

FOREIGN TRADE AS A STRATEGIC DRIVER OF CORPORATE FINANCIAL PERFORMANCE: EVIDENCE FROM AN EMERGING MARKET

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Abstract

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This study investigates the strategic impact of foreign trade on corporate financial performance in Jordan, a small, open, emerging economy. Using annual time-series data covering 2005–2021, the analysis integrates national trade indicators (exports, imports, and trade openness) obtained from the Jordan Department of Statistics with aggregated firm-level financial data for companies listed on the Amman Stock Exchange (ASE). Corporate financial performance is measured by the average return on assets (ROA) across listed firms. The autoregressive distributed lag (ARDL) approach is employed to examine both short-run dynamics and long-run equilibrium relationships. The findings confirm the existence of a stable long-term association between foreign trade variables and corporate financial performance. Exports and trade openness exert positive and statistically significant effects in both the short and long run, indicating that international market integration enhances firm profitability and strategic competitiveness. Conversely, imports demonstrate a negative and significant impact, suggesting that import penetration may intensify competitive pressures and reduce domestic firms' margins. These results provide strategic insights for policymakers and corporate leaders seeking to strengthen export capacity, enhance productive competitiveness, and mitigate risks associated with import dependency.

Keywords: Foreign Trade, Exports, Imports, Trade Openness, Financial Performance, ARDL

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1. INTRODUCTION

Foreign trade plays a central strategic role in shaping corporate competitiveness and financial sustainability, particularly in small open economies where firms operate within highly integrated global markets. Through exports, imports, and broader trade openness, firms gain access to larger markets, advanced technologies, diversified inputs, and knowledge spillovers that may enhance productivity and profitability (Cruzatti, 2025; Demirbilek & Civelek, 2022; Goda et al., 2024). At the corporate

level, foreign trade influences cost structures, revenue diversification, market positioning, and risk exposure, thereby functioning not only as a macroeconomic driver but also as a strategic determinant of firm-level financial outcomes.

Export engagement has been widely associated with improved firm performance due to learning-by-exporting effects, economies of scale, and exposure to international competition (Silva et al., 2013; Wagner, 2011). Conversely, imports present a dual effect. While imported intermediate and capital goods may enhance productivity, import penetration can also intensify competition in domestic markets,

potentially compressing profit margins—particularly in developing economies with limited industrial diversification. Trade openness further reflects the overall integration of an economy into global markets and may strengthen firms' adaptability, innovation capacity, and financial resilience (Lyu et al., 2023).

Despite the extensive international literature, empirical evidence linking foreign trade dynamics to corporate financial performance remains limited in the Jordanian context. Existing research has primarily focused either on macroeconomic trade indicators or on firm-level financial performance independently, without integrating national trade variables with aggregated corporate financial outcomes. This gap is particularly relevant for Jordan, a small open economy characterized by high import dependence, export concentration, and active participation in regional and international trade agreements.

This study addresses this gap by examining the strategic impact of exports, imports, and trade openness on corporate financial performance in Jordan over the period 2005–2021. The selected timeframe captures significant structural developments, including trade liberalization reforms, regional economic fluctuations, and global shocks such as the 2008 financial crisis and the COVID-19 pandemic, thereby providing a comprehensive perspective on trade-performance dynamics. The analysis integrates national trade data obtained from the Jordan Department of Statistics with aggregated firm-level financial data for companies listed on the Amman Stock Exchange (ASE). Corporate financial performance is measured by the average return on assets (ROA) across listed firms, ensuring a unified macro-corporate analytical framework. The sample covers all non-financial firms listed on the ASE during the study period, yielding 17 annual observations.

By adopting the autoregressive distributed lag (ARDL) approach, this study captures both short-run dynamics and long-run equilibrium relationships between foreign trade indicators and corporate financial performance. The study contributes to the corporate strategy literature by positioning foreign trade as a strategic external determinant of firm performance in emerging markets. It further provides evidence-based insights for policymakers and business leaders seeking to strengthen export capacity, manage import exposure, and enhance competitive positioning within the global economy.

The remainder of the paper is structured as follows. Section 2 reviews the theoretical and empirical literature. Section 3 presents the research methodology. Section 4 reports the empirical results. Section 5 discusses the findings. Section 6 concludes the paper.

2. LITERATURE REVIEW

2.1. Foreign trade as a strategic determinant of corporate financial performance

In the contemporary global business environment, foreign trade has evolved from a purely macroeconomic phenomenon into a core strategic determinant of firm-level competitiveness. Firms' engagement in exports, imports, and open trade regimes shapes their revenue structures, cost

efficiency, innovation capacity, and long-term sustainability. From a strategic management perspective, international trade decisions represent deliberate positioning choices that influence competitive advantage and financial outcomes.

Classical trade theory, particularly the theory of comparative advantage, suggests that specialization and international exchange enhance productivity and cost efficiency (Ricardo, 1817; Krugman et al., 2018). Modern heterogeneous firm models extend this view by arguing that only more productive firms can enter export markets, and that exporting further improves performance through learning-by-exporting effects (Melitz, 2003). Thus, foreign trade is both a consequence and a driver of superior financial performance.

Empirical evidence consistently confirms that internationally engaged firms outperform domestically oriented firms in terms of profitability, productivity, and growth (Bernard et al., 2007; Wagner, 2011; Andersson et al., 2008). These findings position foreign trade as a strategic lever capable of reinforcing financial performance in competitive environments.

2.2. Export orientation and financial performance

Exporting represents a proactive growth strategy that enables firms to expand beyond domestic demand constraints. By accessing larger markets, firms can achieve economies of scale, diversify revenue streams, and reduce vulnerability to domestic economic fluctuations.

Empirical studies show a strong positive association between export activity and financial performance (Melitz, 2003; Bernard et al., 2007; Wagner, 2011). In emerging economies, export diversification enhances financial resilience and reduces market-specific risks (Revindo & Devianto, 2019).

Strategically, export orientation facilitates capability upgrading, knowledge acquisition, and innovation, thereby strengthening long-term financial sustainability.

2.3. Import competition and firm performance

Imports generate both opportunities and competitive pressures. On one hand, imported intermediate and capital goods can improve productivity and technological upgrading (Augier et al., 2012; Ariu et al., 2019). On the other hand, import penetration—especially of finished goods—may intensify competition, compress margins, and reduce domestic firms' profitability (Peltonen et al., 2008; Topalova, 2004).

In small open economies with limited industrial diversification, high import dependence can expose firms to external shocks and structural trade imbalances. Firms unable to differentiate products or upgrade productivity may experience sustained financial pressure under intensified import competition.

2.4. Trade openness and strategic performance

Trade openness reflects the institutional framework governing economic integration. Greater openness fosters competitive discipline, innovation, and global value chain participation (Balavac & Pugh, 2016).

Recent research highlights that openness enhances firms' strategic flexibility and adaptive capacity (Lyu et al., 2023; Goda et al., 2024). By increasing exposure to international markets and technologies, open trade regimes create an enabling strategic environment for sustained financial performance.

2.5. SWOT analysis of Jordan's trade environment

To contextualize the strategic implications of foreign trade in Jordan, a SWOT analysis is conducted.

Strengths:

- strategic geographic location linking Asia, Europe, and Africa;
- extensive participation in bilateral and multilateral trade agreements;
- relatively stable financial and regulatory institutions.

Weaknesses:

- high dependence on imported energy and intermediate goods;
- persistent trade deficit and limited export diversification;
- small domestic market size.

Opportunities:

- digital transformation and e-commerce expansion;
- integration into global value chains;
- industrial upgrading and export market diversification.

Threats:

- regional geopolitical instability;
- external demand shocks;
- import penetration is affecting domestic industries.

This SWOT framework illustrates that while Jordan benefits from trade openness and export opportunities, structural weaknesses—particularly import dependence and trade imbalance—pose strategic risks to corporate financial performance.

2.6. Research gap and contribution

Despite extensive international evidence, limited research integrates national trade indicators with aggregated corporate financial performance in Jordan. Most prior studies focus either on macroeconomic growth or on cross-sectional firm-level analyses.

This study contributes by:

- integrating national trade data with firm-level aggregated ROA;
- employing a time-series ARDL framework to distinguish short- and long-run effects;
- framing foreign trade as a strategic determinant of corporate financial performance in a small open emerging economy.

2.7. Research hypotheses

Based on the reviewed literature, the following hypotheses are proposed:

H1: Export activities have a statistically significant positive effect on the financial performance (ROA) of firms listed on the Amman Stock Exchange.

H2: Import dependence has a statistically significant negative effect on the financial

performance (ROA) of firms listed on the Amman Stock Exchange.

H3: Trade openness has a statistically significant positive effect on the financial performance (ROA) of firms listed on the Amman Stock Exchange.

3. RESEARCH METHODOLOGY

3.1. Research design and data

This study adopts a quantitative time-series research design to examine the impact of foreign trade indicators on corporate financial performance in Jordan over the period 2005–2021 (17 annual observations). The selected period captures major economic events, including trade liberalization reforms, the 2008 global financial crisis, and the COVID-19 pandemic.

The dependent variable is corporate financial performance (ROA), measured as the aggregate ROA of firms listed on the ASE. ROA is calculated as net income divided by total assets and reflects overall profitability efficiency.

The study applies a census approach, covering all listed firms during the study period rather than a sampled subset.

The independent variables include:

- Exports (X): Total national exports of goods and services.

- Imports (M): Total national imports of goods and services.

- Trade openness (OP): Measured as total trade (exports + imports) divided by gross domestic product (GDP).

Trade data were obtained from official national statistical sources, while financial data were derived from published annual reports of listed firms. All variables were estimated in level form.

3.2. Empirical strategy

The empirical analysis was conducted in sequential stages consistent with time-series econometric procedures.

3.3. Descriptive statistics

Descriptive statistics (mean, minimum, maximum, and standard deviation) were computed to provide an initial overview of the variables and assess their distribution and variability over the study period.

3.4. Correlation analysis and multicollinearity

To assess preliminary associations among variables, a Pearson correlation matrix was estimated.

To detect potential multicollinearity among explanatory variables, variance inflation factors (VIF) were computed. A VIF threshold of five was adopted. All values fell below this threshold, indicating no harmful multicollinearity.

3.5. Normality test

The Jarque-Bera test was applied to assess whether the variables follow a normal distribution. The null hypothesis (H_0) states that the data are normally

distributed. Since all probability values exceeded the 5% significance level, the null hypothesis of normality could not be rejected.

3.6. Stationarity test

To avoid spurious regression results, the augmented Dickey-Fuller (ADF) unit root test was conducted.

All variables were found to be non-stationary in levels but stationary at first difference, indicating integration of order one, I(1). None of the variables were integrated of order two, I(2), making them suitable for the ARDL bounds testing approach.

3.7. Lag length selection

The optimal lag length was determined using:

- Likelihood ratio (LR)
- Final prediction error (FPE)
- Akaike information criterion (AIC)
- Schwarz criterion (SC)
- Hannan-Quinn (HQ)

Based on the AIC, the optimal lag structure was selected as ARDL (2, 2, 2, 1).

3.8. ARDL model specification

The long-run relationship is specified as:

$$ROA_t = \alpha + \beta_1 X_t + \beta_2 M_t + \beta_3 OP_t + \varepsilon_t \quad (1)$$

To capture short-run dynamics and speed of adjustment, the error correction representation is specified as:

$$\Delta ROA_t = \alpha_0 + \sum \alpha_i \Delta ROA_{t-i} + \sum \beta_j \Delta x_{t-j} + \sum \gamma_k + \Delta M_{t-k} + \sum \delta_l \Delta OP_{t-l} + \varphi ECT_{t-1} + u_t \quad (2)$$

where,

- Δ denotes first difference;
- ECT_{t-1} represents the error correction term;
- φ measures the speed of adjustment toward long-run equilibrium.

3.9. Co-integration test

The ARDL bounds test proposed by Pesaran et al. (2001) was employed to examine the existence of a long-run equilibrium relationship.

Co-integration is confirmed when the computed F-statistic exceeds the upper bound critical value.

3.10. Diagnostic and stability tests

To ensure the reliability of the estimated model, several diagnostic tests were conducted:

- Breusch-Godfrey Lagrange multiplier (LM) test for serial correlation;
- Breusch-Pagan-Godfrey test for heteroskedasticity;
- Ramsey regression equation specification error (RESET) test for functional form;
- Durbin-Watson statistic for autocorrelation;
- Cumulative sum control chart (CUSUM) test for structural stability.

These tests ensure that residuals are well-behaved and that the model is statistically sound.

3.11. Robustness check: Multiple regression

To verify the robustness of the ARDL findings, a standard multiple regression model was estimated. The consistency between ARDL and ordinary least squares (OLS) results confirms the stability and robustness of the empirical findings.

4. RESULTS

4.1. Descriptive statistics

To establish an empirical foundation for the econometric analysis, descriptive statistics were computed for all variables over the period 2005–2021 (17 annual observations). Table 1 reports the mean, minimum, maximum, and standard deviation for exports (*X*), imports (*M*), trade openness (*OP*), and corporate financial performance (*ROA*).

The results reveal pronounced variability in Jordan’s external sector. Exports display substantial fluctuations, reflecting shifts in global demand and domestic production capacity. Imports consistently exceed exports across the sample period, confirming the structural trade imbalance and reliance on imported energy and intermediate inputs.

Trade openness demonstrates moderate dispersion, indicating evolving integration into international markets. In contrast, *ROA* exhibits comparatively limited volatility, suggesting that corporate profitability adjusts more gradually than trade flows.

Overall, the descriptive evidence confirms adequate variation across variables, supporting the suitability of subsequent time-series estimation.

Table 1. Descriptive statistics

Variable	Mean	Maximum	Minimum	Std. dev.
<i>X</i>	8997.429	11480.80	4704.200	1917.225
<i>M</i>	14282.41	17739.40	8408.300	2781.147
<i>OP</i>	1.125117	2.041143	0.660596	0.278940
<i>ROA</i>	0.016533	0.031277	0.004570	0.006267
Observations	17	17	17	17

Source: Author’s calculation using EViews.

The results indicate that Jordanian exports experienced notable fluctuations over the study period, while imports remained consistently higher, reflecting the economy’s structural dependence on

imported energy and intermediate goods. Corporate financial performance, measured by *ROA*, shows moderate variability, highlighting differences in firms’ profitability over time.

4.2. Correlation analysis

To examine preliminary linear associations, Pearson correlation coefficients were estimated (Table 2).

The results indicate that exports (0.74) and trade openness (0.81) are positively correlated with ROA, implying that deeper integration into international markets is associated with improved corporate financial performance. Conversely, imports show a negative correlation with ROA (-0.61), suggesting that higher import penetration may compress domestic firms' profit margins through intensified competition.

Although strong correlations exist among trade variables, correlation coefficients alone are insufficient to diagnose multicollinearity; therefore, a formal test is conducted in the following subsection.

Table 2. Correlation matrix

Variable	ROA	EXP	IMP	OPEN
ROA	1.00	0.74	-0.61	0.81
X	0.74	1.00	0.83	0.88
M	-0.61	0.83	1.00	0.91
OP	0.81	0.88	0.91	1.00

4.3. Multicollinearity test

Variance inflation factors were calculated to assess potential multicollinearity. As reported in Table 3, all VIF values range between 3.42 and 4.67, remaining below the critical threshold of 5.

These results indicate the absence of harmful multicollinearity, confirming that the explanatory variables can be included simultaneously without compromising coefficient stability or inference reliability.

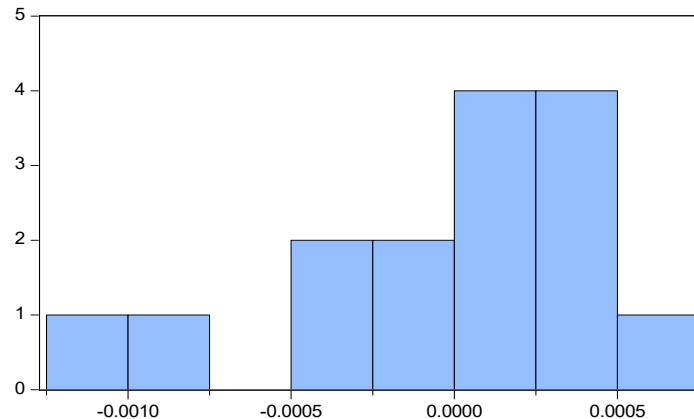
4.4. Normality test

The Jarque-Bera test was applied to evaluate the normality of the residual distribution. The reported probabilities exceed the 5% significance level for all variables, implying that the null hypothesis of normal distribution cannot be rejected.

Table 3. VIF test

Variable	VIF
X	3.42
M	4.18
OP	4.67

Figure 1. Histogram and Jarque-Bera normality test



Note: Series: Residuals. Sample: 2005–2021, Observations: 15. Mean: -1.79e-07. Median: 0.000159. Maximum: 0.000686. Minimum: -0.001053. Std. dev.: 0.000499. Skewness: -0.941725. Kurtosis: 3.070030. Jarque-Bera: 2.220178. Probability: 0.329530. Source: Author's elaboration using EViews.

This outcome supports the validity of parametric inference and enhances the robustness of the estimated coefficients.

4.5. Unit root test results

To avoid spurious regression results, the ADF unit root test was conducted. The findings indicate that all variables are non-stationary in levels but become stationary after first differencing, confirming integration of order one, I(1).

Since none of the variables is integrated of order two, I(2), the ARDL framework is methodologically appropriate for examining both short-run dynamics and long-run equilibrium relationships.

Table 4. ADF unit root test results

The series after making the first difference			
Variables	Sign.	t-value	Prob.
X	5%	-5.465412	0.0006
M	5%	-3.746160	0.0149
OP	5%	-3.477753	0.0272
ROA	5%	-5.660670	0.0006

Source: Author's calculation using EViews.

4.6. Lag length selection

The optimal lag structure was determined using multiple selection criteria, including LR, FPE, AIC, SC, and HQ (Table 5). Based on the AIC, lag length two was selected.

Accordingly, the empirical specification adopted the ARDL (2, 2, 2, 1) structure, ensuring dynamic adequacy and model stability.

Table 5. Vector auto regression (VAR) lag length selection criteria

HQ	SC	AIC	FPE	LR	LogL	Lag
25.11058	25.30141	25.11259	947780.2	NA	-184.3445	0
22.74635	23.70047	22.75640	99789.33	44.89525	-150.6730	1
19.75062*	21.46804*	19.76872*	9531.819*	30.72609*	-112.2654	2

Source: Author's calculation using EViews.

4.7. ARDL bounds test for co-integration

The ARDL bounds testing procedure was employed to assess the existence of a long-run equilibrium relationship among corporate financial performance, exports, imports, and trade openness.

The computed F-statistic (23.984) substantially exceeds the upper bound critical values at the 1% and 5% significance levels (Table 6). Therefore, the null hypothesis of no co-integration is decisively rejected.

This finding confirms the presence of a stable long-run equilibrium relationship between foreign trade indicators and corporate financial performance in Jordan.

Table 6. ARDL bounds test for co-integration

Sign.	LB (I0)	UB (II)
10%	2.01	3.1
5%	2.45	3.63
2.5%	2.87	4.16
1%	3.42	4.84

Note: LB and UB denote the lower and upper bound critical values, respectively. Computed F-statistic = 23.984.

Source: Author's calculation using EViews.

4.8. ARDL estimation results

Table 7 reports the estimated results of the ARDL (2, 2, 2, 1) model, including both the short-run dynamics (error correction model) and the long-run coefficients.

Short-run dynamics. Exports (ΔX) exert a positive and statistically significant effect on ROA ($p < 0.01$), suggesting that short-term improvements in export performance enhance corporate profitability.

Imports (ΔM) have a negative and statistically significant impact ($p < 0.01$), indicating that increased import intensity may compress profit margins in the short run.

Trade openness (ΔOP) demonstrates a positive and highly significant coefficient ($p < 0.01$), reinforcing the importance of external integration for firm performance.

The error correction term, CointEq(-1), is negative and statistically significant at the 1% level (coefficient = -1.900, $p < 0.01$), confirming the existence of a long-run equilibrium relationship among corporate financial performance, exports, imports, and trade openness.

Importantly, the magnitude of the adjustment coefficient exceeds unity in absolute value. This implies an over-adjustment mechanism, where deviations from the long-run equilibrium are corrected more than proportionally within one period, potentially generating short-run oscillations around the equilibrium path before stabilization. While the adjustment speed is relatively high, the negative and significant sign confirms convergence toward the long-run equilibrium rather than divergence.

Long-run estimates. The long-run coefficients indicate that exports have a positive and statistically significant impact on corporate financial performance ($p < 0.05$).

Imports exert a negative and statistically significant effect ($p < 0.05$).

Trade openness positively influences ROA and remains statistically significant ($p < 0.01$).

These results suggest that sustained export expansion and greater trade openness enhance firm-level profitability, whereas higher import penetration may weaken domestic firms' financial performance over the long term.

The magnitude and significance of the coefficients confirm economically meaningful effects rather than merely statistical significance. These findings provide empirical support for the hypotheses ($H1$, $H2$, and $H3$):

Model goodness-of-fit. The model exhibits strong explanatory power, with $R^2 = 0.99$, adjusted $R^2 = 0.97$, and Durbin-Watson = 2.18.

The high R^2 indicates that a substantial proportion of the variation in corporate financial performance is explained by the included trade variables. The Durbin-Watson statistic close to two suggests the absence of serial correlation in the residuals.

Table 7. Estimated results of the ARDL (2, 2, 2, 1) model

Panel A: Error correction model (short-run dynamics)				
Variable	Coefficient	SE	t-stat.	Prob.
D(X)	1.76E-06	2.45E-07	7.168345	0.0008
D(M)	-2.10E-06	4.00E-07	-5.245346	0.0033
D(OP)	0.015522	0.001015	15.30004	0.0000
CointEq(-1)*	-1.900425	0.153390	-12.38952	0.0001
Panel B: Long-run coefficients				
Variable	Coefficient	SE	t-stat.	Prob.
D(X)	1.76E-06	4.51E-07	3.888207	0.0115
D(M)	-2.10E-06	7.56E-07	-2.777861	0.0390
D(OP)	0.015522	0.002331	6.658609	0.0012

Note: $R^2 = 0.99$, adjusted $R^2 = 0.97$, Durbin-Watson = 2.18.

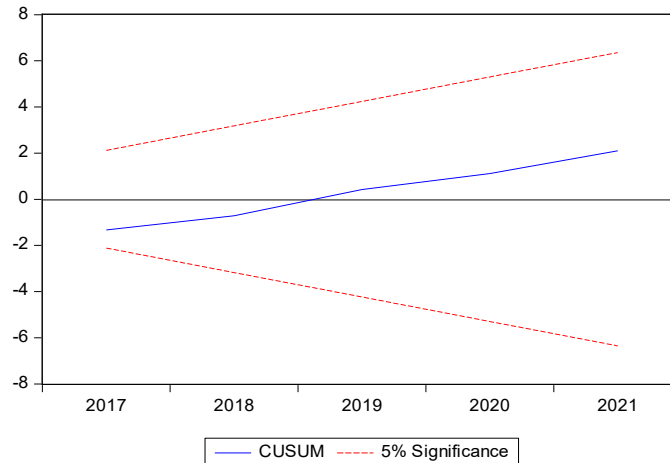
Source: Author's calculation using EViews.

4.9. Structural stability of the model

The CUSUM test confirms that the recursive residuals remain within the 5% critical bounds throughout the sample period. This indicates parameter stability and absence of structural breaks.

Thus, the estimated relationships between foreign trade indicators and corporate financial performance are structurally stable over the study period.

Figure 2. CUSUM test for structural stability



Source: Author's calculation using EViews.

4.10. Diagnostic tests of the model residuals

To ensure the validity and robustness of the ARDL estimates, several post-estimation diagnostic tests were conducted. These tests examine serial correlation, heteroskedasticity, and functional form misspecification in the residuals. The results are reported in Table 8.

Breusch-Godfrey serial correlation LM test. The Breusch-Godfrey LM test was employed to detect residual serial correlation (F-statistic = 0.0836, Prob. $F(2,3) = 0.9219$, Obs * R-squared = 0.7920, Prob. Chi-square(2) = 0.6730).

Since both probability values exceed the 5% significance level, the null hypothesis of no serial correlation cannot be rejected. This indicates that the residuals are free from autocorrelation.

Breusch-Pagan-Godfrey heteroskedasticity test. To test for heteroskedasticity, the Breusch-Pagan-Godfrey test was applied (F-statistic = 0.2709, Prob. $F(10,4) = 0.9572$, Obs * R-squared = 6.0574, Prob. Chi-square(10) = 0.8104).

The probability values are well above the 5% threshold, indicating that the null hypothesis of homoskedastic residuals cannot be rejected.

Therefore, the variance of the residuals is constant, satisfying a key assumption of classical regression analysis.

Ramsey RESET test (functional form). The Ramsey RESET test was conducted to examine potential functional form misspecification (F-statistic = 0.1504, Prob. $F(2,3) = 0.8665$).

Since the probability value exceeds 0.05, the null hypothesis of correct model specification cannot be rejected. This suggests that the model does not suffer from omitted variable bias or incorrect functional form.

Overall assessment. The diagnostic results collectively indicate that:

- There is no evidence of serial correlation.
- The residuals are homoskedastic.
- The functional form of the model is correctly specified.

All reported probability values exceed the 5% significance level, confirming that the ARDL model satisfies the classical regression assumptions. Consequently, the estimated coefficients are statistically reliable and suitable for inference.

Table 8. Diagnostic test results

Testing	Value	Prob.
Breusch-Godfrey serial correlation LM test	F-statistic 0.083616	Prob. $F(2,3) 0.9219$
	Obs * R-squared 0.792011	Prob. Chi-square(2) 0.6730
Heteroskedasticity	F-statistic 0.270950	Prob. $F(10,4) 0.9572$
	Obs * R-squared 6.057449	Prob. Chi-square(10) 0.8104
Ramsey RESET test	F-statistic 0.150380	(2,3) 0.8665

Source: Author's calculation using EViews.

4.11. Robustness check: multiple regression

To verify the robustness of the ARDL findings, a standard multiple regression model was estimated. The consistency between ARDL and ordinary least

squares (OLS) results confirms the stability and robustness of the empirical findings.

Table 9. Robustness check: multiple regression

Variable	Coefficient	t-statistic	Prob.
X	1.80E-06	3.91	0.012
M	-2.05E-06	-2.70	0.035
OP	0.0151	6.44	0.001

5. DISCUSSION

This study investigated the impact of key foreign trade components—exports, imports, and trade openness—on the financial performance of firms listed on the ASE, using *ROA* as a measure of corporate financial performance. The empirical findings reveal that foreign trade dynamics play a decisive role in shaping firm-level financial outcomes in Jordan, a small open emerging economy. The discussion below interprets these findings within the broader theoretical and empirical literature.

5.1. Exports and corporate financial performance

The positive and statistically significant relationship between exports and corporate financial performance in both the short and long run suggests that export participation is associated with sustained improvements in firm profitability. This finding strongly aligns with heterogeneous firm trade theory, particularly the framework developed by Melitz (2003), which emphasizes self-selection and learning-by-exporting mechanisms.

From a strategic perspective, exporting firms are exposed to international competition, which encourages efficiency gains, technological upgrading, and managerial improvements. Over time, these firms benefit from economies of scale, market diversification, and reduced dependence on domestic demand fluctuations. In the Jordanian context—where the domestic market is relatively small—export orientation appears to function as a critical channel for revenue expansion and financial sustainability.

The persistence of the export effect in the long run indicates that export participation is not merely associated with temporary gains but rather contributes to structural performance enhancement. This supports the view that integration into global markets strengthens firms' competitive capabilities and resilience.

5.2. Trade openness and corporate financial performance

Trade openness is also found to exert a positive and statistically significant effect on firm performance in both time horizons. This result suggests that a more liberalized trade environment fosters corporate efficiency and profitability at the microeconomic level.

While much of the literature emphasizes the macroeconomic growth effects of openness, the present findings demonstrate that openness also directly influences firm-level financial outcomes. Increased openness enhances access to advanced technologies, managerial know-how, foreign inputs, and international best practices. These factors contribute to productivity gains and improved asset utilization, which ultimately translate into higher *ROA*.

In emerging economies such as Jordan, openness may also stimulate competitive discipline, encouraging firms to innovate and restructure. Over time, this process can lead to improved resource allocation and stronger financial performance. The consistency of the openness effect across short- and long-run estimations indicates that trade liberalization contributes to both immediate efficiency adjustments and longer-term structural transformation within the corporate sector.

5.3. Imports and corporate financial performance

In contrast to exports and openness, imports exhibit a negative and statistically significant effect on corporate financial performance. This outcome supports the international competition hypothesis, which argues that import penetration intensifies competitive pressure on domestic firms.

The negative impact observed in the Jordanian case likely reflects the dominance of imported finished goods and consumer products that directly compete with local production. Such competition can reduce domestic firms' market share, compress profit margins, and limit pricing power. The persistence of this effect over time suggests structural challenges associated with import dependence in economies with limited industrial diversification.

Although imports of capital and intermediate goods can enhance productivity, the aggregate effect identified here indicates that competitive pressures outweigh potential efficiency gains at the firm level. This highlights the importance of differentiating between productive imports and consumption-oriented imports when evaluating trade policy implications.

5.4. Broader implications

Collectively, the findings underscore the asymmetric effects of foreign trade components on corporate performance. Exports and trade openness operate as performance-enhancing mechanisms, whereas excessive reliance on imports—particularly in sectors characterized by weak domestic competitiveness—may undermine financial outcomes.

From a policy standpoint, the results suggest the importance of export promotion strategies, industrial upgrading, and policies that strengthen firms' integration into global value chains. Simultaneously, enhancing domestic productive capacity and competitiveness is essential to mitigate the adverse effects of import penetration.

From a theoretical perspective, this study extends international trade and corporate strategy literature by providing firm-level evidence from a small open emerging economy. By employing a dynamic ARDL framework, the analysis captures both short-run adjustments and long-run equilibrium relationships, offering a more comprehensive understanding of how external trade conditions translate into measurable financial outcomes.

6. CONCLUSION

This study provides empirical evidence on the impact of foreign trade on the financial performance of firms listed on the ASE over the period 2005–2021. By employing the ARDL approach, the analysis captures both short-run dynamics and long-run equilibrium relationships between exports, imports, trade openness, and corporate financial performance.

The findings confirm the existence of a stable long-run relationship between foreign trade indicators and firm profitability. Exports and trade openness exert a positive and statistically significant effect on ROA, highlighting the strategic importance of export-oriented growth and economic integration in enhancing efficiency, expanding market access, and strengthening financial sustainability. In contrast, imports demonstrate a negative and persistent impact on corporate financial performance, reflecting structural vulnerabilities associated with high import dependence in a small open economy such as Jordan.

From a policy perspective, these results underscore the need to reinforce export promotion strategies, support high-value and competitive industries, and enhance technological capability and innovation to improve global market positioning. Reducing excessive reliance on imports—particularly

those that directly compete with domestic production—remains essential for protecting firm profitability and improving trade balance dynamics. At the managerial level, firms should adopt proactive export strategies, strengthen operational efficiency, and implement effective risk management practices to mitigate exposure to import penetration and external shocks.

Despite its contributions, this study has certain limitations. The reliance on annual secondary time-series data and the focus exclusively on listed firms may limit the generalizability of the findings. Additionally, corporate performance was measured solely by ROA, whereas incorporating alternative accounting and market-based indicators could provide a more comprehensive assessment. Future research may extend this analysis by incorporating more recent data, applying panel data techniques, conducting sector-specific or cross-country comparisons, or integrating qualitative approaches to better understand firms' strategic responses to trade liberalization and competitive pressures.

Overall, the study contributes to the literature on trade and corporate strategy by demonstrating that foreign trade functions as a strategic driver of financial performance, while simultaneously revealing structural constraints that require coordinated policy and managerial responses.

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