diversification and specialization in merchandise production are the major bases to promote economic coordination and integration between the two markets. Trade in differentiated products and cooperation in production policies in both agricultural and manufactured sectors increase the potential to enhance trade between WBGS and Jordan.
2. Trade in differentiated products covers several sub sectors such as the leather and shoe industry, furniture, textiles, building materials, and vegetable oil. This study suggests that trade in differentiated products and intra- industry could stimulate trade flows between the two markets.

3. Cooperation in international marketing, particularly in the export of farm products to European markets, is another avenue to promote trade relations between WBGS and Jordan. Joint ventures and investment in producing food and live animals, beverages, tobacco, raw materials, and petroleum products will help the two countries to substitute local products for imports of these products.