

# The Impact of Foreign Trade on the Total Product Growth of the Manufacturing Sector in Jordan An Econometrics Study for the Period (1996-2013)

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## Abstract

This study aimed to identify the impact of foreign trade on the growth of total product of the manufacturing sector in Jordan for the period (1996-2013). The researcher used an econometric model to achieve the study objectives. Furthermore, the results of the study showed that the growth in overall national exports have a positive impact on the growth rate of total product of the manufacturing sector, the growth in total imports (intermediate and capital) have a positive impact on the growth rate of total product of the manufacturing sector, the Jordanian trade contributed to industrial growth, the rate of growth in manufacturing product due to domestic demand and the expansion of exports and replace imports from the demand side, and the rates of growth in production elements from the supply side, this is consistent with the reality of the manufacturing sector in Jordan because of the disruption of the productive structure of the manufacturing sector and shifts the quality for the productive industries (intermediate and capital) as in feed production activities, particularly industrial activity with production requirements such as machinery and equipment and intermediate goods necessary for the continuation of the production process. The study suggested a number of recommendations such as the necessity to encourage and guide the investment to the manufacturing sectors, The necessity to develop and increase size of industrial exports by various means, as for positive impacts of the exports on growth and development of the manufacturing sector,

**Keywords:** foreign trade, manufacturing sector, Jordan. Econometric model

## 1. Introduction

Foreign trade is of great importance in all the economies in several areas (both in terms of economic, social or political), especially nowadays with the emergence of many International variants, both with regard to globalization and economic openness and the WTO and economic blocs, accompanying significant evolution in the communications and information technology, which has made the world a small village though brought his limbs. The emergence of these variables and other widening foreign trade volume which represent broad exchanges of goods and services and international financial

Highlights the role of foreign trade in the process of economic development as a means to help provide inputs and capital goods needed for the manufacturing process and are an effective means to help provide many essential goods and luxury for community members, in addition to being a means to discharge excess production by some states in the foreign market and provide some hard currency for investments.

If the developed countries have paid great attention to the development and expansion of the foreign trade volume of the importance of this sector in economic and social development of the developing countries should give greater attention to the development of this sector to play an effective role in the economic development process in general and industrial development in particular.

## 2. Methodology

### 2.1. The study's problem and Objectives

The national industry, particularly manufacturing, play an important role in the economy through its contribution in GDP and export sector is linked to the amount of domestic and external demand for the products of the sector. Hence, if you need to see the relationship between the growths of the industrial sector manufacturing and foreign trade volume, measure and its design and trends.

In this context, this study attempts to answer the following question:

Do foreign trade sector plays an effective role in the development of manufacturing activity in Jordan during (1996-2013)?

### 2.2. The study importance.

The importance of the study stems from the need for following tasks:

- a. To show the role of the foreign trade sector on the growth of total product of the manufacturing sector.
- b. Provide Jordanian and Arab libraries with specialized article on foreign trade.

c. Provide researchers with new issues relevant to this sector in order to be studied and apply research methodology on different economic sectors in Jordan

### **2.3. The study hypotheses**

To achieve the study objectives, the researcher suggested one main hypothesis with two sub-hypotheses as follows:

#### **Main hypothesis:**

There is a statistically significant positive impact of foreign trade on the growth of total product of the manufacturing sector.

#### **Two sub-hypotheses:**

1- There is a statistically significant positive impact of exports on the growth of total product of the manufacturing sector.

2- There is a statistically significant positive impact of imports (intermediate and capital) on the growth of total product of the manufacturing sector.

### **2.4. The theoretical framework of the study and related studies**

#### **2.4.1. The concept of foreign trade:**

There were many foreign trade definitions, as represent" the most important economic relations being picture whereby the exchange of goods and services between countries in the form of exports and imports"(Dr.Hussam Daoud &Others, 2002, p13). Foreign trade also known as: "the branch of Economics, which is concerned with the study the current economic transactions across national borders. The following economic transactions include: The exchange of material goods, exchange of services, the exchange of money (capital) and exchange of labor element"(Mosa Mater & others, 2001, p13). Also foreign trade is defined as: "The movement of goods and services among different countries, which include foreign capital movements"(Dr.Hussam Daoud &Others, 2002, p14), Notes of this definition the introduction of the concept of investment components of trade through the capital. In other words, the advantage of foreign trade is that it enables each country to benefit from the advantages of other countries (Dr.Iskandar Al-Najar, 1973, P54-55).

#### **2.4.2. The concept of manufacturing:**

Manufacturing is one of the branches of the industrial sector, and which holds the task of converting the material that comes from extractive industries and the agricultural sector, for the purpose of preparing them to be useful for consumer or productivity needs satisfaction. ( Abd Alkreem & Hashim, 1989, p25)

With a view to the successful and sophisticated industry generally has to be creating requirements, including: raw materials and energy sources, capital, manpower and the market (demand size). (Hedir Mohammed, 2006. P5)

### **2.5. Literature Review**

Many empirical studies have investigated the impact of foreign trade and its role in the economic and industrial growth is perhaps the most prominent of these studies

-(Balassa 1978), Which conducted on (11) developing countries which achieved industrial base, and by using an econometric model Founded that increasing exports at the rate of 1% Leads to increase the rate of growth In these countries by (0.04%).

-(Tyler 1981), which conducted on (55) developing countries, Reached through this study that increasing exports by 1% leads to increase rate of growth for these countries by (0.057%).

-(Kwasi Fosu 2012), He measured through this study the impact of exports on economic growth of a sample of countries include (28) a developing country in Africa, compared with non-African developing countries and found that the increase in exports at the rate of 1% increase in growth rate (0.123%) in the case of the African and developing countries, and (0.149%) In the case of non-African developing countries.

-(Shameih and Al-Roabide 1989) The two researchers measured the impact of the commodity composition of exports to GDP growth, and growth in value added in the industrial sector, both extractive and manufacturing in Jordan, And they reached that the increase in national exports of consumer goods will lead to higher growth in GDP, exports of capital goods and raw materials will lead to low growth in GDP. Also they agreed that exports of consumer goods and raw materials have positive effects on growth rates in industrial product, while exports of capital goods have Inverse effects on growth rates in industrial product.

-(Khan and Knight 2011) The two researchers through this study emphasized that developing countries have resorted to import compression In order to achieve a surplus from foreign trade for the servicing of the external debt of developing countries, But they supposed that the imports of intermediate and capital goods are an important input in the production of exports, Therefore, the pressure of imports can lead to inverse impact on export performance by the slow rate of growth in exports and in turn lead to a reduction of imports and therefore influence negatively on the economic development process in general and industrial development in particular.

-(Esfahani 2010) In this study, the researcher by adding imports to the list of required inputs for domestic production, In order to measure the impact of imports of intermediate and capital goods on the rate of economic growth of a sample of developing countries (31) semi industrial countries, and so proceeding from the urgent needs for these countries For imports from intermediate and capital goods, To continue the process of the development of industrial production and increase the exports. Since the reduce from the Import pressure will lead to the expansion of production and expansion of exports, which contribute to the financing of imports and thus contribute to increase the rate of economic growth.

This study is one of the few studies which exposed to search and analysis the impact of external trade (Exports and imports) on the growth and development of the manufacturing sector, since the most of the studies in the field of foreign trade is limited and varies on a descriptive analysis, while the applied studies come on specific aspects of the topic. This study focuses on the measurement of the impact of external trade (Exports and imports) on the growth and development of the manufacturing sector.

### 3. The practical method:

#### 3.1. Information Gathering Sources and Data Relevant to Study Variables

To cover the theoretical side of the study, the researcher relied on secondary sources, such as books, periodicals and previous research papers relevant to the same issue.

#### 3.2. Study methodology

In order to achieve an econometric model shows the impact of foreign trade on the growth of total product of the manufacturing sector, and from the following assumptions we will determine the special model of the study:

1-The growth in manufacturing product depends on growth in inputs production (capital and labor) which consistent with economic theory.

2- The growth in manufacturing product depends essentially on export growth, through the role of exports in increasing the efficiency of production factors by providing material resources to improve factors of the quality and quantity that used in production as a result of international competition, which known External Effect By hypothesis the encourage of exports.

3- The growth in manufacturing product depends on the size of Imports of intermediate and capital goods, proceeding from the consensus economic which emphasizes the importance of the role of imports in developing countries because of the failure of the level of development of the productive forces and disruption of the sectoral composition of the structure of manufacturing production, and the lack of phenomenon of industrial interdependence among the various manufacturing sector activities or between different economic sectors.

Based on the foregoing, the following equation can be reached:

$$G^* = a_0 + a_1 K^* + a_2 L^* + a_3 X^* + a_4 M^* + U \quad \dots\dots\dots (1)$$

Where symbol as:

G\*: Growth of total product of the manufacturing sector, K\*: Capital, L\*: Labor , X\*: Exports, M\*: intermediate imports, U: Random error, and the coefficient (a<sub>0</sub>, a<sub>1</sub>, a<sub>2</sub>, a<sub>3</sub>, a<sub>4</sub>,) measure the constant and the extent of the contribution of growth the capital, labor , exports and intermediate imports in the growth of total product of the manufacturing sector respectively.

And in order to ensure the safety of the standard model will estimate the following equation:

$G^* = a_0 + a_1 K^* + a_2 L^* + U$	A1
$G^* = a_0 + a_1 K^* + a_2 L^* + a_3 X^* + U$	A2
$G^* = a_0 + a_1 K^* + a_2 L^* + a_3 M^* + U$	A3
$G^* = a_0 + a_1 K^* + a_2 L^* + a_3 X^* + a_4 M^* + U$	A4

Where been limited the sources of growth in the product of manufacturing sector, in the capital and labor as reflected in equation A1, then export added to the sources of industrial growth as reflected by equation A2, as well as intermediate imports were added to such sources as reflected in equation A3, the equation A4 included the capital, labor, exports and intermediate imports.

#### 4. The results of the study model parameters estimation:

The main objective of this study is to measure and analyze the impact of foreign trade growth in the manufacturing sector at the aggregate level in Jordan during (1996-2013) By identifying the quantitative impact of the growth rates in national exports, and (intermediate and capital) industrial exports and imports and (intermediate and capital) imports after a period of one year lag in the growth of total product of the manufacturing sector.

##### 4.1. impact of national export and import (intermediate and capital) in the total product of the manufacturing sector:

To measure the impact of foreign trade on the growth of total product of the manufacturing sector at the

aggregate level in Jordan during the period (1996-2013), we have been estimated the equations A1 A2 A3 A4 by least-squares method OLS, and using time-series data for the period (1996-2013) at the aggregate level for the manufacturing sector, has been reached to the results given in table (1)

And from results described in table (1) we note the following:

1-The strong relationship between the growth rates of national exports and imports (intermediate and productivity) and between the growth rate in the gross of the product of the manufacturing sector, which the determinant coefficient (R2) and the adjusted determinant coefficient (R-2) Showing improvement when we add the growth rate in national exports to the model as in equation (A2), And when we add the rate of growth in imports (intermediate and capital) as in equation (A3), It also found that the determinant coefficient (R2) and the adjusted determinant coefficient (R-2) have improved significantly in the case of the equation (A4), It reached about (80%) and (76%) respectively.

Table 1: growth rate in the product of manufacturing sector  
 )Value added) -dependent variable- for the period (1996-2013(

Independent variable	Independent variable							
	Equation A1		Equation A2		Equation A3		Equation A4	
Growth rate in capital	0.62 *(4.99)		0.55 *(4.52)		0.58 *(5.35)		0.55 *(4.89)	
Growth rate in labor	0.47 *(3.22)		0.38 *(2.57)		0.37 *(2.60)		0.31 *(2.15)	
Growth rate in industrial export			0.23 *(1.74)				0.18 **(1.37)	
Growth rate in import (intermediate and capital)					0.16 *(2.15)		0.13 *(1.74)	
constant	0.67- (0.36)		2.45- (1.21)		1.31- (0.82)		2.58- **(1.40)	
Statistical indicators	R2=0.70 DW=1.85	R2=0.75 DW=1.89	R2=0.79 DW=1.85	R2=0.80 DW=1.89	R2=0.80 DW=1.89	R- 2=0.71 F=19.06	R2=0.70 DW=1.85	R- 2=0.67 F=23.69

- The value between brackets is the value of the test (t)

\* There is statistically significant level at 1%

\*\* There is statistically significant level at 5%

**4.2.** The increased growth rates in the elements of capital and labor would lead to increase growth in the gross product of manufacturing sector, the increased growth rates in the elements of capital and labor by one percentage point will lead to increase growth in the gross product of manufacturing sector by (0.55) and (0.31) percentage point respectively as shown in equation (A4) in table (1)

3- The growth in exports had a positive impact in growth rate of the gross product of manufacturing sector, where the estimated value of this impact (0.18) percentage points as shown in equation (A4) in table (1), this value means that if the rate of growth in national exports increased percentage point with the other variables constant, the growth rate in the gross product of manufacturing sector will increase by (0.18) percentage points.

4- The growth in total imports (intermediate and capital) has positive impact on the growth rate of gross product of manufacturing sector, as shown in equation (A4) in table (1), this value means that that if the rate of growth in total imports (intermediate and capital) increased percentage point, the growth rate in the gross product of manufacturing sector will increase by (0.13) percentage points.

Thus we find that the results of the model analysis reflected that there is a strong and positive correlation between the growth of the manufacturing product sector and growth of capital and labor and national export and import production, Where the value of the Determinant Coefficient R2 about (80%), This is indicative statistically and economically that about (80%) of changes in the growth of the manufacturing product sector due to changes in the rates of growth of capital and labor and national export and import production.

The results of this model to match the reality in Jordanian industry (1996-2013) refers to the transfer of manufacturing product to evolve and grow in the same direction that evolves and grows the size of national exports and imports production (intermediate and capital) and it is consistent with the realities of the Jordanian economy because the national export earnings are the primary sources of currencies that contribute to its role in providing material resources to improve the quality and quantity of factors used in the production process, In addition to that the percentage

of the exports from the manufacturing sector to the total national exports took to increase from (16.4%) 1996 to (58.6%) 2013, of course, such as these exports would lead to a positive impact and increase the competition degree and increase the productive efficiency of production factors, also lead to expansion the market size and take advantage of the benefits of economies of scale.

As regards import growth in productivity and their role in growth of the manufacturing product sector,

it is logical that there is a strong positive relationship between the growth rate of the manufacturing product sector and the growth rate of productivity imports due to the failure of the productive structure of the manufacturing sector and the relative absence of national sector for the production of capital goods, due to the failure of the productive structure of the manufacturing sector and the relative absence of national sector for the production of capital goods In addition to weak local industrial interdependence, which led to the adoption of the manufacturing sector on import productivity, dramatically, through high content of importing for manufacturing sector, where ratio of its total requirements of imported goods reached (76.7%) from total product of the manufacturing, while the ratio of its total requirements of domestic goods reached (23.3%) from total product of the manufacturing in 2013.

II. Impact of industrial exports in the total product of the manufacturing sector:

To measure the impact of industrial exports (exports of manufacturing) in the total product of the manufacturing sector and determine its role, we have been estimated the two equations (A2) (A4) by using the least-squares method O L S, and by using data of industrial exports for the period (1996-2013) on the overall level of manufacturing sector, the researcher has been reached to the results included in table (3)

Results shown in table (2), we find that there is a strong and positive relationship between growth rate of total product of the manufacturing sector and the growth rate of the total industrial exports, So that the determinate coefficient R2 equal (0.81), which means that (81%) of changes in the growth rate of product of the manufacturing sector are caused by changes in the growth rates of capital, labor, and industrial exports, and imports production as shown in equation A4 in table (2).

This model also showed that the increase in the growth rate of industrial exports increased lead to increases in the growth rate of total product of the manufacturing sector, which shows that the change in the growth rate of industrial exports by one percentage point leads to changes in the growth rate of total product of the manufacturing sector (0.11) percentage point as shown in equation A4 in table (2).

Table 2: growth rate in the total product of manufacturing sector (Value added) -dependent variable- for the period (1996-2013)

Independent variable	Independent variable			
	A2 Equation		A4 Equation	
Growth rate in capital	0.66 *(5.62)		0.63 *(5.70)	
Growth rate in labor	0.45 *(3.31)		0.38 *(2.72)	
Growth rate in industrial export	0.15 *(2.10)		0.11 **(1.60)	
Growth rate in import (intermediate and capital)			0.12 **(1.58)	
constant	3.70- **(1.61)		3.52- **(1.66)	
Statistical indicators	R2=0.76 DW=1.81	R-2=0.72 F=19.63	R2=0.81 DW=1.75	R-2=0.76 F=18.49

- The value between brackets is the value of the test (t)

\* There is statistically significant level at 1%

\*\* There is statistically significant level at 5%

The results of this model- In the case of use of industrial exports- compared with the results of previous mode- The impact of industrial exports is greater than the impact of other exports growth in the product of the manufacturing sector, Where the estimated value of the impact of the growth of industrial exports about (0.11) percentage points compared to (0.18) percentage points of the national export growth effect, Any contribution to the growth of industrial exports are up (61%) from the contribution of total national exports, while the value of industrial exports did not exceed the average (41.9%) from the value of total exports during the study period.

This result is consistent with the hypothesis of export promotion especially the industrial exports that lead to a positive impact and increase the degree of competition and increase the productivity efficiency of factors of production, while exports of extractive industries and food commodities may not lead to increased growth in domestic production, but may lead to reduction of due to the nature of extractive goods does not lead to an increase in the productivity of factors of production. So we must focus on the means to increase the size of industrial exports in order to take on the role of industrial growth and economic growth in general.

**4.3. Impact of imports (intermediate and capital) in the case of Time Lag " underdevelopment " in growth of total product of the manufacturing sector:-**

In order to identify the impact of imports (intermediate and capital) in the total product of the manufacturing sector, after a period of time (Time Lag) from the start the import, where from the theory and scientific may not impact imports (intermediate and capital) in the product of the manufacturing sector right now, but after an appropriate period (six months or a year) sufficient access for imports to industrial installations and used in the production process, the time lag has made for one year then the researcher estimate (A2) and (A4) using national exports once and in the other industrial exports, and reached to the results in the table (3).

It is clear from the results of this model is that the determinate coefficient (R2) in equation (A3) from (79%) to (84%), If we use the growth rate of imports (intermediate and capital) after a period of time lag (one year), also determinate coefficient (R2) has increased in the equation (A4) In the case of national industrial exports and industrial exports from 80% and 81% respectively to (84%) If we use the growth rate of imports (intermediate and capital) after a period of time lag (one year), see the previous table.

Table 3: growth rate in the total product of manufacturing sector  
 )Value added) -dependent variable- for the period (1996-2013(

Independent variable	Independent variable					
	A2 Equation		A3 Equation		A4 Equation	
Growth rate in capital	0.63 *(6.04)		0.59 *(5.57)		0.67 *(6.40)	
Growth rate in labor	0.44 *(3.50)		0.37 *(2.88)		0.45 *(3.65)	
Growth rate in national export			0.17 **(1.40)			
Growth rate in industrial export					0.1 **(1.42)	
Growth rate in import (intermediate and capital)	0.13 *(2.03)		0.11 **(1.68)		0.11 **(1.51)	
Constant	-2.84 **(1.51)		3.61- *(2.03)		4.72- *(2.30)	
Statistical indicators	R2=0.82 DW=1.80	R2=0.84 DW=1.72	R2=0.84 DW=1.38	R2=0.84 DW=1.38	R-2=0.72 F=19.63	R-2=0.76 F=18.49

- The value between brackets is the value of the test (t)

\* There is statistically significant level at 1%

\*\* There is statistically significant level at 5%

Also the (F) test value calculated has appeared bigger in this model from the previous models, given the importance of these tests determine the priority models in the expression of a linear relationship between the variables, it can be said that the growth rate of imports (intermediate and capital) after a period of time lag (one year), still a strong impact and is positively to the growth rate of total product of the manufacturing sector, since the (84%) of changes in the rate of growth of total product of the manufacturing sector due to changes in the rates of growth of capital and labor and national exports or industrial exports and imports (intermediate and capital) after a period of time lag (one year).

As this model has been showed that the growth rate of imports (intermediate and capital) after a period of time lag (one year) have a positively impact on the growth rate of total product of the manufacturing sector, since the Increase in the growth rate of those imports percentage point increase the growth rate of total product of the manufacturing sector by (0.11) percentage point as shown in the previous equations.

From this we conclude that the growth rate of imports (intermediate and capital) have a positive impact on the growth rate of total product of the manufacturing sector, after a period of time lag (one year) and this influence is still strong, reinforcing our conclusion that the volume of the manufacturing sector grows and develops the same direction in which it grows and develops its imports volume (intermediate and capital), as a result of the failure of the productive structure of the manufacturing sector and the relative absence of a national sector for the production of capital goods and very weak in the local industrial interdependence between different economic sectors resulting in an increase imports content for the manufacturing sector, as percentage of total requirements of imported merchandise (76.7%) from the total product of the manufacturing sector in 2013, while the percentage of total requirements of domestic merchandise (23.3%) from the total product of the manufacturing sector in the same year.

## 5. Results and recommendations

### 5.1. Results

By using an econometrics model, it was estimated the impact of foreign trade on the growth of total product of the manufacturing sector in Jordan during the period 1996-2013, the study showed a number of results as follows:

a- The growth in overall national exports have a positive impact on the growth rate of total product of the manufacturing sector, where the influence of (0.18) percentage points between (1996, 2013). Also the growth in total industrial exports have a positive impact on the growth rate of total product of the manufacturing sector, through the influence of (0.11) percentage points during the study period.

b- The growth in total imports (intermediate and capital) have a positive impact on the growth rate of total product of the manufacturing sector, where the influence of (0.13) percentage points between (1996, 2013), which clearly indicates that the total product of the manufacturing sector Growing and developing in the same direction that when the volume of total imports (intermediate and capital) grow and develop.

Therefore, the previous results confirmed that the Jordanian trade contributed to industrial growth, the rate of growth in manufacturing product due to domestic demand and the expansion of exports and replace imports from the demand side, and the rates of growth in production elements from the supply side, this is consistent with the reality of the manufacturing sector in Jordan because of the disruption of the productive structure of the manufacturing sector and shifts the quality for the productive industries (intermediate and capital) as in feed production activities, particularly industrial activity with production requirements such as machinery and equipment and intermediate goods necessary for the continuation of the production process, In addition to Jordan's limited resources of various raw materials resulting in weakness or industrial lack of coherence between the different manufacturing, or between the manufacturing industry and other economic sectors, which led to the manufacturing sector depend on the imports activity from the necessary requirements for the continuation and expansion of the productive process, consequently, this activity (imports) has an important role in accelerating the process of industrialization in Jordan and its relationship became inherent and necessary for the continuation of the process of production.

### 5.2. Recommendations

Based on the above results, the following recommendations can be proposed:

1-The necessity to encourage and guide the investment to the manufacturing sector, particularly towards building intermediate and capital industries covering the needs of local industries and sectors and the various economic sectors, after ensuring the safety of feasibility studies for these industries.

2-The necessity to develop and increase size of industrial exports by various means, as for positive impacts of the exports on growth and development of the manufacturing sector, in addition to its importance in addressing the many economic and social problems, both in reducing the trade deficit and the development of sources of foreign currency, or in providing job opportunities to ease the unemployment problem.

3-The existence necessity for detail plan independent for import activity as part of economic development plans are based on the principles and methods of planning and directly linked to production planning and built on the actual needs for industrial plants from capital goods such as machinery and equipment and intermediate goods that are used as inputs in manufacturing process.

There is an urgent need to reduce dependency on import manufacturing industrial sector, which requires a strategy of import substitution industries that produced replaced imports of capital and intermediate goods, as well as coordination between the industrial and agricultural sectors and deepening entanglement between them.

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