

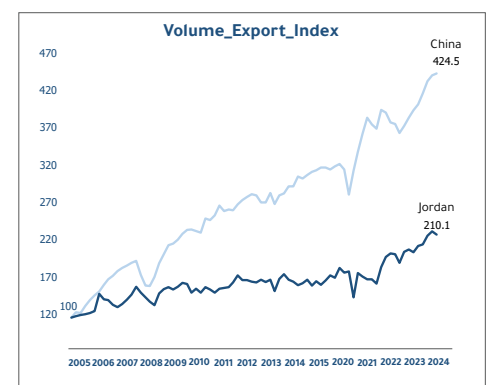
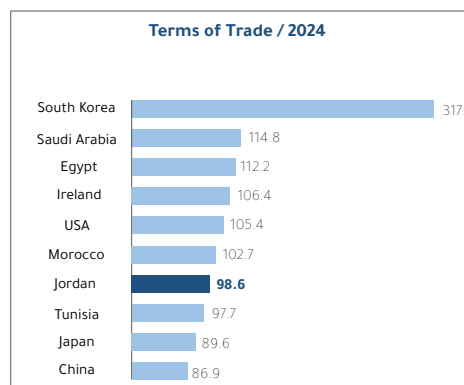
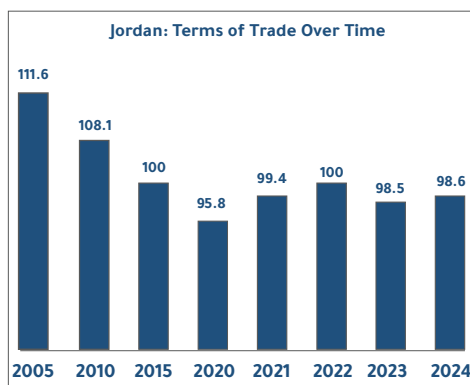
An Economic Concept Worth Noting in Jordan: Terms of Trade

The subject matter of “**Economics**” encompasses a wide range of concepts. Together, the available concepts help explain how individuals, businesses, and governments make choices in the face of limited resources and how those choices impact national economies.

One of the main economics concepts is the “**Terms of Trade / ToT**”. **This concept refers to the relative price of exports to imports.** A decline in the terms of trade means that the price of a nation’s exports falls as compared to its imports.

$$\text{TOT} = (\text{Index of Import Prices} / \text{Index of Export Prices}) \times 100$$

The concept of terms of trade is important. A prolonged fall in ToT can lead to **declining living standards and lower Gross Domestic Product (GDP)**. It could also reduce export revenues and make it harder to pay foreign external debt. Within this context, however, it is important to distinguish between a short-term decline in terms of trade and a long-term decline. A long-term decline is more serious reflecting a fall in living standards.



Source: UNCTAD Data base

Based on the **UN Trade and Development (UNCTAD) database**, Jordan’s ToT has declined from 111.6 in 2005 to 98.6 in 2024. This decline implies that Jordan must export more to afford the same volume of imports. **This can worsen the current account, pressure living standards, and constrain development goals.** Within this context, however, it is also informative to note that China’s ToT is relatively low (86.9). However, **China’s sheer “export volume” enables the economy to maintain a large trade surplus.** With policies that favor trade surpluses, China has historically pursued export-led growth.

In a Nutshell, Jordan imports a large share of its energy needs, capital goods, raw materials, and consumer products. Many of these imports are inelastic in demand, meaning that even if their prices rise, the country must still import them. Jordan’s exports, on the other hand, are concentrated in pharmaceuticals, garments, potash, and phosphates. These products are price-sensitive and face stiff global competition. In addition, Jordan’s industrial and agricultural base is relatively small and not highly diversified. Additionally, all relevant stakeholders should focus on a combined approach which aims at **improving the economy’s ToT by selectively moving up the value chain in certain products and boosting the economy’s volume of exports.**