

The Role of Foreign Direct Investment in Economic Growth of Jordan

Khaled Abdalla Moh'd AL-Tamimi

Associate Professor

Department of Administrative Financial Sciences

Irbid University College

Al-Balqa' Applied University

Jordan

Mohammad Sulieman Jaradat

Associate Professor

Department of Banking and Financial science

Ajloun National University

Abstract

Foreign Direct Investment (FDI) has been one of the major sources of economic growth in Jordan and has become an important channel for improving Jordanian economy and financial systems. The purpose of this study is to identify the role of FDI in economic growth of Jordan. The study covered the period started in 2010. Foreign Direct Investment as each type of Foreign or Foreign local association driven speculation, goes for creating work, raise profitability, exchange abilities and innovation and in addition improve fares and add to the long-haul monetary development of the world's creating nations. This study shows how does the Jordanian economy was affected by FDI since 2010. It shows that Jordanian economic performances influenced positively by foreign investment and its gross national investment also has capitalized its economy. It also showed that trade has a positive impact on economic growth. In Jordan's latest reports, the current account recorded a deficit of \$1.2 billion in June 2018. Foreign Direct Investment (FDI) increased by \$273.3 million in June 2018. In June 2018, Jordan's Direct Investment Abroad expanded by \$3.2 million. Its Foreign Portfolio Investment decreased by \$ 138.5 million in June 2018.

Keywords: Foreign Direct Investment, Economic boom, Portfolio investment, Economic growth, Capital inflows , Net outflows .

1. Introduction

Foreign direct investment (FDI) funding is vital for financial growth and, specifically, overseas capital inflows are vital for the monetary improvement of developing international locations. Overseas equity funding is important for such international locations as it enhances the liquidity of the markets and makes corporations extra globally aggressive by using reducing rate of capital. (Serkan, Ege, 2015). Decrease rate of capital outcomes in long-term investments by way of foreign agencies, which in turn will increase economic boom. therefore, economic improvement is pushed by means of equity market development in which the latter is superior with the aid of foreign fairness investments. however, the above arguments in support of a favorable impact of overseas capital at the economic system pronounced that despite the fact that overseas ownership positively affects Venezuelan production agencies' productiveness, especially small businesses, it negatively impacts domestic groups. In every other have a look at, it became located that FDI to the producing zone definitely impacts the financial growth even as there's a terrible (no-clear) impact on the number one (carrier) quarter. a few reveals that for a country to acquire monetary growth brought on through foreign inflows, its financial device has to achieve a sure stage of development. furthermore, fairness portfolio inflow is attracted through exceedingly advanced credit score markets while FDI influx calls for a lesser diploma of development. curiously, Sakuragawa and Watanabe observed that liberalizing the monetary markets within the emerging international locations brings in FDI, whilst it reduces fairness portfolio investment.(UNCTAD 2018 international funding file).

FDI is the point at which an organization contributes its capital outside the limits of its nation of origin to influence the task's procedures and advantage from its low work cost. In the second 50% of the most recent decade, FDI has driven a vital job in supporting the economy of creating nations, especially amid the most recent two decades which watched an immense increment in the measure of speculations stream, seriously in the inorganic area, farming, open division and structure which had the greatest offer in creating electric vitality and correspondence. (Žilinsk, 2010).

What's more, the FDI gave a critical push for the worldwide mix way through: exchange of innovation, preparing and improvement of human capital, operational aptitude, general advancement of the nation and the significant advantage is work which has prompted more income, additionally buying force, individuals are fit for making good on regulatory expenses and an in general monetary development in the host creating nation (FDI, 1977-2018). A few Factors That Should Be Considered by Investors:

1. The accessible foundation of the host nation
2. The social and political solidness to guarantee the security of their speculations
3. Accessibility of gifted work in the host nation
4. Assessment routine of the host since higher duties lead to greater expense of creation
5. Market estimate (the more prominent the better)
6. Per capita pay of the host nation which will be converted into acquiring power
7. Remote trade tenets and directions of the host nation which can once in a while be strict and against the financial specialists' interests. (FDI, 1977 - 2018).

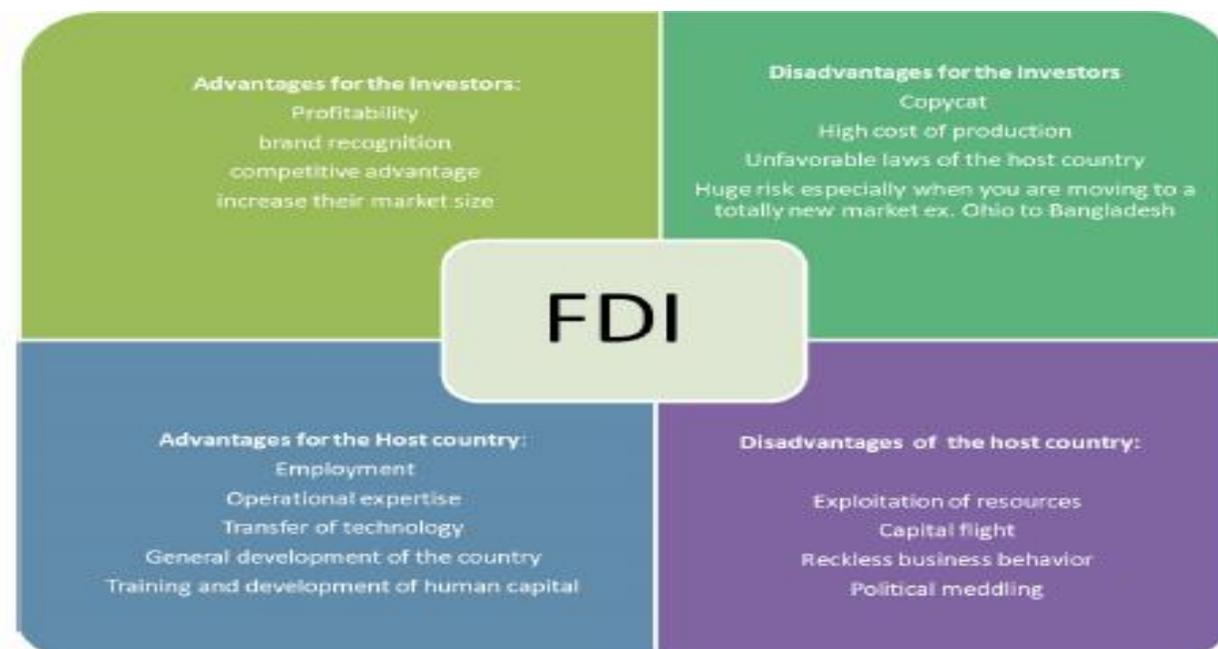
2. Literature review

Historically, the Jordanian economic system has benefited from massive funding via the Gulf nations, which persisted to skyrocket till 2006. however, in view that then FDI has declined due to the worldwide financial disaster, followed by using geopolitical instability, and feature when you consider that remained stable. but, in 2016, Jordan secured big loans and monetary help from several global donors (together with the IMF and the world financial institution) and companions. therefore, the united states determined to elevate the quantity of their annual resource to \$1,275 billion. those price range intention to support Jordan in its reception of Syrian refugees. In 2017, FDI inflows totaled \$1.6 billion. expected at \$33. eight billion, the entire stock of FDI represents eighty-three.7% of the united states GDP (UNCTAD 2018 international funding file). In 2014, Jordan enacted an investment regulation, which strengthens specially the Jordan funding commission, whose reason is to assist buyers. however, a few observers criticized the point of interest on tax exemptions, as opposed to seeking to enhance the overall business climate. further, the sector financial institution maintains to evaluate negatively the national business climate in Jordan. as a consequence, the USA had misplaced several locations in the Ease of Doing enterprise ranking, but it has these days regained a slightly better location at the 2018 Doing business record, ranking 103rd out of 190 nations.(n.d, 2018). So that you can enhance FDI flows, the authorities have planned massive-scale infrastructure tasks (water, transportation, nuclear power) for which it wishes foreign and private price range. (Simionescu, Mihaela, 2016). A project linking the useless Sea to the pink Sea is predicted to begin in 2018 and could require FDI. Jordan is trying to grow to be a regional logistics hub, notably for electric powered and transport networks. Investments are mainly concentrated inside the area of real property (residential and business), economic offerings and large tourism initiatives. The USA's splendor lies especially inside the best of its infrastructure, its solid and dynamic banking gadget, as well as its degree of financial openness, which has allowed the status quo of free change zones and public-non-public partnerships. troubles related to forms, corruption and funding safety are limitations to FDI.(Ihtisham, Amjad, 2013). FDI is once a corporation or a corporation invests its capital outside the borders of its home country to have an effect on the project's operations and enjoy its low labor value. During the last half of the last decade, foreign direct investment has semiconductor diode to a crucial role in supporting the economy of developing countries, particularly throughout the last 2decades that witnessed a large increase within the size of investments flow, intensively within the mineral sector, agriculture, public sector and infrastructure that had the largest share in developing electrical energy and telecommunication. (Simionescu, Mihaela, 2016).And the foreign direct investment gave a crucial push for the worldwide integration path through transfer of technology, coaching and development of human capital, operational expertise general development of the country and also the major advantage is employment that has semiconductor diode to a lot of financial gain, a lot of getting power, individuals are capable of paying taxes Associate in Nursing an overall economic process within the host developing country.(Ihtisham, Amjad, 2013).

3. FDI Types

FDI differing kinds are supported several determinants resulting in the foreign investments such as:(Serkan, Ege, 2015)

- a. Trying to find fund sources.
- b. Looking for new marketplaces.
- c. Trying to find potency.
- d. Looking for strategic plan.

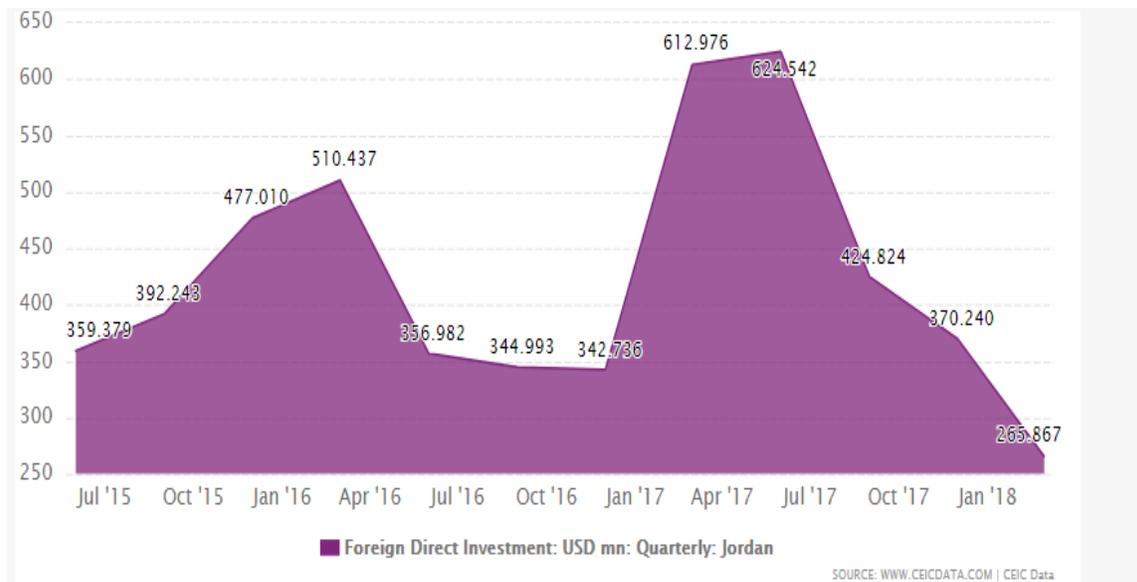


FDI, net outflows (BoP, current US\$)

The latest value for FDI, remaining outflows in Jordan was \$3,239,437 in 2016. In the last 44 years, the value for this indicator changed between \$28,450,700 in 2010 and \$3,239,437 in 2016. (World Bank, 2016a). FDI states to direct investment fairness movement in an economy. Ownership of 10 % or more of the ordinary shares of elective stock is the criterion for defining the existence of a direct investment relationship. This series shows net outflows of investment from the commentary economy to the rest of the world. (Abzari, Mehdi, Fatemeh Zarei, 2011).

This figure shows that FDI impact was on its peak on the 17th of July report with a value of \$629,542 and it decreased then after till 18th of January as it reached \$265,867.

Year	Value
2010	\$28,450,700
2011	\$30,845,070
2012	\$5,411,268
2013	\$15,667,610
2014	\$83,380,280
2015	\$985,916
2016	\$3,239,437



FDI, net outflows (% of GDP)

FDI, net outflows in Jordan was 0.01 in 2016. Its peak value during the last 7 years was 0.23 in 2014, while the minimum value was 0 in 1993.(World Bank,2016a).

The sum of fairness capital and reinvestment of income, and other capital gives the value of FDI, net outflows which shown in the coming table. Possession of 10 % or even more of the normal stocks of elective stock is the standard for determining the presence of a direct investment relationship. This classification shows net outflows of investment divided by GDP.(World Bank,2016b).

Year	Value
2010	0.11
2011	0.11
2012	0.02
2013	0.05
2014	0.23
2015	0.00
2016	0.01

FDI, net (BoP, current US\$)

The recent value for FDI, net (BoP, current US\$) in Jordan was (\$1,535,634,000) in the year 2016. During the past eight years, this value has varied between \$1,659,944,000 in 2010 and (\$1,599,296,000) in 2016.(World Bank,2016c). FDI are the net inundations of venture to get a ceaseless administration premium (10 % or a more of casting a ballot stock) in an activity working in an economy other than that of the speculator. It is the entirety of value capital, revenue of profit, other long-standing capital, and short-go capital as appeared in a critical position of installments. This grouping indicates absolute net FDI. In BPM6, monetary record adjusts are determined as the adjustment in properties less the adjustment in charges. Net FDI outpourings are resources and net FDI inflows are liabilities. Information are in current U.S. dollars.(World Bank,2016c).

Year	Value
2010	(\$1,659,944,000)
2011	(\$1,455,211,000)
2012	(\$1,543,039,000)
2013	(\$1,930,930,000)
2014	(\$2,094,930,000)
2015	(\$1,599,296,000)
2016	(\$1,535,634,000)

FDI, net inflows (BoP, current US\$)

The recent value for FDI, net incomes (BoP, current US\$) in Jordan was \$1,538,873,000 in the year of 2016. Over the past 8 years, its value has varied between \$1,688,394,000 in 2010 and \$1,538,873,000 in 2016.(World Bank,2016b).

Year	Value
2010	\$1,688,394,000
2011	\$1,486,056,000
2012	\$1,548,451,000
2013	\$1,946,597,000
2014	\$2,178,310,000
2015	\$1,600,282,000
2016	\$1,538,873,000

FDI, net inflows (% of GDP)

FDI, net inflows in Jordan was 3.98 in 2016. Its maximum value during the past 6 years was 6.39 in 2010, and the smallest value was 3.98 in 2016.(World Bank,2016b).

Year	Value
2010	6.39
2011	5.15
2012	5.01
2013	5.79
2014	6.08
2015	4.27
2016	3.98

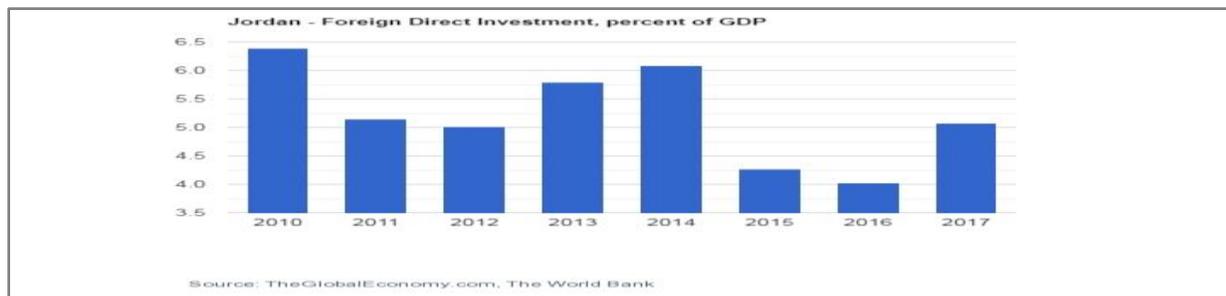
Country Comparison for the Safety of Investors

	Jordan	Middle East & North Africa	United States	Germany
Index of Transaction Transparency*	4.0	6.0	7.0	5.0
Index of Manager’s Responsibility**	4.0	5.0	9.0	5.0
Index of Shareholders’ Power***	1.0	4.0	4.0	8.0
Index of Investor Protection****	3.5	4.5	6.5	6.0

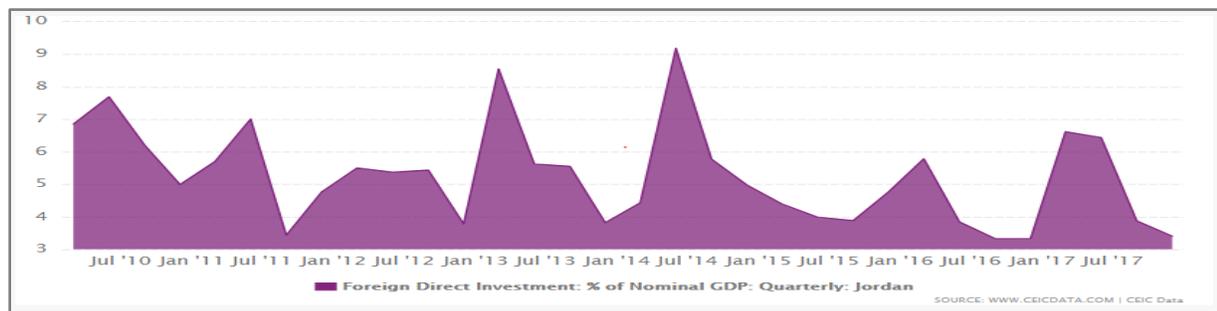
Source: Doing Business - Latest available data.

Foreign Direct Investment	2015	2016	2017
FDI Inward Flow (million \$)	1,600	1,553	1,665
FDI Stock (million \$)	30,629	32,163	33,886
Number of Greenfield Investments***	7	21	21
FDI Inwards (in % of GFCF****)	22.1	20.0	n/a
FDI Stock (in % of GDP)	81.5	83.0	n/a

Source: UNCTAD - Latest available data.



Figures that shows how FDI affects all sectors in Jordan's Economy



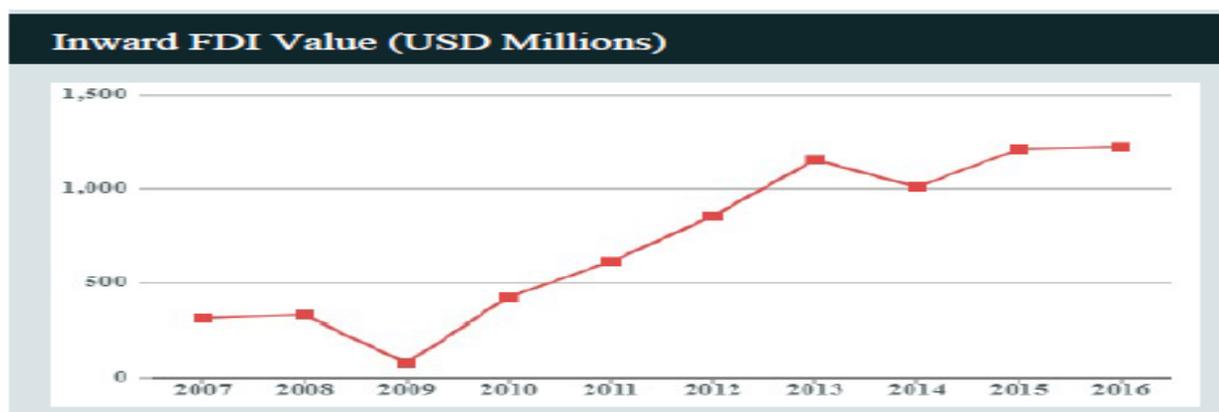


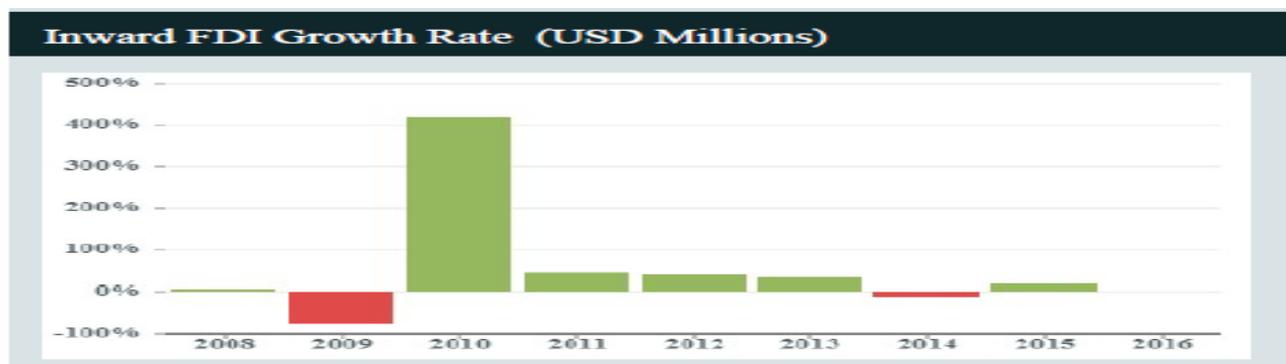
Top Economic Activities by Value

Financial and insurance activities	531.1
Real estate activities	438.5
Manufacturing	161.8
Construction	78.8
Wholesale and retail trade; repair of motor vehicles and motorcycles	8.9
Professional, scientific and technical activities	7.1
Transportation and storage	0.40

Top Economic Activities by Growth rate

Financial and insurance activities	7.4%
Real estate activities	7.0%
Transportation and storage	0.0%
Manufacturing	-1.50%
Construction	-11.00%
Professional, scientific and technical activities	-69.70%
Wholesale and retail trade; repair of motor vehicles and motorcycles	-71.50%





During the last five years, Jordan has accomplished strong gross domestic product growth as a result of robust FDI; and deregulating of previously government-controlled industries; and more and more international linkages between Jordanian and foreign in hand businesses nonetheless in spite of these achievements, it remains far away from clear whether or not the Jordanian industrial sector is positioned to stay competitive in an exceedingly very globalized marketplace, notably in “knowledge-based” industries just like the electronic communication technology (ICT) sector. The textile business presently constitutes cardinal of Jordan’s exports. This may ensue in large to the Jordanian-U.S. trade Agreement, that eliminated U.S. tariffs and quotas on Jordanian merchandise. Once these protections expire there is a strong risk to the textile manufacturers. World health organization are taking advantage of JUSFTA will simply “move shop” to a distinct quota-free country. Moreover, the textile business is really commoditized, which means that despite, the high volume of textile production, there is little or no worth creation occurring (FDI, 1977 – 2018). With FDI, the country appearance forward attaining semi permanent process through transfer of expertise, technology, raising productivity, enhancing exports & most important of all generating employment. State is considered along of the massive obstacles the dominion faces. Per centum has up to twelve.1% at intervals the half-moon of 2015 though’ the FDI generated throughout the identical amount were 119 MJOD-according to the chamber of commerce in Jordan the inflows of FDI began to decrease from year 2010, then began to climb up to quite \$3.2 billion in a very try of 2015. (UNCTAD 2018). At this stage Jordan was known to be organized as eighth country in terms of highest inward FDI performance out of 114 countries (UNCTAD, 2018). The Regulation for Organizing Non-Jordanian Investments passed in Gregorian calendar month, mitigated capital wants and completely different restrictions in terms foreign investment in key sectors. Among the headline changes, foreigner investors eager to ascertain businesses are not any longer required to gratify a (JD50, 000) (\$70,400) minimum capital threshold to enter specific industries (Serkan, Ege, 2015). The relatively high skills level is in addition a key considers promoting investment and stimulating the economy, notably in accessorial sectors. Despite the actual fact that Jordan has few natural resources it will cash in on bumper assets of potash and phosphates, that are wide applied within the assembly of fertilizers (n.d, 2018). Exports by these industries are managed to possess a combined price of \$1bn in 2015. Completely different important industries embody pharmaceuticals that exported around 435m in 2013 and \$260m at intervals the 1/2 2008 alone, still as textiles that were price \$1.19bn in 2014. Though’ the price of Jordan’s industrial sector is high, the dominion faces style of challenges. As a result of that, the country depends on mercantilism raw materials it’s vulnerable to price volatility. Shortages in water and power jointly build consistent development hard.

4. Conclusion

Foreign direct investment has augmented dramatically in Jordan since Nineteen Eighties. Jordan has offered special programs and incentives to push FDI and attract foreign capital. The result and influence of FDI on economic process is a polemical subject. during this paper, a positive and vital relationship between FDI and also the economic growth that measures by log of gross domestic product has been found. The study additionally has been found that debt and inflation negatively influence Jordan’s economic performance. Moreover, the study shown that this progress won’t affect the per centum (Ihtisham, Amjad, 2013). Most FDI in Jordan counting on privatizing major public closely-held firms and facilitating partnership-based firms that unite domestic and foreign investors. So, these facts provide a clarification that FDI incorporates a week impact on labor and therefore on poverty line. Domestic investment during this regard would support the economy, and consequently dependency on overseas investment ought to keep restricted. FDI has been a lot of productive in some countries than alternative. this can be because of the differential in attracting foreign capital (Ajami, Jamil, 2002). In Jordan ought to be a lot of concentrate on the standard of FDI, the sort of FDI that may considerably boost domestic competitiveness enhance skills and resulting in each social and economic gains. Hence, the foremost vital is to consider which kind of FDI is to be attracted and into that sector have to be promoted. (FDI, 1977 - 2018).

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