

# The Impact of Selected Macroeconomic Variables and FDI on Foreign Trade in Jordan for the Period (2010-2020)

MOHAMMAD SULIEMAN JARADAT  
Department of Banking and Financial Sciences  
Ajloun National University  
Ajloun, JORDAN

*Abstract:* Unit Root and Cointegration tests as well as autoregressive distributed lag (ARDL) are used in this study to assess how selected macroeconomic variables and foreign direct investment (FDI) impact foreign trade (FT) of Jordan for the period (2010-2020). The automatic (ARDL) (E-view) method was used to assess the long-run relationship between the variables, represented in GDP, inflation rate (INFR), interest rate (IR), and FDI as independent variables, and international trade as a dependent variable. Study findings showed a positive and significant relationship between selected macroeconomic factors and direct investment in foreign commerce. This suggests that an increase in FDI by 1% results in a (0.13%) increase in foreign commerce provided that all other conditions remain constant. Gross domestic product (GDP) and foreign trade (FT) have a statistically significant positive association. The association between inflation rate (INFR), interest rate (IR), and international trade are negative and statistically significant. According to the data modified R-square (option R<sup>2</sup>) amounted to (84.2%), means that independent variables account for (84.2%) of the variation in GDP shares derived from international trade.

*Keywords:* Foreign direct investment, foreign trade, gross domestic product, inflation, interest rate

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## 1 Introduction

Foreign commerce is influenced by macroeconomic conditions and foreign direct investment since they are linked to economic growth, interest rates, inflation rate, and unemployment rate in the environment in which they operate. As a result, macroeconomic variables and foreign direct investment are commonly used in fundamentalist models of the state's general economy, particularly (foreign trade). Some economic sectors are somewhat susceptible to these variables, but their worth is not only dependent on present performance but also on forecasting how these macroeconomic variables and foreign investment will be in the future [1].

This expectation regarding the performance of future macroeconomic variables is an important point in the movement of foreign trade because the amount that can be paid in the future for the risks assumed at the time of introduction is the most important factor to consider when evaluating an investment. Previous performances are not guaranteed to be duplicated in the future. As a result, we assume that international trade is tied up to not just macroeconomic variables but also to forecasting how these variables will behave in the future [2].

The strength and efficient capital market allows the country to access the resources of investors to invest in their projects. As a result, an efficient capital market is critical to the country's economic development, as it allows them to access the resources of investors for growth and the cultivation of a stronger economy with an efficient and successful trade. Economic factors and foreign direct investment constitute the country's basic economic activity and the key to the economic development of numerous countries around the world, particularly low-income countries [3]

Many developing countries lack capital due to a lack of national savings, which is reflected primarily in the gross domestic product. Foreign direct investment and economic variables is one facet of international economic interactions, as well as a component for the development of developing nations that require it to achieve economic advancement and scientific and technological modernization. Most governments have attempted to develop an acceptable climate to attract direct investment, on the belief that foreign direct investment, as well as economic variables, directly contribute to improving a country's economic status and foreign trade [4].

Foreign direct investment and economic variables can help to expand Jordanian foreign trade

in numerous ways. First, it is regarded as a source of development financing, and second, it helps to finance economic investments. Third, in addition to providing development funds and facilitating technology transfer, foreign direct investment and economic factors boost knowledge, managerial skills, and production efficiency as well as providing a diverse range of goods and services in the economy and chances for foreign trade. Foreign direct investment and economic factors have also boosted foreign trade, and they may have a favorable impact on payments [5].

In order to encourage FDI, the majority of developing nations provide incentives since FDI and macroeconomic variables are seen as key sources of finance for investments. According to the report of United Nations Conference of Trade & Development (UNCTAD), macroeconomic factors and FDI flows have expanded faster than global international trade and GDP. When a company has access to foreign direct investment, it can easily grow its industrial activities because it can borrow money from the international markets, thus resulting in an increase both in exports from the host country and economies of scale [6].

Furthermore, local businesses which gain information from host nations make it available on FDI enterprises via various organizations. This also encourages and pushes countries to increase their output, which is reflected in an increase in foreign trade and considers an example of secondary impact. According to policymakers, FDI is particularly critical to support economic growth EG in emerging economies and it's expected to provide new job openings, advance technical progress in host countries, and to improve the country's overall financial situation [7].

Complete economic openness and dependence on certain macroeconomic indicators constitute some of the fundamental pillars of the Jordanian overall economic policy. The Jordanian economy will move from previous stage, which concentrated on protection as well as government support to the current stage based on liberalizing the economy and boosting productivity, which considers a competitive advantage for the private sector and a progress in foreign commerce. As a number of agreements were signed and successive Jordanian administrations made attempts to improve the investment climate by modernizing and introducing laws, in order to attract international capital. The policy of reliance on selected macroeconomic variables was one of the most pressing concerns at the time and Jordan entered into trade treaties with the United States, European Union, and Arab

countries. In addition, in 2000 Jordan joined WTO and signed the Qualifying Industrial Zone Treaty [8].

The rise in foreign direct investments as well as indicators, such as GDP, inflation rate INFR, interest rate IR, and FDI are showing debates about how these investments impact the host country. The significance of foreign investment in promoting EQ has been discussed by numerous researchers, who deliberated on boosting productivity and competitiveness by utilizing technologies and expertise from developed countries. Foreign investments have unintentional consequences on the economy by increasing volume of imports, which frequently related to manufacturing FDI's inputs. As a result, potential drawbacks include a trade imbalance as well as falling of payments balance, due to profit shifting offshore [9].

The current study showed impact of key macroeconomic variables and FDI on Jordanian international trade during the period (2010-2020) and considers one of a few studies which analyze the impact of macroeconomic variables and foreign direct investment FDI on Jordan foreign trade, which takes an innovative approach to accomplish its goals. Due to a lack of home funding and savings spent abroad, rising economies such as Jordan usually suffers from economic imbalances and domestic investment (DIS) spending and efficiency, which frequently causes these countries to seek external money represented in FDI and expected to play a significant active role on supporting EG and improving production capabilities, technology transfer, and human capital restoration. However, FDI becomes impediment to economic advancement because it's not supplemented by reimbursements from high-tech breakthroughs, but instead it concentrated on extractive sectors that aim to utilize host country resources while minimizing its engagement in improvement. As a result, this research will seek to address the following question: Does rising international trade in Jordan results from FDI and other macroeconomic factors?

## 2 Literature Review

[10] Defined macroeconomic variables as a significant financial, natural, or geopolitical event that has a broad impact on a regional or national economy. Macroeconomic variables typically affect significant parts of the population, rather than just a few individuals. Such as Economic production, unemployment rates, and inflation are some of macroeconomic factors. Governments, businesses,

and consumers all have a careful eye on these economic performance indicators. [11] Suggested that macroeconomic variables have a substantial impact on foreign trade. When a country's macroeconomic factors are high, foreign trade increases as the price of goods and services offered by that country rises. Rising prices make that country's goods and services less competitive on the worldwide market. According to the findings of a study conducted by [12] on the relationship between international commerce and some macroeconomic factors, it was found that excessive inflation, as well as neglect and weakness in macroeconomic variables, contribute to reduced foreign trade.

Gross Domestic Product (GDP) is essentially a summary of all final products and services generated within a national economy at any given period. While researching the relationship between GDP as an independent variable of macroeconomics and foreign trade, the analysis discovered that GDP growth is related to export [13]. The residual test revealed a permanent link between FDI and GDP, export volume, GDP, FDI, and foreign trade in [14] study.

However, due to a paucity of data, the industrial production index is used as a proxy for national output in this case study.

This category includes studies on the impact of various macroeconomic conditions and FDI on international trade, where several studies in the economic literature have analyzed the economic impact of FDI. In addition, diverse researches conducted to study the FDI impact on foreign trade, where some studies found positive advantages while others found negative effects, such as [15] who claimed that extent of FDI helps on EG may be determined by the economic and social aspects of recipient country, and revealed that countries with high saving rates, open trading systems, and advanced technology levels would mostly benefit from additional FDI in their economies. [16] Explored the link between FDI and Malaysian production growth and discovered nonexistence of compelling evidence that link FDI with economic progress. [17] Conducted a study on the relationship between FDI and Jordan's economic development, where findings revealed a substantial relationship between FDI and productivity as well as imports and exports. [18] Examined the impact of FDI entries on Jordan economic over time using the ARIMA model (2010-2020).

According to the report FDI grew during (2004-2005) and predicted an encouraging impact of FDI inflows on macroeconomic indicators. [19]

investigated FDI, workers' remittances, and its effects on developing countries EG using panel data of (1990-2006), and reported a favorable and significant influence of FDI, remittances, and official development assistance ODA on EG of developing countries using system generalized approach methodologies, and also discovered that worker remittances boost EG more than FDI and ODA.

[20] study utilized the export-led growth hypothesis to inspect FDI influence on non-oil export performance in Nigeria where statistics revealed that majority of FDI inflows into the country's oil industry, demonstrating the significance of foreign trade-led development theory and the interaction between each of FDI, non-oil exports, and EG. FDI and non-oil exports have a one-way causal link and research suggested that encouraging non-oil foreign trade was crucial to the effectiveness of FDI in Nigeria.

[21] Study investigated FDI and foreign trade performance at Western Balkan countries (1996-2013), and examined fixed factors and individuals' heterogeneity across those countries. According to the Panel Regression Methods and Least Squares Dummy Variables (LSDV) Strategies, FDI has a positive effect on foreign trade performance in the sample countries across a variety of model parameters. In addition, [22] looked at long and short-run links between all of FDI inflows, FT, and ED in Sri Lanka for the period (1980-2016), where the study used (ARDL) bounds testing to determine the relation between variables. According to data, the inflows of FDI have a positive and significant relationship on EG in both long and short term where an increase in FDI will cause GDP to accelerate. However, in the long run international commerce has a negative and significant relationship on EG.

Using a generalized approach strategy for estimations, [23] confirmed that FDI had a negative effect on a recipient nation's growth using cross-country data (1960-1995) where findings indicated negative impact of FDI on economies of receiving countries. According to [24] FDI has a marginal and negative effect on poor countries' EG, where researcher contended that ability of receiving countries to absorb technology determines the flow of FDI. [25] Stated a negative impact of FDI, therefore MNCs can be prospered and developed in mass nations but indigenous enterprises will remain static. According to [26] who investigated the correlation between FDI and EG in Pakistan, FI has a negative impact on EG in Pakistan because

domestic investment has benefitted the country's economy.

[27] used data from disaggregated industries to examine the impact of FDI on China's international trade performance (1995-2005) and discovered that FDI inflows had a positive and significant influence on Chinese exports, while [28], [29], and [30] discovered that FDI has a positive influence on a recipient economy's international trade performance. [31] Studied the relationship between FDI inflows and international commerce in India (1980-2010) using vector error correction VEC model and found a long-term consistent relationship between FDI and exports while [32] claimed that FDI had little effect on international trade growth. The analysis of previous researches showed a concentration of FDI impact on international trade by employing ARDL and Extended Method of Moment. However, researcher discovered only a few studies that considered FDI to be the most influential factor in Jordan's foreign commerce. As a result, new studies about Jordan will be immensely valuable to literature.

### 3 Research Methodology

Researcher employed the annual statistics approach (2010-2020) as well as empirical analysis, where foreign trade of goods and services; measured by net export was included in the data series (NEXP), while secondary data sources include World Bank's General Statistics Office, World Development Indicators, UNCTAD, Jordan Statistics Department, and the Central Bank of Jordan. Researcher also developed the regression model with macroeconomic indicators and FDI as the independent variables, and international trade as the dependent variable.

A collection of complicated macroeconomic models was utilized to examine the impact of selected macroeconomic factors and FDI on Jordanian international trade. The phenomena have also been studied using traditional economic models, FDI models, and a multiple linear regression model [33], where these models can be used to calculate the parameter values of macroeconomic models based on values of other macroeconomic indicators and FDI indicators that are independent variables, or on the evolution of time factor.

The researcher discovers that movement is consistent with both variables during time period (2010-2020), as Jordan pursued a Privatization policy after 2010 and launched the free trade agreements FTA which result in a substantial

growth in foreign trade and FDI. The 2018 financial crisis reduced both variables while FDI was responsive and got affected more than exports after the year 2018, owing it to Arab Spring implications and global financial Crisis. Based on Traditional Economic theory and earlier research, researcher built a standard model for this study to demonstrate impact of FDI on Jordan's foreign trade, and also agreed on using the Linear Economic Model. This section looks at how the model specification reflects the hypothesis proposed in the theoretical relationship between international commerce and macroeconomic variables, where functional model provided below to encompass the study's goal:

Researcher used annual data or empirical analysis of (2010-2020), where independent variables included foreign trade data series of goods and services (G&S) as net exports (NEXP), net FDI inflows as a proportion of GDP (FDI), GDP, and inflation and interest rates while foreign trade was the dependent variable. All data sets were derived from the World Bank's Development Indicators, UNCTAD, Department of Statistics in Jordan, and the JCB. Researcher estimated all variables in Logarithmic form, where the time profile of exports (EXP) and FDI as natural logarithm values for (2010-2020), and also the trajectory of foreign trade response to the sudden increase in FDI and the overall economy; which reflects in effects of the response of this change to shocks in the system, and foreign trade responds positively in the initial periods after a shock in FDI as well as the overall economy, and returns to the level before shock at the end.

Researcher must determine the link between the dependent and independent variables determined using statistical approaches in this analysis:

- Correlation used to measures the strength of the relationship among the variables under consideration.
- Regression explains and predicts the value of one component in relation to another (s).

Regression seeks to illuminate the link between an explanatory dependent variable (endogenous, score) and an independent variable (illustrative, exogenous predictors). Mathematically, a multiple regression model (one-factor regression model) is defined. The relationship was established within the framework of economic theory, which indicates that economic reality and investment are the result. The Multiple Regression Models can be mathematically replicated and the functional model is provided below to highlight the study's objective:

$$FT = f(GDP, INF, IR, FDI) \tag{1}$$

Macroeconomic variables, according to the aforementioned paradigm, can have an impact on foreign trade. As a result, Equation (1)'s functional model should be reconstructed as an econometric model as follows:

$$Y_t = \alpha_0 + \beta_1 \cdot GDP + \beta_2 \cdot INF + \beta_3 \cdot IR + \beta_4 \cdot FDI + \epsilon_t \tag{2}$$

Where

$Y_t$  is foreign trade

GDP is Gross Domestic Product

INF is inflation rate (annual)

IR is interest rate

$\epsilon_t$  is standard error of extant

$Y_t$  represents the independent variable (foreign trade) while GDP, INF, IR, and FDI are dependent variables, which correspond to the GDP, inflation and interest rates, and FDI. Finally, the constant term, long-term coefficients, and error term are all denoted by  $\epsilon_t$ ; respectively and to begin the empirical investigation, researchers look at the non-stationary features of variables. Researchers used the Augmented Dickey-Fuller (ADF) Unit Root Test [35] but it's not covered in this section due to its wide use in empirical studies and because its well-known among academics. Readers interested in these tests will find descriptions and debates in [36], and if integration orders of variables are the same, researchers will employ Cointegration tests to see if it's Co-integrated. The ARDLBT which was developed by [37] will be used to analyze the long-run connection because it beats all other Cointegration techniques in small samples. Therefore, researchers will examine the ARDL estimate findings in the next part.

This stage requires very complex calculations and a very long time. To make the work of experts easier, specialized IT applications have been created which allow the estimation of model parameters and checking the correctness of results obtained. E-Views are one of the IT programs used in this research to solve aspects of Econometrics.

## 4 Results & Discussion

At the beginning, researcher tested variables of unit root using ADF unit root test and results are shown in table (1) below, where at their levels variables are non-stationary but at first difference stationary since they are integrated at order one, I (1). In other words, our variables are non-stationary in terms of

levels but its stationary in terms of first differences and it adhere to the integration of order one processes, I (1). Therefore, researcher can now move on to the Cointegration test because it's known that variables are I and I. 1.

To demonstrate the relationship between growth of FDI and GDP; as major macroeconomic outcome indicator researcher used a collection of data (2010-2020) as shown in table (1)

Table (1). Results of ADF unit root test

Variables	Panel A:Level	Panel B:1 <sup>st</sup> difference	Results
	Actual value	Actual value	
Net Export(NEXP)	-1.1536	-7.2658***	I (1)
FDI	-1.2478	-5.6359***	I (1)
IR	-1.3791	-6.2658***	I (1)
INFR	-3.4572	-4.5986***	I (1)
GDP	-3.2685	-1.23659	I (1)

Variables are examined for Long-Run Co-Movement by employing Pesaran Bounds Cointegration test, which indicated that variables have a Cointegration Connection. Means and variables will move together in the long run and because variables showed similar integration, it implies a long-run equilibrium relation between these variables. Therefore, researcher used ARDL model to estimate long-term relationship and used E-Views to analyze the growth of two indicators throughout time span using graphs and descriptive data (figure 1). According to the E-Views analysis, there is a significant linear correlation with an upward slope between GDP, FDI, and foreign trade. Based on these factors, we may assume that balance of international trade, FDI, and total economies have a strong correlation. Therefore, results of FDI consider a significant contributor to foreign trade.

Table (2) shows the estimated parameters of independent and long-term variables are shown where the following are results of above model. Researcher found that FDI has a favorable and statistically significant effect of (5%) level on foreign trade and according to findings a (1%) increase in FDI will result in a (13%) increase in exports. These results align with the rationality of economic theory as well as the reality of Jordanian economy throughout study period, which indicates that foreign trade is increasing and decreasing in the same direction of FDI. Foreign firms don't just invest to supply domestic markets but also to supply international markets, such as Arab Gulf market. Study findings comply with findings of other numerous studies, such as [38], [39], and [40]. The

study of [41] showed a positive impact of foreign investment on foreign trade's exports at the Eastern Balkan countries while the study of [42] showed positive effect of direct foreign investment on foreign trade.

Table (2). ARDLBT estimation, and test results

Panel A: ARDL specifications				
Specification maximum lags, ARDL (4,3,3,1)		Cointq = NEXP- (0.05541FDI+0.265GDP-4.9822IFNR + 53.42288IR		
Specification optimal lags, ARDL (2,3,3,3):		Cointq= NEXP- (0.1689FDI+ 0.326GDP- 4.5978INFR+33.026911 R)		
Panel B: residuals diagnostics and mis-specification tests results of ARDL (2,3,3,3)				
$\chi^2_{SC 2}$ (2)=0.962[0.714]	$\chi^2_{ARCH 2}$ (1)=0.20 [0.531]		$JBN=1.007$ [0.705]	$FFF=0.92$ [0.43]
Panel C: Cointegration test results of ARDL (1,1,1)				
Sample F-Statistic	Significance Level	Critical Values		
		Low Bound	Upper Bound	
FW = 7.26	2%	1.36	2.88	
	4%	3.95	1.69	
	8%	2.78	4.5	
Panel D: long-run, coefficients from ARDL				
Regression	Coefficients	Std. Errors	T-statistics	
NEXP	0.128***	0.10	0.715	
FDI	-5.98***	0.19	-2.99	
GDP	48.15***	0.20	22.29	
IR	20.68***	3.69	18.92	
INFR	60.21***	1.87	1.97	
Long-run relation, derived from ARDL (2,3,3,3)				
NEXP = +50.00	-0.17FDI	+0.326 GDP	+0.331R	+4.597 INFR

It noticed from table (2) above that coefficient and standard errors; \*, \*\*, and \*\*\* represent significance levels of 8%, 4%, and 1%; respectively where SC 2, ARCH 2, and HETR 2 are Chi-squared statistics used to test the null hypotheses of Non-Serial Correlation, Non-Autoregressive Conditional Heteroskedasticity, and Non-Residual Heteroskedasticity. JBN and FFF stand for Jarque-Bera and F-Statistics, which used to test the null hypotheses of normal distribution and Non-Functional Misspecification, where FW measures the significance among variables and FW=7.211691 value is bigger than bound i1, which imply that the absence of a long-term integrative correlation

among variables and a long-term integration are both rejected at an estimation period of (2010-2020).

These results come in agreement with economic theory, where an increase in the value of national currency; according to the hypothesis will lead to a reduction in foreign trade by making domestic commodities more expensive compared with foreign commodities. Researchers also discovered that GDP had a positive and statistically significant impact on foreign commerce at the (2%) level, where a (2%) rise in GDP will lead to an increase of foreign trade by (33%). This study can be distinguished by its utilization of modern methods and the long period it takes to study relationship between variables, as well as the employment of numerous diagnostic tests that ensure the integrity of study statistical difficulties.

As we have seen, foreign investment and economic variables have a big impact on foreign trade, which can be explained by results we have reached for each country that practice FDI and lead to an increase in GDP. Based on these factors, we may conclude that multiple linear regression models are accurate and suitable for the implementation of economic investigations.

## 5 Conclusion

The primary goal of this study was to evaluate the influence of selected macroeconomic factors and FDI on Jordanian international trade throughout (2010-2020), and reached the following conclusions: the independent variables (FDI, GDP, inflation rate, interest rate) and the dependent variable of foreign trade have a long-term shared integrative connection. In case of Jordan, results indicate a statistically positive significant relationship between FDI and foreign trade, which means that a (1%) increase in FDI will lead to (13%) upsurge in exports, assuming that influences of other factors remain constant. There is a statistically significant positive relationship between GDP and international FT, where INFR and exports have a statistical negative significant relationship which means that a (1%) increase in inflation rate will reduce international trade by (5.96%). Study findings revealed an Adj-R<sup>2</sup> value of (84.2%), which indicates that (84.2%) of the variation in GDP shares of foreign trade is demonstrated by independent variables.

Some recommendations can be made based on study findings, which include:

- Improving and developing Jordan's overall investment environment as well as repositioning the country for competitiveness to attract foreign investments, by achieving production base expansion and diversification as well as promoting investment projects registration and licensing. Nevertheless, incentives and new export markets should be provided for the local industries.
- Additional measures should be taken by the Jordanian government to promote, market, and advertise the country's investment incentives, benefits, and climate. In addition, there is a need to develop modern laws that promote investments, which will help in repositioning Jordan's competitiveness to attract foreign and export-oriented investments that help in training and rehabilitating local workers.

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