iJRASET
International Journal For Research in Applied Science and Engineering Technology

INTERNATIONAL JOURNAL FOR RESEARCH

IN APPLIED SCIENCE & ENGINEERING TECHNOLOGY

Volume: 6 **Issue:** III **Month of publication:** March 2018

DOI: http://doi.org/10.22214/ijraset.2018.3370

International Journal for Research in Applied Science & Engineering Technology (IJRASET)
ISSN: 2321-9653; IC Value: 45.98; SJ Impact Factor: 6.887
Volume 6 Issue III, March 2018- Available at www.ijraset.com

The Reality of Foreign Direct Investment (FDI) in Jordan

Alshawawreh.Omar Raji[1] Dr.M.G.Basava Raja[2]
[1].Research Scholar, Department of Economics, University of Mysore, Manasagangothri, Mysuru.
[2]. Professor of Economics, University of Mysore, Sir.M.V PG Centre, Mandya.

Abstract: This study aims at identifying the reality of Foreign Direct Investment (FDI) in Jordan. FDI has played a huge role at the ends of the last century in supporting developing countries' economies due to the changes occurred on the international economy structure as the direction was shifted toward market economy and liberating trade and investment systems, foreign investment has contributed in achieving the economic development, increasing the level of technology in developing countries and increasing rates of gross local production and developing countries competition in offering all facilities that encourage foreign investment to come and operate there.
Keywords: Foreign Direct Investment, Industrial Growth and Development, Jordan economy,

I. INTRODUCTION

FDI has played a huge role at the ends of the last century in supporting developing countries' economies due to the changes occurred on the international economy structure as the direction was shifted toward market economy and liberating trade and investment systems, foreign investment has contributed in achieving the economic development ,increasing the level of technology in developing countries and increasing rates of gross local production and developing countries competition in offering all facilities that encourage foreign investment to come and operate there. Since the mid-1770s, the interest has been increasing toward investment and creating the appropriate climate for it as a result for the oil fortune and the following financial surpluses resulted from the demand on oil and its high prices in the international markets which in turn led to increase savings and to think about employing these money in what ensures the reward return and ensures the interests of all parties (AbuQahf, 2001). Competition was sever for attracting foreign investment and increasing local investment and stimulating them at international level , this was after the important changes occurred on economic treatment frames between the various countries, and countries started to create facilitations on their economic and legislative structures to attract investor to settle their investment there and these countries in most situations removed the restrictions on capitals movement to benefit from the huge flows of FDI that reached 865.5 billion dollars in 1999. The great developments and transformations the world has witnessed recently and on the economic level in particular put developing countries in the face of great challenges , limited choices and a hard work , and the most important features of this stage were the accelerated globalization phenomena as a natural result for the economic liberalization wave , adopting the market system in the last two decades an addition to the great revolution on the level of information systems technology and liberalizing trade and the restrictions that were against capital movement. These developments led basically to the collapse of boarders and barriers between countries and hence countries became open to each other and treatments and huge economic conglomerates emerged in addition to international corporations such as the World Trade Organization (WTO) which made the world a small village and one market (Investment Commission, 2000). In the face of these new situations, it was necessary for developing countries to review their status and to face the effects resulted from the new development and attempt to benefit from them and to avoid their negative consequences, and for this purpose these countries implemented reform programs, made economic and legislative restructure that aimed to achieve economic stability and to exceed errors, liberalized trade and capital movement and offered all what assists in preparing the appropriate climate to attract foreign investment (Agha, 2002). Jordan recognized these conditions and outcomes and took important steps and procedures on the level of liberalizing the economy and integrating it to the international economy, an economic reform program was also implemented in addition to the issuance and amendment of a number of important economic legislatives which played an important role in facilitating the investment climate generally. On the economic reform level, the Jordanian government worked on applying the economic correction policy and the structural reform based on the agreements signed with the international monetary fund with the aim of reducing inflation , internal and external deficits , the government expenses and

.

also the aim of attracting foreign investment , facilitating the competitive ability of economy and facilitating its integration with the international economy through expanding the private sector's role in the investment activity, the country also followed a monetary policy that aims to achieve monetary stability , prices stability, exchange rates , regulating local liquidity, depending more on the indirect monetary policy to give an effective role for market factors, reinforcing competition among financial organizations and increasing the efficiency and the speed of monetary policy transition effects on the total economic variables (Research and studies department, 2003). Investment climate is defined as a group of laws, policies and economic and political policies that affect the investor's trust and justify this investor to direct investments to another country (Gorg, Hijazen, 2004).The Inter-Arab Investment Guarantees Corporation defined it as the total legal , economic , political and social conditions that constitutes the environment within which investment occurs (Investment commission , 2000). From these definitions, it can be concluded that the investment climate includes all the economic, political, social and legal factors that affect the economic situation of the host country.

II. STATEMENT OF THE PROBLEM

According to the American Chamber of Commerce in Jordan (2015), the cumulative FDI was around 1.376 JOD billion which is on average around 344 MJOD per quarter. With FDI, the country aims to achieve long-term economic growth through transfer of expertise, technology, raising productivity, enhancing exports & most important of all generating employment. Unemployment is considered as one of the enormous challenges the kingdom faces. Unemployment rate has risen to 12.1% in the first quarter of 2015 although the FDI generated during the same period were 119 MJOD – according to the chamber of commerce in Jordan the inflows of FDI started to decrease from year 2010, and then started to climb up to more than $3.2 billion in 2015. At that point Jordan was recognized to be ranked as 8th country in terms of highest inward FDI performance out of 114 countries

III. OBJECTIVES OF THE RESEARCH STUDY

A. Jordan's has been successful in attracting FDI, in particular through two government sponsored initiatives: Investment Intelligence Initiative; and the Investment Map Initiative.

B. To know an annual growth of 50%, and while FDI in the sector totaled $3 million in 1999, it reached $90 million in 2007.

IV. REVIEW OF LITERATURE

In the last five years, the Hashemite Kingdom of Jordan has experienced strong GDP growth as a result of robust FDI; and deregulation of previously government controlled industries; and increasingly international linkages between Jordanian and foreign-owned businesses. Yet in spite of these achievements, it remains far from clear whether the Jordanian industrial sector is positioned to remain competitive in a globalized marketplace, particularly in "Knowledge-Based" industries such as the Information Communication Technology (ICT) sector. The textile industry now constitutes 89% of Jordan's exports. This is due in large part to the Jordanian-U.S. Free Trade Agreement, which eliminated U.S. tariffs and quotas on Jordanian products. Once these protections expire, there is a strong risk that the textile manufacturers who have been taking advantage of JUSFTA will simply "move shop" to a different quota-free country. Moreover, the textile industry is essentially commoditized, meaning that despite the high volume of textile production, there is little value creation occurring. The construction industry is booming, thanks to the influx of not only impoverished Iraqi refugees, but middle- and upper-class émigrés as well. According to the American Chamber of Commerce in Jordan (2015), the cumulative FDI was around 1.376 JOD billion which is on average around 344 MJOD per quarter. With FDI, the country aims to achieve long-term economic growth through transfer of expertise, technology, raising productivity, enhancing exports & most important of all generating employment. Unemployment is considered as one of the enormous challenges the kingdom faces. Unemployment rate has risen to 12.1% in the first quarter of 2015 although the FDI generated during the same period were 119 MJOD-according to the chamber of commerce in Jordan the inflows of FDI started to decrease from year 2010, and then started to climb up to more than $3.2 billion in 2015. At that point Jordan was recognized to be ranked as 8th country in terms of highest inward FDI performance out of 114 countries (UNCTAD). The Regulation for Organizing Non-Jordanian Investments passed in June, eased capital requirements and other restrictions on foreign investment in key sectors. Among the headline changes, foreigner investors looking to establish businesses are no longer required to meet a JD50,000 ($70,400) minimum capital threshold to enter specific industries. Jordan's free trade agreement (FTA) with the US – the first in the Arab world – has already made the US one of Jordan's most significant markets. By 2015, it would have barrier-free export access in almost all sectors. A number of trade agreements with countries in the Middle Eastern and North African regions and beyond should also reap increasing benefits, not in the least the Agadir Agreement, which is seen as a precursor to an FTA with the EU. Jordan also recently signed an FTA with Canada. Furthermore, Jordan's plethora of industrial zones offering tax incentives, low utility costs and improved infrastructure links are helping incubate new developments. The relatively high skills level is also a key factor in promoting investment and stimulating the economy, particularly in value-added sectors. Despite the fact that Jordan has few natural resources it does benefit from abundant reserves of potash and phosphates, which are widely used in the production of fertilizers. Exports by these industries are expected to have a combined worth of $1bn in 2015. Other important industries include pharmaceuticals, which exported around $435m in 2013 and $260m in the first half of 2008 alone, as well as textiles, which were worth $1.19bn in 2014. Although the value of Jordan's industrial sector is high, the kingdom faces a number of challenges. Because the country is dependent on importing raw materials, it is vulnerable to price volatility. Shortages in water and power also make consistent development difficult. Despite these challenges, Jordan's economic openness and long-standing fertilizer and pharmaceutical industries should continue to provide a solid source of foreign currency. Jordan has a plethora of industrial zones and special economic zones aimed at increasing exports and making Jordan an industrial giant. The Mafraq SEZ is focused on industry and logistics hoping to become the regional logistics hub with air, road, and rail links to neighboring countries and eventually Europe and the Persian Gulf. The Ma'an SEZ is primarily industrial focusing on satisfying domestic demand and reducing reliance on imports. With a national rail system under construction, Jordan expects trade to grow significantly and Jordan will mostly become the trade hub of the Levant and even the Middle East region as a whole due to its geography and natural resources. A'llouzi and Almomani's (2005) in their study on "The Role of Tax Incentives and Administrative Procedures in Encouraging Investment in Jordan: A Study on Views of Investors in Industrial Cities Facility "The study aimed to identify the role of tax intensives and administrative procedures in encouraging investment from the perspective of investors in economic cities facility. The study concluded a positive relationship between the extent of tax administrative procedures' ease and investment encouragement and indicated a relationship between tax incentives and investment encouragement and that tax exemptions from income tax is significant for investors in addition to exemptions of import duties. Ajami (2002) studied on the government of Jordan had intensive effort to stimulate direct foreign investments in Jordan. To encourage foreign investments, much legislation was issued. In addition, other procedures such as privatization, economic reforms, and current account transactions were facilitated. Despite that, essential increases of foreign investments with in Jordanian firms were not observed. The reasons behind that were related to factors such as political and economic instability over the region, market limitation of Jordan, and the weakness of the GDP. The results of the study show that among nine variables, the GDP had the main impact on the direct foreign investments, the flow of Arab and foreign finance over the period 1985-1999. Therefore, increasing foreign investments rquire political and economic stability conditions which are considered as external variables.

Jamil's (2002) in his worked on "Foreign Direct Investment in Jordan: Its Size and Returns "The study aimed to identify the foreign direct investment in Jordan regarding its nature, attitudes, influence factors and its size including the invested capitals in Jordanian companies and individual organizations, the study also aimed to analyze the economic variables affecting foreign investment in Jordan and to identify the exerted efforts from Jordan to attract foreign investment. The study concluded with a group of results among which that foreign investors regard the following factors: political instability at the regional level and the weakness of total economy bases such as the low growth level in local product, the increased unemployment, the small size of local market and the regression in total demand as obstacles restrict them. The study also indicated that the Jordanian investment size has increased during the period 1997-1999 as a result for privatizing some governmental projects and that the gross local product has an important effect on foreign direct investment.

V. METHODOLOGY

The study used two methods of scientific research methods: analytical descriptive approach, which was used to review the most important literature related to the variables of the study, as well as reference to previous studies to cover the theoretical side of the study. The other approach curriculum field research: It was used to cover the practical side of this study through the annual actual financial statements issued by the Jordanian industrial companies analyzed during the study period (1975 - 2017), which attempted to study through which test the validity of hypotheses and draw results.

A. *Study tools and sources of access to information*

The study relied on two sources to collect data:

1) *Primary Sources:* These are the sources that covered the application side of the study, represented by the general budget of the companies in question, in addition to the trading price bulletin for the shares of these companies.
2) *Secondary sources:* The scientific books, periodicals, researches and previous studies related to the subject of the current study have been relied upon in order to construct the theoretical framework for this study.
3) *Period of the Study:* The study period is starting from the year 1975 to 2017

International Journal for Research in Applied Science & Engineering Technology (IJRASET)
ISSN: 2321-9653; IC Value: 45.98; SJ Impact Factor: 6.887
Volume 6 Issue III, March 2018- Available at www.ijraset.com

4) *Limitations of the Study* The study, as limitations, is confined only to review and analyze the selected indicators for the period of years.

VI. ANALYSIS AND DISCUSSION

Foreign Direct Investment is playing a very dominant role in the development of an economy in developing countries. With the help of an increasing trend of FDI inflows, the country's export has increased year after year. The year-wise inflows of FDI secured by the country along with the amounts of exports are furnished in Table-1.

Table-1 Rate of Exports and Imports

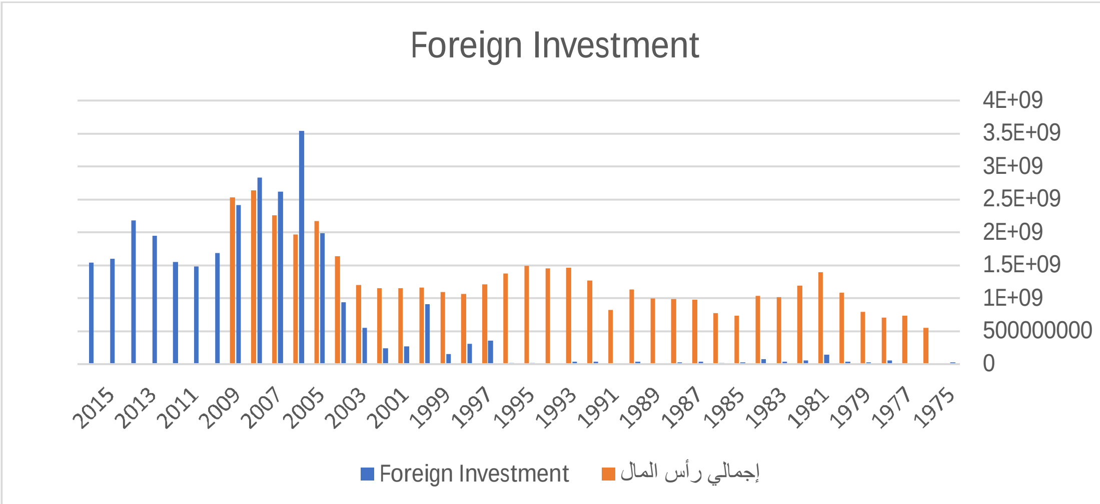
Year	Exports	Imports
1980	540.374	51.128
1981	774.952	82.19
1982	789.995	90.778
1983	783.547	75.3
1984	772.539	143.303
1985	774.249	129.134
1986	666.335	102.441
1987	707.816	134.51
1988	796.8	157.798
1989	944.719	275.526
1990	1335.351	331.002
1991	1304.437	307.203
1992	1822.04	350.325
1993	2028.468	410.883
1994	1940.3	508.357
1995	1961.802	661.171
1996	2237.297	609.224
1997	2193.167	645.637
1998	2146.279	636.99
1999	1998.143	683.931
2000	2424.262	744.063
2001	2633.246	1003.493
2002	2738.48	1189.757
2003	3058.892	1295.409
2004	4328.669	1844.793
2005	5392.112	2026. 751
2006	5873.863	2322.716
2007	7132.077	2440.218
2008	8819.045	3098.477
2009	7769.439	2587.856
2010	9452.091	3222.4
2011	8069.822	3448.73
2012	11539.089	3522.485
2013	11539.089	3737.83
2014	12287.359	4013.589

Table-1 presents a description of the exports and imports that were counted in the Jordanian economy and the proportion and imports of companies Industrial at Jordan From the years (1980-2014)

VII. DISPLAY RESULTS AND TEST HYPOTHESIS

The hypothesis, which states: " There is the effect is statistically significant at the level of significance (α≤ 0.05)for foreign investment on the development of industrial growth in the Jordanian industrial companies (per capita national income, unemployment rates, the number of labor force, international tourism, transport in container ports, the average capital per capita, energy use). To test this hypothesis has been used linear regression analysis to verify the potential impact of foreign investment in the development of the industrial growth of the movement of the industrial companies in Jordan through its impact on the national per capita income, unemployment rates, the number of labor force, international tourism, transport in container ports, Average capital per capita, energy use, and Graph 6 shows the relationship between the third hypothesis variables

Graph (2): The relationship between the variables of per capita national income, and between foreign investments



Notes from Graph(1) in the contribution of foreign investment capital, which is reflected positively on the relationship between the variables of the study and based on the relationship between the hypothesis variables used regression analysis as shown in Table (3) the following:

Table (3): Linear regression analysis test results of the study to test the third hypothesis

Dependent variables	T	R2	R2Modified	Std error in estimation	Statistics of change				
					R2 change	The calculated change	Df1	Df2	Sig
National income	.749	.561	.550	656841884	.561	51.140	1	40	.000
Low rates of unemployment	.449	.201	.181	886038488	.201	10.087	1	40	.003
The number of labor force	.723	.523	.511	684705452	.523	43.873	1	40	.000
International tourism	.663	.440	.426	742265070	.440	31.369	1	40	.000
Transportation in the container ports	.697	.485	.472	711379202	.485	37.701	1	40	.000
Capital of the individual	.204	.042	.018	970557609	.042	1.743	1	40	.194
Energy use	.239	.057	.034	962749959	.057	2.423	1	40	.127

* Statistically significant at the level of significance (α ≤ 0.05).

The table (3) shows that there is the effect of the independent variable (FDI) in the dependent variable (industrial growth) for industrial companies of Jordan, a statistically significant effect, where the value of F It is calculated (9.247) which is higher than the value of F Tabulated (3.43), and the level of significance (Sig = 0.000) Which is less than (0.05), while the correlation coefficient between the independent variable and the (R = 0.658) This shows a positive relationship between the variables of the study, which means that foreign investment affects the industrial growth of industrial companies in Jordan and positively, and the relationship between the study positive relationship variables i.e. that any increase in investment will lead to an increase in industrial growth, as the table shows the value of the previous coefficient of determination of (The R^2 = 0. 433) It indicates that (43 . 3 %) of the variation in industrial growth can be explained by foreign investment. The researcher has conducted multiple linear regression analysis to test the impact of the independent variables (foreign investment) in the industrial production of industrial companies of Jordan, and as shown in the table (4) the following:

Table (4): The results of multiple linear regression analysis Regression Analysis To test the effect of independent variables (foreign investment) in the industrial growth of industrial companies in Jordan

Dependent variables	Predictions	Standard weights	Un standard weights		T-test Value	Sig	Partial Correlation
		B	B	Standard error			
National income	Fixed		797057813	233957456	3.407	.002	
	Foreign Investment	0 .749	739 613	103425	7.151	.000	.749
Low rates of unemployment	Fixed		168824636	218679400	.772	.445	
	Foreign Investment	0 .449	61663083	19415472	3.176	.003	.449
The number of labor force	Fixed		130861406	165262644	.792	.433	
	Foreign Investment	.723	873	131	6.624	.000	.723
International tourism	Fixed		78451636	160835351	.488	.628	
	Foreign Investment	.663	42273848	7547798	5.601	.000	.663
Transportation in the container ports	Fixed		341932702	125137860	2.732	.009	
	Foreign Investment	.697	2265.773	369	6.140	.000	.697
Capital of the individual	Fixed		409013181	273310049	1.497	.142	
	Foreign Investment	.204	.293	.222	1.320	.194	.204
Energy use	Fixed		35060178	501702240	.070	.945	
	Foreign Investment	.239	879751.601	565 172	1.557	.127	.239

Evidenced by the statistical results contained in the table (4) that foreign investment has affected and are statistically significant in the per capita national income and lower lining ratios and increasing the number of labour force and stimulate international tourism and stimulate the movement of traffic in the ports and the average capital collected by the individual in Jordan The level of significance (Sig = 0.000), And at rates ranging from (0.45 - 0.75), indicating that the impact of the impact of foreign investment was the moral of. Therefore we accept partial hypothesis which states that: no effect is statistically significant at the level of significance ($\alpha \leq 0.05$) for foreign investment on the development of industrial growth in the Jordanian industrial companies (per capita national income, unemployment rates, the number of labor force, international tourism, and transport in container ports).

IX. CONCLUSION

The results showed that there is an effect of foreign investment in the industrial growth of the Jordanian industrial companies. This is a statistically significant effect, where the calculated F value is (9.247), which is higher than the periodic value of (3.43) (R = 0.658). The Government of Jordan Incentives and Facilities for Industrial Investments in Jordan, several laws has been enacted to stimulate these investments. These laws have been amended in successive periods in line with developments in the arena and in order to attract capital and investments, for the industrial sector.

In addition to the laws of the Industrial Estates Corporation, the Free Zones Corporation, the Aqaba Special Economic Zone, the National Production Protection Law and the Competition Law, and the signing of many free trade agreements by Jordan, the Investment Promotion Law and its amendments for the year 2000 provide meaningful concessions for continuous foreign capital through income tax exemptions and social services, Customs tax exemptions. In addition, the Non-Jordanian Investment Regulation No.(54) of 2000 was adopted to determine the contribution or ownership of the non-Jordanian investor in the various sectors and economic activities. The Investment Promotion Law resulted in the establishment of the Investment Promotion Corporation as an institutional framework encouraging investments in Jordan. The Law on Investment Promotion develops the number of projects and the volume of investments in various economic sectors.

REFERENCES

[1] Abdel- Rahman.,(2004), “Determinants of Foreign Direct Investment in the Kingdom of Saudi Arabia”, Arab Journal of Administrative Sciences, 2004, 11(2), 269-292.
[2] Ajami, Jamil.,(2002), “Foreign Investment in Jordan: its Size and Determinants. Dirasat Journal. The University of Jordan, 5 (1), 1-48.
[3] Franklin.R.Root.,(2008), International Trade Investment, 4 ed., USA: South western publishing. co.
[4] Garaibih, Hisham and A'zzam, Nidal.,(2002), Determinants of Demands on Foreign Investment in Jordan. A 'bhath Al-Yarmouk Journal. 13(2),21-38.
[5] Gerschenberg, I. (1987). “The Training and Spread of Managerial Know-How A Comparative Analysis of Multinational and Other Firms in Kenya”, World Development, 15, 931-939.
[6] Gilmore, Andrew, Donell, Carson, David. (2003).Factors Influencing Foreign Direct Investment and International Joint Venture, International Marketing Review, 20 (2), 195 – 215.
[7] Jamil, and Hail.,(2002), Foreign Direct Investment in Jordan: its Size and Determinants. Irbid for Research and Studies. 5(1),32-45
[8]

10.22214/IJRASET

INDEX COPERNICUS
45.98

IMPACT FACTOR:
7.129

TOGETHER WE REACH THE GOAL
IMPACT FACTOR:
7.429

INTERNATIONAL JOURNAL FOR RESEARCH

IN APPLIED SCIENCE & ENGINEERING TECHNOLOGY