Chapter – 1

Introduction
1.1 Introduction

Foreign trade plays an important role in promoting almost all the economies irrespective of the level of development by providing the economy with the goods and services that are not available locally, through import activity and at the same time enabling it to dispose of surplus goods and services through export activity. The national and international economic processes are an essential part of foreign trade activity. This characteristic of foreign trade is due to the individuals and their desire, to meet what they need in their daily life.

International trade plays a central and pivotal role in restructuring the economic and social characteristics of all countries in the world, especially in developing countries. In addition to the role of foreign trade in contributing the local economic growth for a country through foreign revenues it also enhances the level of well being of individuals living in the country (Yakubu and Akanegbu, 2015).

Adewuyi (2002) noted that international trade represents a process through which goods and services are exchanged across international borders. International or foreign trade has a large share of the (GDP) of most of the countries around the world, and it helps countries to sell locally produced goods to various countries around the world.

The researchers believe that foreign trade is the driving force of economic development and a tool that reflects the current reality of economic and productive structures of developing countries and their independence or subordination to developed countries and can be presented as the main artery connecting the different countries, which help countries to maintain their balance of trade.

The countries of the world are constantly seeking to improve their level of economic growth, especially in light of the difficult commercial dealings that surround all countries of the world (Manni and Afzal, 2012). Therefore, the countries and
governments of the world went to enact legislation and economic policies aimed at removing border barriers and trade operations with a view to open up new markets for their products. The countries have made many changes in tariffs and import and export laws in order to achieve the full concept of the term trade liberalization (Herath, 2010).

The term international or foreign trade is defined as the process of the exchange of goods and capital across international borders. International trade contributes to the improvement of productivity in countries that use this type of trade because of their availability to larger international markets than the domestic market, which leads to a country's economy becoming linked to external factors such as trade openness (Yakubu and Akanegbu, 2015).

The researchers noted the dependency of economic growth on trade liberalization and it has become a major topic for debate among economic development experts in developing countries in recent years. Trade liberalization means the removal of quantitative and qualitative restrictions (tariffs and quotas) on foreign trade and the removal of restrictions on foreign exchange markets.

There is a lot of economic literature that has highlighted the causal link between trade openness and GDP growth. For example, Jin (2000) emphasized that eliminating trade barriers helps in stabilizing economic growth through improved efficiency and economic returns. Moreover, trade liberalization can improve domestic technology, which will lead to increased efficiency of the production function and higher productivity. Also, Sukar and Ramakrishna (2002) stressed that the openness of the external sector reduces barriers to international trade, achieving a higher GDP growth rate, and generally believes that an open trading system achieves economic development.

Developing countries began to liberalize their trade in the mid-1970s, such as Argentina and Chile. In the mid-1990s, the number of countries that liberalized their trade increased through relies on three levels are: (Economic reform programs, accession to the World Trade Organization, and the application of agreements on economic blocs). Morocco is considered one of the first Arab countries to adopt the principle of trade liberalization in the mid-1980s, while the Hashemite Kingdom of Jordan began implementing trade liberalization in the mid-1990s (Al-Zubadi, 2007). Although the waves of trade liberalization began more than 30 years ago, in most countries of the world, there are still many questions being asked about the linkages
between economic growth and trade liberalization (Fruend & Bolaky, 2008; Change, et.al, 2009).

1.2 Background of the Study

Jordan became an independent country in 1946 from the colonial rule of United Kingdom and adopted monarchy system of governance. After independence this country came to be known as the Hashemite Kingdom of Jordan. This is a small country and covers the territory of about 91880 square kilometres. The country is geographically located at 31°00′N 36°00′E latitude in South West Asia. Syria, Iraq, Saudi Arabia and Israel are the neighbouring countries. During 1950 to 1967 this country claimed and ruled over an additional land of 5880 square kilometre popularly known as West Bank. But because of continuing occupation of Israel in this area King Hussein relinquished the Jordanian claim over this land in favour of Palestinians.

Over the years Jordan has evolved as a knowledge economy but lacks in water supply which is one of the major obstacles of the development. For its energy sources the nation is almost totally dependent on the oil import whose prices and supply is totally volatile because of the regional instability. Hardly 10 percent of its land is arable and makes the country more vulnerable in the presence of low and irregular rainfall. The natural resource base is also poor and the country mainly depends on its phosphate and potash resources. The climatic conditions are also not favourable along with the natural resource base which made this economy as a developing economy (Wikipedia, Retrieved on 13.05.2019).

Despite all these odds the country performed very well during 1970 but slowed down in 1980s. The period of 1990s brought good news for the country and the economy moved on the path of recovery by realising a GDP growth of 36 percent (Web.archive.org 2009). This recovery of the economy was based on the trade reforms, the country had started during mid 1990s. Actually this was the only option before Jordan- a small economy with limited natural resources. The country went for both bilateral and regional trade agreements along with the opening of the economy for the world. These reforms were very essential for this nation and played crucial role in improving the level of competitiveness of this country through realising the economies of scale. Jordan started the trade reform policy in 1995 by adopting Investment Promotion Law which opened the way for foreign investors at non-
discriminatory basis. In the very next year when US started Qualifying Industrial Zone (QIZ) for promoting peace and development between Israel and its Arab Neighbours (Bolle et al. 2006), Jordan took the benefit and increases the pace of trade liberalisation. To augment the 1981 Agreement for Facilitation and Promotion of Trade, Jordan joined the Arab League in 1997 with promise of reducing tariffs by 10 percent annually to make it zero by 2008. “The continued reform process has made Jordan among the most advanced countries in the area of intellectual property rights, and has passed legislation that protects copyrights, patents, and industrial designs. It also set the stage for engaging into multilateral trade negotiating with the WTO and eventually enabled Jordan to gain membership into WTO on April 11, 2000” (Awad Taleb, 2012). The Arab Summit 2001 held at Amman further sped up the process of trade liberalisation and Jordan agreed to completely abolished the custom duties by 2005 (JECB, 2010). This year is known as the landmark in the history of trade liberalisation in Jordan.

Jordan is the founding member of Great Arab Free Trade Area (GAFTA) that is in force since 1998. This regional trade agreement completely abolished the custom duties on January 1st 2005 and this regional trade organisation reached to full trade liberalisation of goods. The country further entered into the other agreement known as Adagir Agreement in 2006 with the provision of full trade liberalisation of industrial and agricultural goods among Jordan, Egypt, Tunisia and Morocco (WTO, 2009). Under this agreement the member countries agreed to abolish all non tariff barriers including quantitative, financial, technical and administrative barriers which may be imposed on imports (Awad Taleb, 2012).

To promote the trade at international level Jordan entered into a large number of agreements with many countries and regional associations and resulted in signing of many bilateral trade agreements. One of those is Jordanian-EU Association agreement signed in 1997 and improved by the Government of Jordan in 1999, came into force in May 2002. This agreement aimed at creating a Euro-Jordanian free trade area by the end of 2014. The second important bilateral trade agreement of Jordan is with US known as Jordan-US free trade area which came into force in 2001 (Marwa Al Nasa’a, et al. 2008). This agreement tries to address the issues related to trade and environment, trade and labour and electronic commerce. It was expected that the
agreement will bring the tariff rates to zero in a time period of 10 years between these two nations (Chomo, Grace V. 2002).

In addition to Jordan-US agreement, Jordan also signed a free trade agreement with Iceland, Liechtenstein, Norway and Switzerland in June 2001 to promote trade in industrial, agriculture, fish and marine products (Dar, A. and S. Amirkhalkhali. 2003). This agreement mainly aims at creating favourable condition for diversifying the countries trade through economic and commercial cooperation. This agreement was to cover a period of 12 years and supposed to cover technical support and economic cooperation in the matters related to intellectual property rights, custom duties, etc. after the implementation of this agreement it was supposed that these countries will eliminate all custom duties and other charges previously levied on the Jordanian products and Jordan was also expected to reciprocate.

To registered its presence in European Union (EU), Jordan signed an agreement with European Union that is popularly known as Jordan-EU Association Agreement (JEUAA) which practically realised in 2002 (Jordan Enterprise Development Corporation, 2010). This was an agreement to look into the matter related to promotion of trade between Jordan and EU so that the free trade zone between these two regions may be established by 2014. Other than these trade agreements there are many more that Jordan has signed for the promotion of trade but the year 2000 is marked as the year of trade liberalisation when this country became the member of WTO (WTO, 2000).

Through this process of trade liberalization Jordan had many expectations. The first and the most important impact that was assumed to be realized by the Jordan was the improvement in its trade volume (Pilinkiene, 2016). The improvement in its trade volume may result in the increase in share of the country’s trade in world trade that can give recognition to this country at international level. A good recognition at international level may earn good reputation and recognition which can help in creating the market for its products in global market and may bring down the trade deficit of the country and can positively contribute in solving the balance of payment problems (Ozoh, et. al., 2016). Further the process of trade liberalization has also implications for a change in direction of trade. Country’s trade was supposed to be directed towards those countries with which Jordan has trade agreements. In
continuation to this it was also expected to realize diversification in Jordan’s trade basket which may move in favour of manufactured goods and services from primary sector based trade.

The best reason why a country chooses the path of trade liberalization is the correction in its balance of payment situation (Santos-Paulino and Thirlwall, 2002). The growing world market provides an opportunity for the country to realize many types of economies of scale and become able to sell more at international level at competitive prices to generate more income through exports that minimizes/eliminates the deficits at both current and capital account. The liberalized economy attracts more foreign direct and foreign institutional investments along with technical support that not only solve the problem of capital but also improves the productive capacity of the country that puts the economy on the path of growth. Jordan was also expecting the same from the trade liberalization. Hence in this research endeavour an attempt has been made to analyze all these effects of trade liberalization on Jordanian economy.

1.3 Objectives of the Study

In the light of the above discussion and theoretical background the present research work tries to measure the effect of trade liberalization on Jordanian economy in general and is based on the following objectives;

(i) Analyzing the impact of trade openness on the size of Jordan’s trade volume and its growth, share in world trade and composition and direction of trade.

(ii) Investigating the effects of trade liberalization on balance of payment situations.

(iii) Assessing the effectiveness of trade liberalization in attracting Foreign Direct Investment (FDI), Foreign Institutional Investment (FIIs) and foreign remittances.

(iv) Determining the efficacy of trade liberalization in promoting the growth of the Jordanian economy, and

(v) Finding out the policy implications of the present study.
1.4 Hypotheses of the Study

The present study is based on the following hypothesis and tries to know the statistical significance of the above objectives.

(i) The process of trade openness has not been very much successful in affecting the size of Jordan’s trade volume and its growth; share in world trade and composition and direction of trade.

(ii) Jordan’s trade liberalization has failed in solving the problems of balance of payment.

(iii) There is no impact of trade liberalization on Foreign Direct Investment (FDI), Foreign Institutional Investment (FIIs) and foreign remittances in Jordan.

(iv) Trade liberalization in Jordan has been ineffective in promoting the growth of the economy.

1.5 Data Sources and Methodology

The second chapter that deals with trade liberalisation and foreign trade in Jordan is divided into four sections. The first section studies the trend analysis of the foreign trade in Jordan and the second section focused on the role and performance of Jordan’s foreign trade in relation to the World for the period between 1965 and 2017. The third section deals with the composition of exports and imports during the period from 1990 to 2017 while the fourth section analyses the direction of exports and imports over the period of 1995 to 2017.


The data for indicators of foreign trade are shown in absolute term while the data for composition of trade i.e. share of different commodities and direction of trade i.e. Jordan’s trade with partner economy are written in percentage form. To know the
status of various commodities and various trading partner composition and direction of trade total data is mentioned in absolute form. To show the trend of foreign trade and country’s GDP the growth rate has been calculated with the help of following formula.

**Annual Growth Rate has been calculated by the formula**

\[ AGR = \frac{CV-PV}{PV} \times 100 \]

Where,

- \( AGR \) = Annual Growth Rate
- \( CV \) = Current Year Value
- \( PV \) = Previous Year Value

**The percentage share is calculated with the help of**

\[ PS = \frac{AV}{TV} \times 100 \]

Where,

- \( PS \) = Percentage Value
- \( AV \) = Actual Value
- \( TV \) = Total Value

This study has been done to know the status of impact of trade liberalisation in Jordan. Trade liberalisation has a direct impact on the exports and imports of Jordanian economy and in the long run affects the standard of living of Jordan’s people.

The data for chapter third and chapter fourth has been taken from World Bank Data Bank, International Monetary Fund and ministry of finance of Jordon.

The data has been taken on gross domestic product as proxy for economic growth, export of goods and services, import of goods and services, the current account, capital account, foreign direct investment, foreign portfolio investment, saving and gross capital formation
Chapter 1: Introduction

The time period of study has been chosen from 1975 till 2017

Unit Root Test

To begin with empirical analysis all the variable of study has been made stationary.
To check the stationary problem we have employed Augmented Decay Fuller test to make all series stationary. We have following test to check the stationarity of variables

**Dickey-Fuller Test**

To check the stationary of variable we set the null hypothesis that there is a unit roots in the series through dickey-fuller test we are able to reject or accept the null hypothesis that there is unit-root in the series. Unit roots mean series is not stationary; the variable does not have mean and variance constant. In non-stationary series mean and variance of series change over a period of time.

\[ Y_t = \beta Y_{t-1} + \beta t \]

**Augmented Dickey-Fuller test**

The Augmented Dickey-Fuller test is the improvement of Dickey-Fuller test which I have employed in this study.

**Least square method**

After making all the series stationary I have applied the least square method to establish the linear relationship between the variable

GDP = \( \beta_0 + \beta_1 \text{export} + \beta_2 \text{import} + \beta_3 \text{investment} + \beta_4 \text{saving} + \beta_5 \text{remittances} + \beta_6 \text{FDI} + \mu \)

Where \( \beta \)'s represent the coefficient of the variable and \( \mu \) is define as error term or stochastic term which capture all unexplained variation in to the model

GDP has been taken as dependent variable in model at constant price as it is considered real GDP to assess the impact of trade liberalization which was started early 1990s during Jordon was passing through economic crisis. In 1990 a lot of structural adjustment reform programme were started to overcome from economic crisis

\[ \Delta \text{GDP} = \beta_0 + \beta_1 \Delta \text{export} + \beta_2 \Delta \text{import} + \beta_3 \Delta \text{investment} + \beta_4 \Delta \text{saving} + \beta_5 \Delta \text{remittances} + \beta_6 \Delta \text{FDI} + \mu. \]
Chapter 1: Introduction

We have made all the series stationary by taking the first difference of all series to establish the relationship among the variable (Dicky, D.A., Fuller, W.A, 1981).

1.6 Review of Literature

The study and review of the existing literature related to a subject in an integrated part of the problem. In this chapter the study has try to reach to some concluding points on the basis of which the present research work may be advanced. Some of the studies have been reviewed and presented as follows;

**Thirlwall (1979)** in his paper invokes that the country's long run growth rate can be calculated by the ratio of the growth of exports to the income elasticity of demand for imports. However to approximate the above result, the long-run balance of payments equilibrium on current account is necessary. The model uses the experience of eighteen OECD countries. It was found that contrary to the Neoclassical orthodoxy, it is the output and not relative prices that adjusts the balance of payments. The growth can be demand constrained by the balance of payments.

**Greenaway and Sapsford (1994)** in their paper “What Does Liberalisation Do for Exports and Growth?” addressed the issues whether the exports and growth are related and is there any relationship that appears to be affected by liberalisation. The paper uses a sample of 14 countries which have undergone liberalisation episodes. The production function approach using time series analysis has been used by the authors to investigate both the issues. The results suggest that though exports and growth are positively related; however, the relationship does not appear to be a robust one. The results also highlights that there is a relationship which appears to be significantly affected by liberalisation only in some of the cases.

**Khan et al. (2018)** in their paper talked of Pakistan and Malaysia’s significant bilateral economic relationship. The paper highlights that the Pakistan–Malaysia Free Trade Agreement (FTA) was signed in 2007 but was implemented in 2008. Pakistan’s volatile exports to Malaysia never achieved a sustainable growth due to which the trade balance has not been able to achieve significant changes even after 9 years of implementation of the agreement. This paper quantifies the current FTA between Pakistan and Malaysia and suggests the changes that could be made to improve the outcome from such trade agreement for Pakistan. The paper uses a new global economic trade model so that more detailed information on Pakistan’s labour and the...
Chapter 1: Introduction

household groups can be taken into the Global Trade Analysis Project (GTAP) database and the impact of the FTA on Pakistan could be known. The results show that a renegotiation of the current FTA could benefit both Pakistan and Malaysia. If these countries are able to get the same tariff concession as awarded to each other’s trading partners, then both could highly benefit from such bilateral trade.

Al- Zoubiet al.(2013) in their studies pointed out that the level of development reached by any country can easily be reflected by its international trade. Thus, they considered international trade as one of the basic criteria to measure development of the economy. The paper also maintains that it is one of the tools that help in achieving and maintaining the balance of the economy since the structure of foreign trade is generally specified according to growth of country’s economic infrastructure. The authors argue that a country which depends on agricultural sector will export mainly raw materials and agricultural products. Thus the result of development process in these countries will be followed by changes in foreign trade structure. This study examines the improvements that happened in Jordan’s international trade and observes the changes in the components that used to be and is now exported. The study also examines their geographical distribution, which shows the economic relationship between Jordan and the external universe.

Baldwinand Cain (2000) in their study studied the basic relationship of the standard general equilibrium trade model. The paper studies the relationship between product-price changes to factor. To investigate empirically the importance of changes in trade, technology, and factor endowments in accounting for the shifts in relative wages of less-educated workers compared to more-educated workers, the price changes is used together with other economic relationships based on this model from 1967 to 1996. In the early phase of the above period when the wage inequality initially decreased, the dominant explanatory factor seems to have been a relative increase in the supply of highly educated labour. However, since the late 1970s, none of the three economic forces can be alone considered that accounts for the observed changes in relative wages, prices, outputs, net exports and factor-use ratios. The study found that both education-biased technical progresses, that was greater in industries that intensively used more-educated labour and increased import competition in industries that intensively used less-educated labour seem to have played important roles in bringing about the increase in wage inequality during the 1980s and 1990s.
Whalley (1989) in his paper has documented the recent external sector liberalization in developing countries. The study evaluates the reason behind it and assesses whether it is likely to persist, accelerate or reverse. It draws heavily upon material collected during a recent Ford Foundation-supported research project on developing countries and the global trading system covering eleven developing countries (Argentina, Brazil, China, Costa Rica, India, Kenya, Mexico, Nigeria, Philippines, Republic of Korea and Tanzania). The study found that there are many factors that underlie these liberalizations. These factors include rethinking of the basic approach towards trade policy in a number of countries, with less commitment than earlier to import substitution and more interest in outward-oriented development strategies. The paper also points out that conditionality in World Bank and IMF lending programs appears important in Africa and in some of the Asian and Latin American countries. In some cases, sector-specific liberalization has also been the result of bilateral pressure from the U.S. and the European Community. The study found that strong macro performance in the developed world has generated substantial growth in foreign exchange earnings for developing countries and facilitated this liberalization. The paper concludes by suggesting that, in the short to medium term, some reciprocal actions by the developed countries in the GATT Uruguay Round would help in keeping domestic political support for these liberalizations alive.

Salinas and Aksoy (2006) in their empirical study on the impact of trade liberalization has not found significant impact of trade reforms. They have used the samples that exclude countries that were subject to major exogenous disruptions and observed that post-reform economic growth was 1.2 percentage points higher than before the reforms. The results were remarkable considering that pre-reform periods were characterized by highly expansionary state policies and large external borrowing. The study eliminate the crisis years that preceded trade liberalization in the comparisons. The annual per capita GDP growth rate has been calculated with the help of multivariate fixed effects estimations. It was found that annual per capita GDP growth rate has increased by up to 2.6 percentage points after the trade reforms. Moreover, the study observed that trade liberalization has been followed by acceleration in investment increase in exports of goods and services, enhancement in manufacturing exports, and as opposed to common belief, external coordination did not lead to noteworthy deindustrialization and in fact seems to have increased export
diversification. Acceleration occurred irrespective of income per capita level and was indeed quite significant in Sub-Saharan Africa. Thus, it could be said that small countries benefits the most from these reforms.

Parikh (2006) in his paper takes into account various objectives and studies the impact of liberalization on growth, trade deficits and the current accounts of developing countries observed that trade liberalization promote economic growth from the supply side by using the resources more efficiently by encouraging competition, and by increasing the flow of ideas and knowledge across the national boundaries. He advocated that trade liberalization could lead to faster import growth than export growth and hence, the supply side benefits may be offset by the unsustainable balance of payments position. To argue his case, he used the panel data for 42 countries (both time-series and cross-sectional) to estimate the effect of trade liberalization on economic growth and increase in trade balance whereas monitoring for other factors such as the income terms of trade. The major finding of the study is that the growth itself has a negative impact on trade balance; however, trade liberalization promotes growth in most countries. Those nations which are following trade liberalization could have high real exchange rates, a worsening current account and trade balance and consequently a worsening savings-investment balance and that this would be consistent with the rational forward looking agents in which inter-temporal budget constraints are satisfied.

Sandri et al. (2016) in their study firmly believed that the international trade has grown rapidly since world trade organization came into force in 1995. The composition of trade has shifted from manufacturer to the service sector and the volume of trade in services sector has increased tremendously. Nevertheless, the growth effects of trade in services have been insufficiently explored. Along with this line, the aim of this study is to investigate empirically the specific growth contribution of the trade in goods and services in Jordan for the period 1980-2014. The Fully Modified Ordinary Least Squares model has been employed which has power to correct for endogeneity of data and serial correlation. The results of the estimated regression are in tune with the economic theory. In particular, it emerges that trade in goods has a negative effect on GDP in Jordan, while on the other hand trade in services has positively affects economic performance in Jordon.
Taleb (2012) in his study pointed out the policy of trade liberalization and active economic integration which followed by Jordan during the last three decades. Although it has clearly succeeded in expanding the size foreign trade, it is ambiguous, whether this trade expansion has positively reflected in term of real economic growth. The main objective of the study is to evaluate the impact of trade liberalization on real economic growth. The time-series data covering the period 1970-2009, has been used in the estimation. It showed the relationship between real economic growth and trade openness is assessed at both the sectoral as well as aggregate levels. The study has applied different time-series econometric techniques comprising Granger causality, static and dynamic regression analysis to achieve its objective. The results of the study reveal that existence of both static and dynamic positive effects of trade openness on over-all real economic growth. It also provides evidences which support the existence of positive and significant effect of trade openness on the per-capita output of both industrial and construction sectors.

Gnangnon (2017) empirically examined the impact of multilateral trade policy liberalisation on countries' levels of economic development, provided by their real per capita income. The study is particularly important in the context of current growing rhetoric against international trade or against the free trade which could trigger domestic protectionism and would likely undermine multilateral trade liberalization. The investigation has been conducted on a panel data set of 155 countries, over non-overlapping four-yearly sub-periods during 1995-2014. The empirical results proposed strong support for the assessment that economic development is achieved by multilateral trade liberalisation. Hence, the rise in unilateral protectionist trade measures around the world would likely endanger the prospects of further multilateral trade liberalisation and ultimately undermine countries’ prospects of economic development.

Ghani (2011) highlighted the effect of trade liberalisation on imports, exports and GDP per capita of Organisation of the Islamic Conference (OIC) member countries that have gone through the trade liberalisation process since the 1970s. Using an approach that focus on the changes within country across time, the study found that the effects differ from one country to other. However, in general, trade liberalization process has improved the country’s GDP per capita in the medium term. Unlike the effects on GDP, the ratio of imports, exports and trade over GDP did not show any improvement after the trade liberalisation.
Batiz and Romer (1991) brought new finding and concluded that, international trade in two similar developed economies can cause a permanent increase in the worldwide rate of growth. Starting from a position of isolation, closer integration can be achieved by increasing trade in goods or by implementing flows of ideas. They considered two models with different provisions of the research and development sector through which growth is dependent. Either form of integration can increase the long-run rate of growth if it encourages the worldwide exploitation of increasing returns to scale in the research and development sector.

Matusz (1996) The author merges a model of monopolistic competition in the production of intermediate goods with the Shapiro-Stiglitz model of efficiency wages to show that the introduction of international trade leads to increased employment in both countries. It also finds out that increase in variety of available intermediates leads to greater division of labour in trade. The resulting increase in productivity yields higher real wages, thus relaxing the efficiency-wage constraint and permitting an increase in employment. The increase in employment then magnifies the benefits of trade. Similar reasoning applies even when unemployment is generated from other processes.

Dutt et al. (2009) employed a model of trade and search-induced unemployment, where trade results from Heckscher-Ohlin (H-O) and/or Ricardian comparative advantage. By using cross-country data on trade policy, unemployment, and various controls, and controlling for endogeneity and measurement-error problems, they found fairly strong and robust evidence for the Ricardian prediction that unemployment and trade openness are negatively related. This effect dominates the positive H-O effect of trade openness on unemployment for capital-abundant countries, which turns negative for labour-abundant countries. Using panel data, they also found an unemployment-increasing short-run impact of trade liberalization and followed by an unemployment-reducing effect leading to the new steady state.

Hosoe (2001) with a computable general equilibrium model, has investigated Jordan's trade policies: implementation of the Uruguay Round (UR) and establishment of a Free Trade Agreement (FTA) with the European Union. He suggested that the UR would improve Jordan's welfare and that the FTA, which presupposes the UR, would bring about further improvements in Jordan's welfare. He
pointed out that the current trade liberalisation policy in Jordan has some merits and some demerits too. On the one hand, the chemical and the agricultural sectors would expand while on the other hand the non-metal mineral sector would contract.

**Winters (2004)** has surveyed the recent literature on trade liberalisation and economic growth. While there are serious methodological challenges and disagreements about the strength of the evidence, the most plausible conclusion is that trade liberalizations generally induces a temporary (but possibly long-lived) increase in growth. A major component of this is an increase in productivity. He emphasized the importance of other factors in achieving growth, such as other policies, investment and institutions, but argues that many of these respond positively to trade liberalisation. It also considers the implementation of liberalisation and notes the benefits of simple and transparent trade regimes.

**Alamro (2017)** tried to assess the effect of trade liberalization on Jordan’s economic growth through the prism of improvement in employment and productivity during the period (1980-2014). The study also applied Johansen co-integration test which found out that there is one co-integration vector exists among the variables in the model. The study analyzed a long-run relationship between real gross domestic product per capita and other variables (trade openness, unemployment rate, labour productivity) with the help of Vector error correction model (VECM). It discovered that the Short-term deviations from the long-term equilibrium relationship are corrected at a rate (0.25). Furthermore, the study showed a positive VECM reading and significant impact from the explanatory variables on economic growth of Jordan in the long run, and non-significant impact in the short run. The study also showed that a positive impact on trade liberalization on economic growth, labour productivity and unemployment rate when measuring with respect to impulse response function and variance decomposition test. This study is very useful for understanding the ‘Economic growth’ and ‘Balance of trade’. It also gave the understanding about various model and techniques and their uses.

**El-Anis (2013)** in a study explained the trade policy of Jordan. It showed that trade promotion is a key to Jordan’s development policy. The study reveals that increasing exports and maintaining a healthy balance of trade with its trading partners is important for Jordan is very important. The study elaborated that the government’s
most important goals is to maintain a favourable balance of payment. The study also discuss about Free Trade Agreement (FTA) signed with the United States in 2000. It described the agreement as a milestone of Jordan’s foreign economic policy and a key test case for its broader policy of trade liberalization. The study also finds out that there is an evidence for a positive relationship between trade liberalization and increased bilateral trade and economic growth. It also assesses drawbacks and criticism for opening up developing markets to competition from their more advanced counterparts with special reference to Jordanian economy. The study examined the argument that FTAs do facilitate bilateral trade but states with large and advanced economies benefit more than small developing states and markets by evaluating overall levels of bilateral trade between Jordan and the United States before and after the JUSFTA came into effect. Linear trend line projections are used to offer a comparison between experienced levels of trade and projected potential levels of trade based on pre-JUSFTA era data. The article concluded that bilateral trade between Jordan and the United States rapidly increased after 2001 and this coincided with the implementation of the JUSFTA confirming a strong correlation between the two. The study further observed that Jordanian exports to the United States have grown more rapidly than imports. Jordan has benefitted from an overall trade surplus since the implementation of the JUSFTA compared to the trade deficit experienced in the pre-JUSFTA era. However, following the complete implementation of the JUSFTA, Jordanian imports from the United States now exceed exports and the Jordanian trade deficit may continue in the coming years.

Burhan et al (2014) have investigated the impact of trade liberalization on economic growth in Tanzania using the annual time series data covering from 1970-2010 by sub dividing in to two different categories that shows the period of closed economy (1970-1985) and the period of open economy (1985-2010). That tries to identify the impact of trade liberalization on the performance of economy by applying an OLS technique for the two periods separately. The study found a positive and significant impact of trade openness on economic growth. The study also indicates that the positive impact was higher during the closed economy regime than open economy period in Tanzania.

Greenaway and Morgan (2002) tries to show the mixed effects using a dynamic panel frame work and different indicators of liberalization and found the
controversial empirically both positive and negative results and their result suggest
that, on average, openness appears to have been connected with a failing in growth for
the particular sample in developing countries explain about the reform and adjustment
programs to facilitate and improve the functioning of markets with an objective to
support factor allocation and build-up. Completely removing or decreasing the anti-
export barriers of the liberalizer country was vital for any program.

**Seid (2012)** the theory of multistage production function international journal
work based empirically investigated the impacts of trade liberalization on economic
growth and poverty reduction in Ethiopia using the Dynamic Computable General
Equilibrium Simulation Model simulated alternative policies scenarios showing full
and indiscriminating liberalization, gradual and rationalized liberalization,
instantaneous tariff liberalization and found the result as he expected to be a positive
relationship trade liberalization has positive impact on the declining of poverty and
economic growth in the long run.

**Jeffery and Andrew (1991),** empirically estimated the sub-Saharan African
countries future based sources of slow economic growth as a more optimistic view
following the approach of Barro (1991), they used countries gradual adjustment from
the current income level to the steady state level of per capita income using some
selected variables through a panel data analysis and their finding suggested the reason
for the stagnant economic growth apart from landlocked geographical features and
lack of openness for international markets, poor economic policies and political
instabilities take the lions share. The authors used the Cobb Douglas production
function and included some policy variables such as higher rates of central
government savings as a share of GDP associating with a faster economic growth.

**Chaudhry et al (2010)** has empirically assessed the causality relationship
among Trade liberalization, human capital and economic growth using the annual data
from 1972 to 2007 based on the neoclassical theory. The study has employed Granger
causality cointegration method and found and confirmed that the short run and long
run relationship between the engaged variables exist. They also observed a direction
of causality from liberalizing trade to human capital accumulation with a
technological advancement and interim to economic growth. Their result shows that
all the variables were statistically a significant and put an evidence of a 3.06 percent
GDP growth registered due to a 1 percent increase in trade openness in Pakistan.
**Feraboli and Chemnitz (2007)** in their study have elaborated the effects of the Association Agreement (AA) between Jordan and the European Union (EU) on the Jordanian economy. The study gave importance to the consumer welfare. It also deals with trade relationship between EU-Jordan with reference to the consumer perspective. It shows that both the nations gradually replace the tariffs on most industrial products to give more advantage to the people or customer. Similarly, custom duties on agricultural commodities and processed agricultural items are gradually and only partially being abolished. The study revealed that trade liberalization has brought about a positive effect on consumer welfare through lower prices of investment and consumption goods but it also gave the loss to the government exchequer. The study further observed that fiscal measures are required to compensate the loss in government revenue. The study used a multi-sectoral dynamic CGE model to measure the inter-temporal effects due to trade liberalization on the Jordanian economy. The study asserted that the implementation of the AA raises consumer welfare in Jordan and has positive effects on all macroeconomic variables in the long-run, but it reduces consumption in the short-run.

**Obeid and Awad (2018)** measured the impact of trade openness and financial development on economic growth in Jordan based on quarterly data for the period 1992-2015. The Autoregressive Distributed lag model (ARDL) was used for measuring the effect of trade openness on economic growth. The study examined that there exists a long-term positive effect of trade openness calculated by the ratio of sum of exports and imports to GDP and financial development assessed by the ratio of both finance extended to the market sector and broad supply of money to GDP on economic growth in Jordan. The effect of trade openness and financial development on economic growth was not statistically significant in the short run.

**Paulino and Thirlwall (2004)** in their study about the impact of trade liberalization on export growth, import growth, the balance of trade and the balance of payments is being estimated for 22 developing countries who embraced trade liberalization policies since 1970s with the help of panel data and times series/cross section analysis. The study found that liberalization had boosted both export and import growth but import increased more than export which ultimately led to the balance of trade and payments problems for the studied countries. It also affected growth of output and standards of living. The findings of the study have a lesson for
the countries who are adopting the liberalization process that at what extent they can adopt the liberalization.

**Haouas et al. (2002)**, their study on the effect of trade liberalisation on employment and wages in Tunisia in the long-term and short-term for the period 1971-1996. The study used time series analysis and causality tests for data analysis. The study finds a set of results and observed that trade liberalisation has influenced the employment and wages in Tunisia. In addition to that there are differences in the impact of trade liberalisation on employment and wages in the long-term and short-term.

The study conducted by **Njikam (2003)** used the data of companies for four years before the liberalisation of trade and compared it with its data for 35 companies after the trade liberalisation. The most important results are: the average technical efficiency is 9.1 percent higher after trade liberalisation than before trade liberalisation. Technical efficiency of enterprises has grown at an average rate of 2.74 percent in the post liberalisation period while the technical efficiency of enterprises prior to liberalisation increases on an average by a modest 0.59 percent. The positive impact of trade liberalisation also represented in terms of gains in technical progress by 4.74 percent. Overall the study obtained these results through estimating the limits of elastic random production, before and after trade liberalisation.

**Pariks and Stirbu (2004)** conducted a study to examine the nexus among trade liberalisation, economic growth and trade. This study was based on the analysis of developing countries of Asia, Africa and Latin America. The study used individual growth rates, the exchange rate and trade balance. The study found a range of results including economic growth that is positively associated with trade liberalisation in many countries.

**Topalova (2004)** conducted a study to identify the effects of trade reforms in India in the early 1990s on the productivity of enterprises in the manufacturing sector by focusing on the interaction between these reforms and the characteristics of firms and the environment. The study used data from the manufacturing sector in India with reference to the adaptation of structural adjustment program, which was supported by the International Monetary Fund in India in 1991. The study reached to a number of
conclusions. The most important is that the policies at the state level (such as labour regulation, investment climate and financial development) do not affect the productivity of the enterprises.

Lee (2005) explored the effect of trade liberalization in developing countries on the level of employment growth. The study used both inductive and deductive method by reviewing some of previous researches about the trade liberalization process in developing countries. The study reached to a conclusion that there is variation in the effectiveness level of the trade liberalization on the growth of employment in developing countries. The variation in the level of effectiveness of trade liberalisation is largely governed by the differences in the way policies are implement in the developing countries. In addition the success of trade liberalization in developing countries is embedded within a consistent set of macroeconomic and social policies.

Shafaeddin (2005) conducted a study to examine the relationship between economic performance and trade liberalization. This study was based on some developing countries that started trade liberalization process early in 1980s. The sample consisted of some of countries from Asia, Africa and Latin America. The results indicated that most of the developing countries have benefits of trade liberalization, especially in the development and reorientation of the industrial sector according to a fixed comparative advantage.

In a study conducted by Yasmin, Jehan and Chaudhary (2006) aimed to detect the effect of trade liberalization on Pakistani economic development. The study used data for the period 1960-2003. The study focused on four variables namely per capita gross domestic product, income inequality, poverty and work. The study used regression analysis. It is found that trade liberalization did not affect these variables during the study period. However it is found that trade liberalisation has positively affected the output of the individuals and negatively affected on the level of income distribution.

Mouelhi (2007) conducted a study in order to investigate the relationship between the Tunisian industries and trade system in the state. The study was divided into two parts. The first part consists of period before the liberalization of trade from 1987 to 1995 and the second section deals with post trade liberalization period i.e
after 1995. The study used different data such as productivity growth, employment growth and export growth. With the help of these variables an econometric analysis has been done. This study includes trade liberalization in Tunisia does not have any impact on manufacturing growth and employment growth. It is also found that trade liberalization does not have any impact on the GDP growth.

Bajona et al. (2008) conducted a study entitled "Trade liberalization, growth and productivity". This study aimed to reveal the relationship between economic growth and trade liberalization. The study concluded that trade liberalization has helped in improving the level of well-being, but it does not help in increase of GDP level instead trade liberalization may lower growth rates of gross domestic product.

Kazungu (2009) conducted a study in order to explore the role of trade policies and trade liberalization on the economy in Tanzania. The study focused on the agriculture sector of Tanzania. The study used a variety of methods to achieve the objectives of the study, such as parametric and nonparametric tests, and testing of hypotheses. He compared the results with the analysis of the State of Uganda. The study found that the process of trade liberalization has strengthened the weak export growth. The results of the study indicated that the impact of trade liberalization on the productivity of the land is different, and there is significant and negative effect of trade liberalization on traditional exports, while there is non-significant and positive on the other exports.

The purpose of the study conducted by Abdulai and Ramcke (2009) was to test the correlation between economic growth and international trade and environmental degradation. For this purpose authors used the data from developing countries as well as developed countries and covered the period from 1980 to 2003. The results of the study showed that trade liberalization is very beneficial for the sustainable development of rich countries, and there is no relationship between trade liberalization and environmental degradation.

Gertz (2009) conducted a study in order to determine the effect of trade liberalization on the Kenyan economy during the period 1980-1990. The study found that trade liberalization in Kenya has achieved great success in the agro-industry and garment industry, but did not achieve sustained growth. In addition to this trade liberalization did not enhance employment opportunities. The trade liberalisation has
Chapter 1: Introduction

also reducing the incidence of poverty and inequality in the country. The study suggested that trade liberalization was done in coordination with other development strategies, to achieve a balance between global and regional trade integration, and stressed that job creation could help in maximizing the benefits of trade in Kenya.

The purpose of the study conducted by Topalova and Khandelwal (2010) was to highlight the effect of trade liberalization on the productivity of companies in India. The study worked on the analysis of each sector in order to find out the affects of liberalization of trade on different sectors of the economy. The study found that the greatest effect of the trade liberalization was on the industrial sectors that do not have a local organization. In addition to that the study concluded that there is integration between trade liberalization and reforms of the industrial sector in India.

The study conducted by Oostendorp and Quang (2010) aimed to identify the influence of trade liberalization on the return to education in Vietnam. The study used four household surveys covering the period of 1998-2006. The study focused on wages, jobs and their relationship to trade liberalization and to return to education variables. The study found a range of outcomes, including a positive impact of trade liberalization on the return to education in Vietnam but the effectiveness trade liberalisation declines if the employment variable ignored.

Santos-Paulino (2012) conducted a study to review the theoretical and experimental research related to the impact of trade liberalization on poverty and income distribution, and the study found that there are many variables that affect the level of income, such as globalization and trade liberalization, and trade liberalization improves overall care for individuals i.e. poverty.

Asiedu (2013) conducted a study to measure the effect of trade liberalization policies on GDP growth rate in Ghana. The study used annual data for the period of 1986-2010. The study used regression models to get the relationship between these two. The study found that there is statistically significant positive relationship between trade liberalization and the growth of real GDP in the long term in Ghana. The gross domestic product is affected by the capital and the level of the population in the long term and short term as well. There is negative impact of foreign investment also on GDP growth in Ghana.
In a study conducted by Umoh and Effiong (2013) a relationship between the opening up of trade and the performance of manufacturing sector in Nigeria during the period 1970-2008 is discussed in the short-term as well as long-term. Authors suggested that the Nigerian government should limit trade restrictions and apply appropriate incentives to revive the performance of the industrial sector. Policymakers should also take advantage of openness to comparative advantages in the liberalized sector.

Gnangnon (2018) described the impact of multilateral trade liberalization on the rate of economic growth with the help of 150 countries dataset over the period 1995-2015. The study tried to examine a backlash against trade that could translated into a strong feeling for trade protectionism. This has resulted into lowering multilateral cooperation and delaying further trade liberalization at both domestic and international level. The study showed a strong positive affect of multilateral trade liberalization on economic growth.

Manni and Ibne-Afzal (2012) in their study tried to assess the effect of trade liberalization on Bangladesh economy between the periods 1980 and 2010. The study examined the status of the economy after trade liberalization with the help of different variables such as growth, inflation, export and import. The study used simple Ordinary Least Square (OLS) method for empirical findings. It indicated that GDP growth has been increased significantly as a result of liberalization of economy. It also assessed that the liberalization does not seem to have impacted inflation in the economy. The analysis also showed that liberalization has had a favourable impact on economic development. The study manifested that ‘Liberalization policy certainly improves export of the country which eventually leads higher economic growth after 1990s’. The findings of the study can be the best manifestation for developing countries in examining trade liberalization policy.

1.7 Significance of the Study

The openness of trade has brought good news for many/almost all countries of the world. But this has remained a question for many economies particularly the developing one like Jordan who has recently moved on the path of trade liberalization. This study may provide a base to reach at conclusion with respect to this. The success or failure of the process of trade liberalization in Jordan may be judged on the basis of
growth performance of the trade volume which is one of the aspects of the study. The study is significant in knowing whether the trade liberalization has put the Jordanian trade in the right direction or not. We can also get the answer with the help of the present study that has the liberalization affected the composition of the Jordanian trade?

In addition to this the present research effort is very much effective in knowing about the implication of trade liberalization in improving the export of Jordan in general and bringing down the different types balance of payment deficits in particular. The effectiveness level of trade liberalization in attracting FDI, FIIs and foreign remittances can also be measured with the help of the present work. The study is also significant in knowing the impact of trade liberalization on the GDP growth of Jordanian economy. Last but not the least the, the present study may give inputs for the continuation of the trade liberalization and direction in which the trade liberalization may be moved on.

1.8 Scope of the Study

The best reason why trade liberalization is being done is the rapid economic growth. On the basis of the results and behaviour of the various economic parameters like FDI, FIIs etc., the study will give inputs that how the effectiveness level of trade liberalization can be improved in promoting the growth of Jordanian economy. Similarly the present study will be of immense scope in knowing the way Jordanian trade has moved during the process of trade liberalization. The questions like; has the composition and direction of trade moved in the way which suits the Jordanian economy? may be answered with the help of the present study. The scope of the present studies lies in the fact that it gives an overview of the performance of the trade liberalization in affecting the Jordanian economy in terms of trade balance, balance of payment, economic growth, saving investments etc.

The results of the present study will be of great importance and can give valuable inputs for policy recommendations with respect to the future trade liberalization reforms in Jordanian economy. The study can give information about the comparative importance of various indicators of growth like savings, investments, FDI, FIIs foreign remittances, exports, imports and on the basis of which future course of action regarding reform process may be decided to improve the growth
performance of the economy. The results of the study can also guide the Jordanian economy regarding its trading partner (with whom trade is more beneficial to the Jordanian economy) and composition of exportable goods and services and import baskets so that the economy may be diversified and can move from tradition and low productive goods base to high productive goods and services.

1.9 Limitations of the Study

The present study is limited to problems generally associated with the sources of data, their reliability and methodological limitations. The study may also suffer from the problems related with the statistical techniques used in the study. In addition to this, the present study touches a fewer aspects of trade liberalization and its effect on Jordanian economy. Since it is not possible to take all the aspects of the study in a single effort, the scope of the study is limited to analysis of export, import, trade balance, balance of payment, composition and direction of trade and effect of FDI, FIIIs, foreign remittances, exports, imports, saving and investments on growth of Jordanian economy. A large number of aspects like, impact on terms of trade, environmental concerns, impact on employment, impact on inflation, impact on banking sector and capital market, impact on foreign exchange and many more have been left.
REFERENCES:


Chapter 1: Introduction


Chapter 1: Introduction


Chapter 1: Introduction


Muhammad Aamir Khan, QaisarMehmood, Muhammad Zakaria, Muhammad IftikharulHusnain, Muhammad IftikharulHusnain (2018) A Household Level


Chapter 1: Introduction


