The Foreign Direct Investment (FDI) Environment in Jordan: A Descriptive Overview

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ABSTRACT

Foreign Direct Investment (FDI) is when businesses tend to have capital investment outside their home country in pursuit of lower production cost & higher profits. It is considered as one of the two types of production factors mobility from developed countries to developing countries. FDI has many advantages from both the investors (developed country) & host (developing countries) & is considered as a win-win situation for both parties. On the other hand, there are also some challenges & risks that could be confronted. This research is intended to explain the concept of FDI, analyze its purpose, desirability, advantages & disadvantages. It'll also give some highlights about FDI in Jordan, its direct & indirect effects on economic growth from different aspects, the government's efforts & initiatives in converting Jordan to a more appealing environment to foreign investors, in addition to discussing some of its barriers & limitations in the country.

Keywords: Foreign Direct Investment, FDI, Jordan

INTRODUCTION

FDI is when a company or an organization invests its capital outside the borders of its home country to affect the project's operations and benefit from its low labor cost.

During the second half of the last decade, foreign direct investment has led to an important role in supporting the economy of developing countries, especially during the last two decades which witnessed a huge increase in the size of investments flow, intensively in the mineral sector, agriculture, public sector and infrastructure which had the biggest share in developing electric energy and telecommunication.

And the foreign direct investment gave an important push for the global integration path through: transfer of technology, training and development of human capital, operational expertise, general development of the country and the major advantage is employment which has led to more income, more purchasing power, people are capable of paying taxes and an overall economic growth in the host developing country.

Some Factors That Should Be Taken Into Consideration by Investors

1. The available infrastructure of the host country
2. The social and political stability to ensure the security of their investments
3. Availability of skilled labor in the host country
4. Tax regime of the host since higher taxes lead to higher cost of production
5. Market size (the greater the better)
6. Per capita income of the host country which will be translated into purchasing power
7. Foreign exchange rules and regulations of the host country which can sometimes be strict & against the investors' interests.

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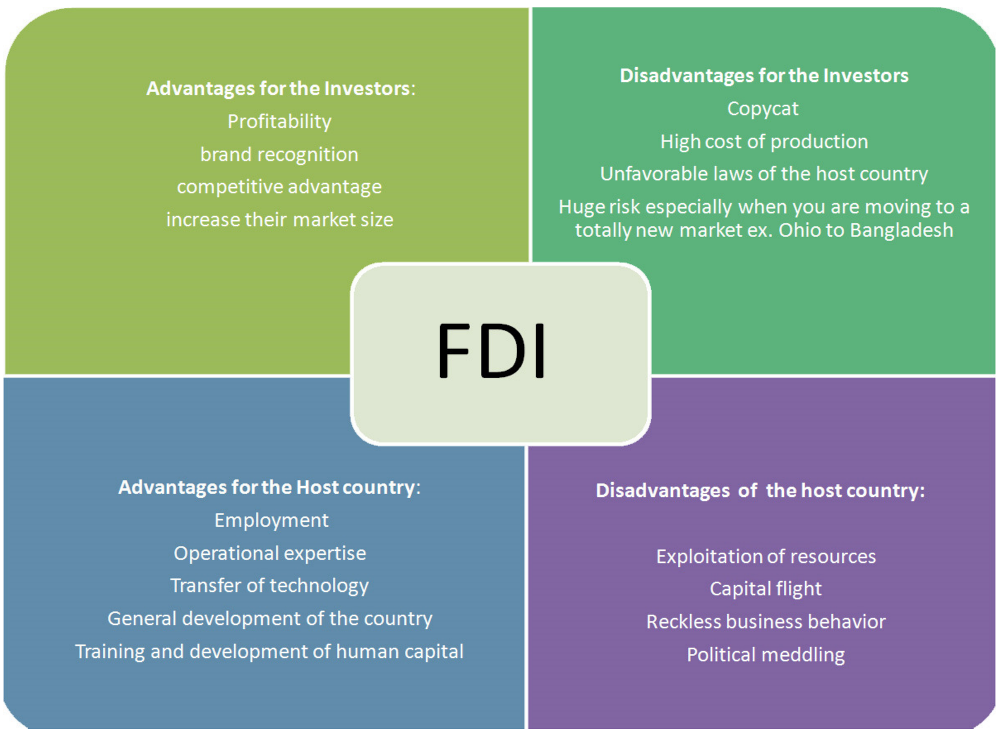
FDI Types

FDI different types are based on many determinants leading to the foreign investments such as:

a. Looking for resources
b. Searching for new markets
c. Looking for efficiency
d. Searching for strategic base

Types are classified as follows,

1. Horizontal FDI; which aims at investment expansion in the host country and producing exact or similar products which are locally made.
2. Vertical FDI; which aims at using the natural resources of the host country.
3. Mixed FDI; which is both horizontal and vertical investments.



Advantages & Disadvantages of FDI

From the investors perspective FDI could represent a great profit potential, reduced cost of production, higher market share in addition to globalization of their brand.

But at the same time, there are some risks implied such as the risk of losing their investment in case of wars & crises, high cost of operation or production due to high taxation regime, not to forget the possibility of the host country having a stringent foreign exchange laws & regulation that for instance can prohibit or limit capital repatriation.

From the perspective of the host countries, & as mentioned before, FDI can result in higher employment rate if local labor is hired, tax revenue to the host government, technological & managerial gains, in addition to human capital development which will all lead to a general economic growth of the country.

As for the risks, exploitation of the host country's resources is one of the drawback that could be faced since there'll be no proper or accurate supervision on the investors operations since they'll be bringing in all their equipment, technology, expertise …etc.

Another thing is the risk of having a foreign interest control on the host country's economy in addition to the capital flight outside the host country, political meddling, national security & the compromising of the national interest risks.

HIGHLIGHTS ON JORDAN

Jordan occupies a strategic location in the Middle East. The country, known for its biblical fame, has witnessed centuries of conquests and invading armies. It was invaded by Britain right after the Ottoman Turks were finally driven out the country when the First World War ended. It has gained independence in 1946. In 1999, King Abdullah assumed the throne & ever since, he's been working on both aggressive & progressive economic reform programs.

Jordan currently is a member of World Trade Organization (WTO), the European Free Trade Association in addition to other economic Associations

Location	Located in the northern and eastern regions & positioned in the middle east, bordered by Palestine, Syria, Iraq and Saudi Arabia.
Population	≥ 5,770,000
Capital City	Amman
Currency	Jordanian Dinar (JOD)
Language(s)	Arabic
Religions	Muslim (92%), Christian (6%)

According to the investment benchmarking system mentioned United Nations Conference on Trade and Development (UNDP) (2002), The Hashemite Kingdom of Jordan was ranked as one of the top 20 countries in attracting inflows of FDI. Although Jordan was facing difficult economic circumstances, it managed to keep on providing good impressions of economic growth and GDP (Gross domestic Product) up to this point Jordan has almost fully free trade system, no restrictions on cash payments or capital, full ownership of investments is allowed in most of the sectors, suitable social-political climate, advanced infrastructure and one of the highest rates of literacy among the labor force in the region..(UNDP, 2002, p.151)

Since 2004, FDI and other capital inflows were always appointing Jordan for its excellent privatization programs and increasing real estate investments, as a result in 2005 both investment inflows and inward FDI increase to reached $1.7 billion in total and (ASE) the Amman Stock Exchange price index rose to 93 % reaching the highest price compared to previous years.

Through the past 8 years, two projects efforts were sanctioned but not started .The first attempt was JORDAN VISION 2020(JV2020) to launch a unified national economic character and to encourage nominal GDP to grow at 8 percent per a year, Jordan needs to attract over US$119.29 billion investments during twenty years, or US$5.96 billion per year. The second national effort was JORDAN NATIONAL AGENDA to implement the need for an economic character or vision.

Motives for Foreign Direct Investment in Jordan

Increase Revenue and Profit

Jordan's market has diversified needs for products and services, attracting foreign companies to enter the Jordanian market & compete on providing the necessary goods and services that satisfy their needs and wants. In addition, foreigners investing in Jordan, bring in new technology and skills that will be beneficial for both the Local companies & Jordanian market & increase their capabilities to compete locally & internationally

Economic Growth

FDI had a positive relationship with Jordan's GDP performance. FDI can also increase the number of exports and imports, such which has been observed during 2006, where both GDP and international trade reached their maximum and then declined in afterwards

FOREIGN DIRECT INVESTMENT IN JORDAN

Jordan is a country known for almost having no natural resources (although Uranium has been lately discovered). It is surrounded by oil producing countries while Jordan itself imports all its oil.

Nevertheless, it has still attracted Foreign Direct Investments in sectors like tourism, construction & telecommunication due to the incentives offered by the country to investors such as tax exemptions.

Since 2001, both tourism & real estate projects in Aqaba alone, have attracted more than $8 billion according to Aqaba Development Corporation -which is a corporation backed by the Jordanian government-.

According to reporter Massoud Derhally's article at Bloomberg.net, dated March 2008, around 13% of Jordan's GDP is due to FDI. Some of the largest investing countries in Jordan are Saudi Arabia, Kuwait, United Arab Emirates & France.

FDI Inflows into Jordan

During 1990s, Jordan performed below its capabilities and potentials as it was focusing on macroeconomics projects such as reducing foreign debts, more liberalized trade, reducing the budget's deficit & stabilization of Jordanian Dinar instead of microeconomics projects.

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2000 till 2002, Jordan has started achieving more than was expected in attracting FDI. In 2003 efforts were stopped as the Iraqi war was due but nevertheless, it was also considered as an opportunity since Jordan has been the only welcoming country in the region with nearly 700.000 Iraqi refugees. As a result, FDI was refreshed again & has exceeded all expectations in 2004 & 2005.

Unsecured regional events such as September 11 and the war of Iraq, helped in increasing the FDI flows to Jordan as investors were moving their capital to politically stable regime. The huge increase in oil prices in 2003 has also led to increases in FDI flows to Jordan from 2004-2006 due to its nearby location of the gulf countries.

As a conclusion, this FDI flows into Jordan were externally driven, Amman stock exchange has expected it to decrease in the coming years due to reasons such as decrease of the liquidity indications Jordan has enjoyed in 2004-2005, fluctuation of real estate prices, stock market bubble and an overall doubling of the stock price in 2005, decreased by 33% in 2006.

FACTS & FIGURES OF FDI IN JORDAN

As per the fact sheet of the American Chamber of Commerce in Jordan; updated in June 2009:

Jordan as a country enjoys some factors that make the country appealing for foreign investments:

1. Political stability
2. Democracy
3. A point of convergence of 3 continents
4. Free market economy
5. Tax benefit system
6. Free zones & industrial estates which provides access to major international markets

The UNCTAD report of year 2008 announced Jordan as a country of increasing potential for FDI. From the year of 2007 to 2008, Jordan has stepped up from the 7th to 6th rank in FDI inflow, while it used to be considered as the 146th out of 192 countries during the days of Iraqi war.

The Government Initiatives is focusing on encouraging Foreign Direct investment in 3 domains:

1. Privatization of major state-owned companies
2. Facilitating partnerships between domestic & foreign investors
3. Creation of free trade zones

In 2008, & according to the American Chamber of Commerce in Jordan, the cumulative FDI was around 1.376 JOD billion which is on average around 344 MJOD per quarter.

With Foreign Direct Investment, the country aims to achieve long-term economic growth through transfer of expertise, technology, raising productivity, enhancing exports & most important of all generating employment.

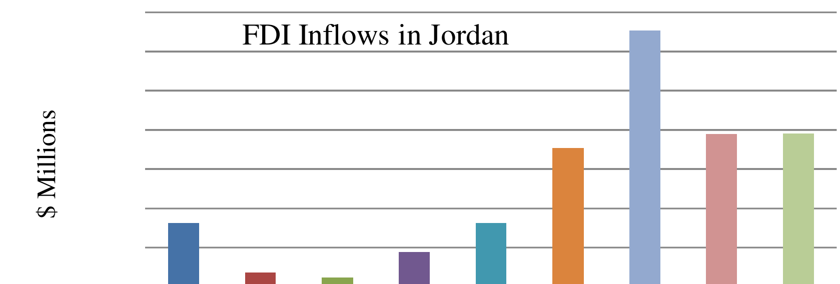
Unemployment is considered as one of the enormous challenges the kingdom faces. Unemployment rate has risen to 12.1% in the first quarter of 2009 although the FDI generated during the same period were 119 MJOD – according to the chamber of commerce in Jordan-.

Increasing foreign investments in Jordan seems not to be helping in the unemployment issue. According to Dr. Fanek, most of the foreign investors prefer to hire foreign labor & so few hire locals. Which is a pity since on-site training of those projects would have provided a great opportunity to upgrade the skills of the Jordanian Labor.

The president of the Investor Protection Society has explained that one of the main reasons for unemployment in Jordan is the unmatched supply & demand; meaning the skills acquired from the education system do not meet the demand of the domestic labor market.

B. FDI Impacts on Jordan's Economic Growth

In order to find relationships between the FDI inflows and economic growth, data was extracted to view the FDI performance over a certain period. Period range was selected for all economic indicators, starting from year (2000 – 2008) to show the how FDI effect economic growth during the same period.



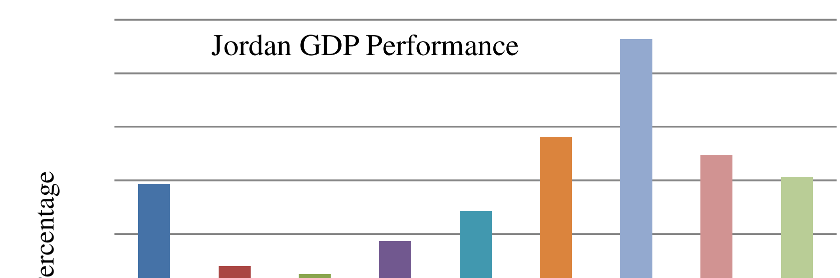
	2000	2001	2002	2003	2004	2005	2006	2007	2008
FDI Inflows	814.81	179.84	121.58	443.16	816.36	1774.05	3267.56	1950.49	1953.88

As shown in the graph above, the inflows of foreign direct investment started to decrease from year 2000, and then started to climb up to more than $3.2 billion in 2006. At that point Jordan was recognized to be ranked as 8th country in terms of highest inward FDI performance out of 114 countries (UNCTAD).

To see the impact of the FDI on economic growth, data was extracted for each indicator. The indicators that were selected are Gross Domestic Product (GDP), International Trade, Inflation Rate, and Unemployment Rate.

GDP (Gross Domestic Product)

Global Domestic Product is one of the economic measures that is used to indicate the overall performance of a country, which includes all products produced inside the country (goods and services). To view GDP performance of Jordan, a data was selected for the same period and then drawn to come up with the below graph.



	2000	2001	2002	2003	2004	2005	2006	2007	2008
GDP %	9.6%	2.0%	1.3%	4.3%	7.2%	14.1%	23.2%	12.4%	10.3%

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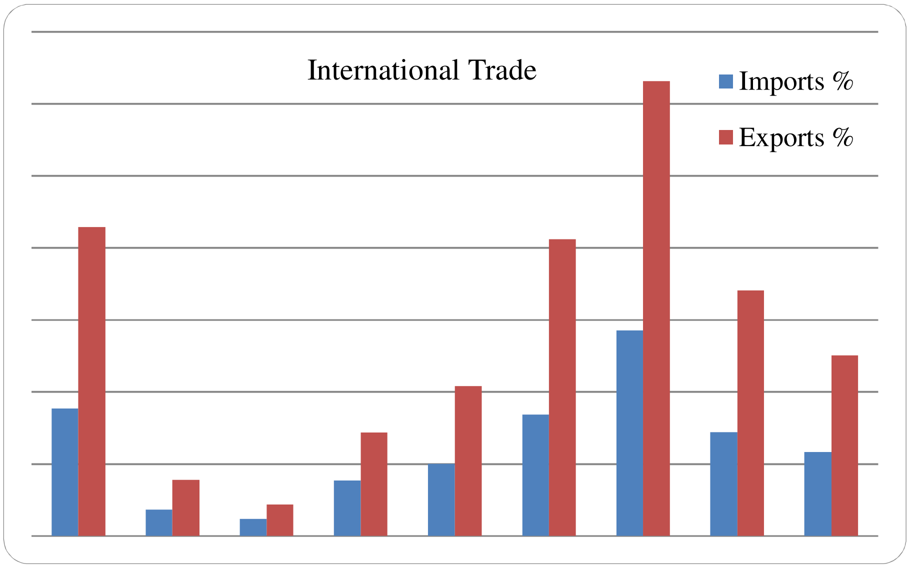
As shown above, the relationship between the FDI inflows and the GDP performance of Jordan is positive, and this makes sense because, foreign investors came and started investing their capital in different sectors of the economy such as industrial, services, and other sectors.

International Trade

International trade is defined as the movements of products inward and outward a country's boarder, (importing and exporting). Data for import and export inflows in Jordan were taken and drawn as in the same way below.



The exports represented in the graph are goods and services from outside borders to the Jordanian market, and the opposite for the imports also, here the relationship can be said to be high, as more factories and services started to open for production and distribution of their products to the local populations. But also, many goods and services were imported, which makes Jordan a consumer market (society) more than a producing market.

(A consuming country rather than a producing Country), i.e. more goods and services are being imported to the Jordanian market, which could be a negative point to Jordan for its economy since it will depend more on importing goods from foreign companies rather than manufacturing and producing to meet local demands and be able to export to demanding countries.

Inflation Rate

Inflation rate is the percentage change in price rate over a period of time. This measure affects the purchasing power of the local Jordanian. Foreigners would prefer to invest in countries with lower inflation rate than others to insure the demand on their products in the host market. Below is a graph that shows interest rate in Jordan over the same period.

From the data drawn, it is indicated that the inflation rate followed the FDI trend starting from 2001 until 2007. Also it is noted that there is a huge increase of inflation in 2008 (13.9%), this can explained as due to the global economics that led to increased prices on some of the main imported goods to Jordan, such as food, oil, fabrics and other imported goods.

Also in 2006, when FDI inflows were around $3.2 billion, the inflation increased to reach 6%. Therefore it is not always good for Jordan to have high inflation as it leads to higher prices depending on the Jordan's economic growth.

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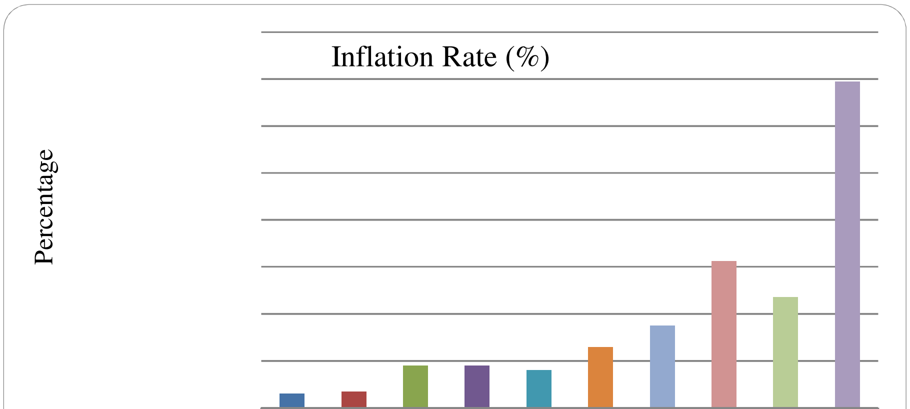


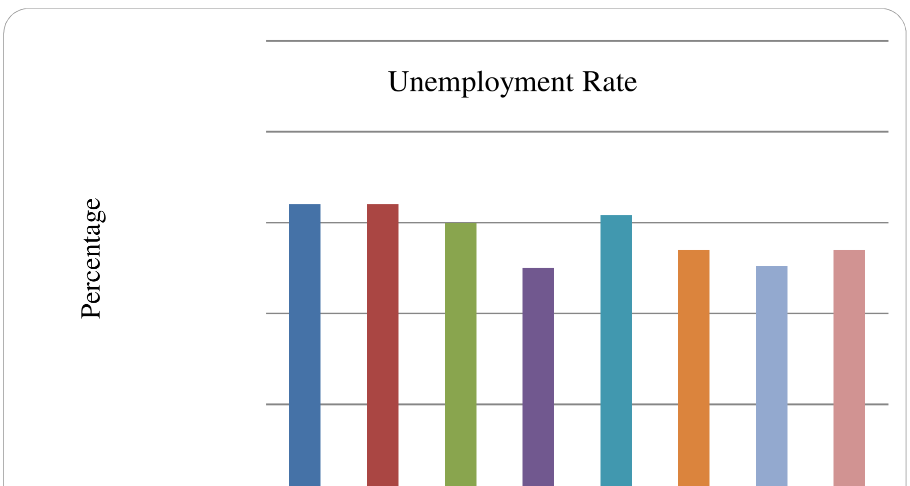
	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Inflation Rate (%)	0.6%	0.7%	1.8%	1.8%	1.6%	2.6%	3.5%	6.3%	4.7%	13.9%

Unemployment Rate

The unemployment rate can be calculated as the total number of unemployed people who are able to work to the total number of employed and employed people. In Jordan, any person over age of 15 is eligible for work; this means that children below 15 years old are not included in the unemployment rate calculations.

Due to limited availability of information, the data below was extracted from the Central Intelligence Agency Fact Book to explain how FDI affected in reducing the unemployment rate in Jordan.

As shown from the graph, FDI has a small role in reducing the unemployment rate in Jordan, by providing and starting new businesses and hire from the locals to work and produce for the local market and be able to produce and export to countries around the region.



	2003	2004	2005	2006	2007	2008	2009	2010
Unemployment rate	16.00%	16.00%	15.00%	12.50%	15.40%	13.50%	12.60%	13.50%

FDI in the Middle East

For Jordan, it should not only concentrate on attracting and encouraging foreigners to invest in Jordan, but also needs to monitor its performance upon other countries in the Middle East area and define their points of strengths. Below is a table showing the FDI inflows for the Middle East over the same period starting from year (2000 – 2008).

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Table 1. FDI inflows for the Middle East over the same period starting from year (2000-2008)

Year	2000	2001	2002	2003	2004	2005	2006	2007	2008
Bahrain	363.56	80.40	217.02	516.70	865.31	1048.67	2914.89	1756.12	1793.88
Egypt	1235.40	509.90	646.90	237.40	2157.40	5375.60	10042.80	11578.10	9494.60
Jordan	814.81	179.84	121.58	443.16	816.36	1774.05	3267.56	1950.49	1953.88
Kuwait	16.30	-175.00	3.62	-68.00	23.75	234.00	122.00	123.00	56.00
Lebanon	964.10	1451.22	1335.96	2860.00	1898.80	2623.50	2674.50	2731.00	3606.40
Oman	83.20	5.20	122.24	26.01	111.05	1538.36	1688.17	3124.58	2927.70
Qatar	251.60	295.52	623.92	624.92	1198.97	2500.00	3500.00	4700.00	6700.00
Saudi Arab	183.00	504.00	453.00	778.46	1942.00	12097.00	18293.00	24318.40	38222.50
Turkey	982.00	3352.00	1082.00	1702.00	2785.00	10031.00	20185.00	22046.00	18198.0
UAE	-506.33	1183.84	1314.27	4255.96	10004.08	10899.93	12805.99	14186.52	13700.0
Syria	270	110	115	160	320	583	659	1242	2116

As a conclusion from this table, I it is important for Jordanian government to monitor the FDI inflows also in the middle east to identify ways to keep attracting more FDI to the country in order to keep up with countries such as Lebanon, United Arab Emirates, and Turkey.

INVESTMENT REGULATIONS IN JORDAN

Since the year 2000, Jordan has considerably increased the country's openness & legislation to inflows of FDI.

After the accession to WTO, Jordan has placed into effect the Jordan-US Free Trade Agreement (JUSTFA) & Bilateral Investment Treaty (BIT) which both aim to increasing openness to FDIs in addition to providing the highest standards of security protection of both domestic & foreign investment

The Jordanian Government has also passed certain laws that will pave the way for more foreign investment inflows, such as the Investment law (2003), the Investment Promotion Law IPL (1995) which equally treats both the foreign & domestic firms when it comes to tax benefits & regulates FDI.

In addition, the JIB, Jordan Investment Board, leads investment procedure for both benefits & exemptions. Sectors such as tourism, agriculture, industry health, recreational compounds & others, enjoy the benefits of social services & income taxes exemptions. In most sectors, excluding security, customs clearance services & land transportation, investors can claim majority of ownership.

During the creation & expansion phases of foreign projects, IPL provides tax exemption on imported fixed assets for a period of 3 years in addition to imported spare parts with values less than 15% of the fixed assets value. Consequently, by end of April 2009 & according to the American Chamber of Commerce in Jordan, companies owned by non-Jordanian

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constituted around 48.1% of the total market value. Out of which 14.2% are non-Arab investors & 33.9% are Arab investors.

By the end of the first quarter of 2009, 33.9% of the services sector, 52.3% of the industrial sector & 50% of the financial sector were all of non-Jordanian ownership.

The overall trading value during the same quarter was 10,022 million JDs all purchased by foreign investors, out of which 69.1 million are for foreign non- Arab investors & 953 million are for foreign Arab investors.

Firms that are owned by majority by foreign investors are Royal Jordanian air carries with its different sub companies, Jordan Hostels & Tourism Company, Arab potash & Jordan Cement Factor

FDI & TOURISM IN JORDAN

Tourism is considered as one of the most booming sectors in Jordan nowadays. Not only is the country a crossroads of ancient trade routes of great historical civilizations such as the Romans, Moabites & Crusaders but Jordan is also known for its distinctive geographical, geological & environmental assets.

On a spiritual level, Jordan is also religiously important being a part of the Holy land & owning few religious/ historical sites. The Government of Jordan is determined to focus on Tourism development by encouraging foreign direct investments to create a source of foreign exchange earnings which will result in national economic growth.

In 1996, revenues of 760MUSD were recorded when 1 million Tourists visited the country. In 1988, Jordan has established the Higher Council of Tourism, Ministry of Tourism & Antiquities law in an attempt to develop the national Tourism from different aspects.

One of the main achievements of the Ministry was encouraging the development of all related tourism services in Jordan by both the private sector & international investments particularly the Aqaba resorts, Dead Sea resorts & the Baptism Site.

The Government has also granted many incentives to attract foreign capital investments.

Tourism Investment Map Initiative

The Ministry of Jordan along with JIB & the cooperation of other entities have presented the Investment Map initiative to promote for tourism destinations in the country to attract foreign investment.

The map is like a catalogue for innovative & competitive investment opportunities. It provides options for whatsoever financial capabilities & investment preferences.

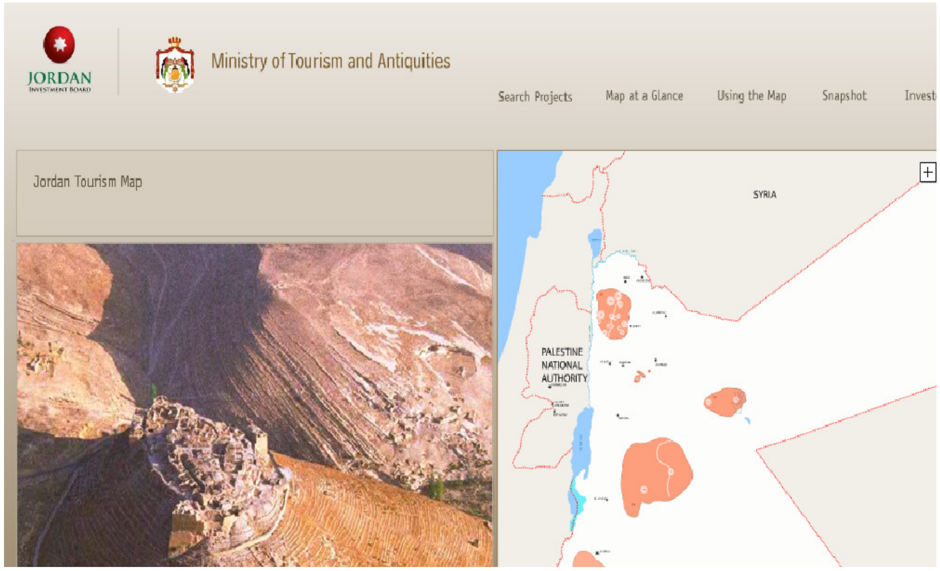
It provides essential information of hundreds of investment projects such as the projects visions, design, capital budget, revenues, financial & market forecasts etc. In addition to some domestic benefits of those projects, such as rates of employment.

After surfing the Map, investors can contact the Ministry of tourism & Antiquities using a registration form to inquire about any preferred project.

TOURISM PROJECTS IN JORDAN

AQABA South Coast Tourism Project

The south coast project extends for 6 Km along the pristine beaches. Aqaba Regional Authority (ARA) has prepared Master Plan to convert the area into a key international destination resort.


JORDAN
Ministry of Tourism and Antiquities
Search Projects
Map at a Glance
Using the Map
Snapshot
Jordan Tourism Map
SYRIA
PALESTINE
NATIONAL
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Al-Azraq
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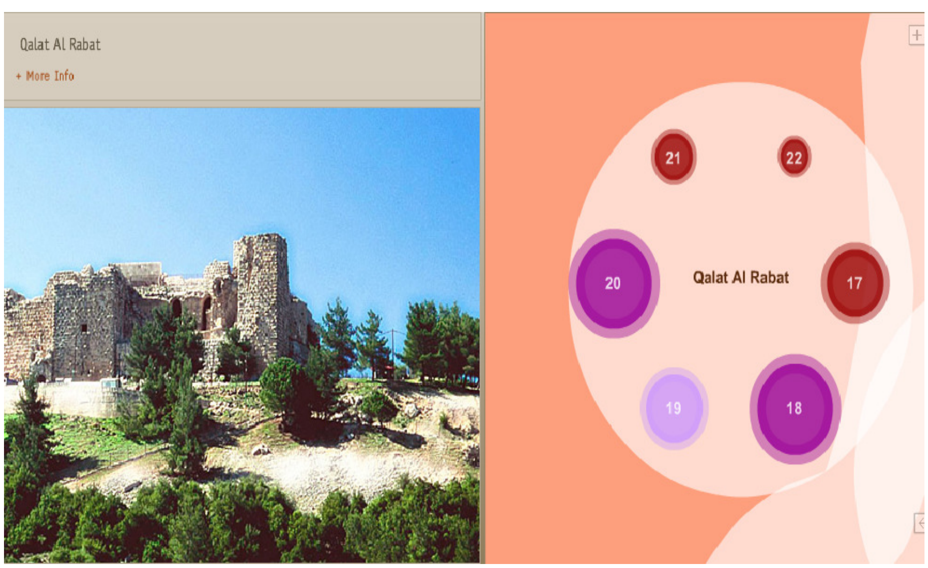
Qalat Al Rabat
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Since June 1997, consultants have already started working on the infrastructure services. The project focuses on the development of the hereunder areas by building hotels, motels, holiday homes & beaches:

a. RAS Al Yamaniya (North)
b. Qabous Tourists compound (central area) :
c. The Golf resort (South)
d. Amusement park (Disney style).

Three development investors were awarded by ARA.

Dead Sea Tourism Project

A Master plan has been prepared by Jordan Valley Authority (JVA) to develope the 60KM eastern shore of the Dead Sea (Sweimeh, Zara &Maxra'a) & turning it into an international resort (hotels, tourists' villages, youth campsites & holiday houses).The EIRR is expected to be 34% for the hotels & 44% for the tourists' villages.

For both previous projects ARA & JVA are requesting the private sector & foreign direct investments to complete the remaining touristy facilities.

BARRIERS TO FDI IN JORDAN

Regulatory Barriers

1. Income Tax Act

Despite the several positive changes of this act, there are still some shortcomings in the instructions and regulations related to income tax such as

a. Subjecting income coming from abroad to the tax,
b. Prohibiting the creation doubtful debts reserves
c. Double taxation of reserves and undistributed profits tax, such as dividends.

2. Difficulty in applying procedures of tax & customs exemptions in some cases due to the inaccuracy of their legal texts and lack of understanding by those who are implementing the exemptions.
3. Complexity of the procedures of obtaining government licenses and exemptions for certain investment projects.
4. Application of sales tax

Economic Barriers

1. Jordan suffers from low rates of growth of public spending, limited domestic market and & low levels of effective demand due to tightened monetary policy and financial approaches.
2. Narrow and limited local market and the need to find marketing outlets abroad.
3. Limited domestic savings and inadequate to finance investment
4. The absence of a developed capital market in Jordan to serve & facilitate investment processes.

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Environmental Barriers

Scarcity of natural resources in Jordan, such as water, could be considered as a major barrier discouraging foreign investments in the country. Not only could water be used in generating electrical power to feed the cities & certain projects as done in Turkey but it can also have an indirect effect on the production cost, which is a major issue that raises the reluctance levels of foreign investment in Jordan.

Political Barriers

Despite that fact that Jordan is known for its political stability, the vagueness of the Middle East's political situation, stalemate of the peace process & lack of concrete results until the present time can all constitute a discouragement for FDI in Jordan since the country is located in the Middle East region.

Political situations, such as what have been happening in the past & lately in Palestine, Iraq, Syria and Iran, raise the doubts & fears of potential investors of losing their investment in case of future wars or struggles.

Investors will not feel secured & will be obliged to create a backup plan in case of crisis to be able to manage their profits & invested capital repatriation outside the country.

GOVERNMENT ROLES TO ATTRACT FDI

Despite the Jordanian Government's efforts & strives to improve & encourage rates of investments in Jordan, investments are still limited & didn't reach the required levels.

Therefore, the Government has adopted measures to both overcome the disincentives of investment & promote the pursuit of the increase of domestic and foreign investments volume in the country.

Some of those measures are:

1. Boosting & increasing domestic savings to be able to servethe investment processes, since our local savings are considered insufficient & cannot achieve the planned growth.
2. Seeking measures aimed to address the country's budget deficit.
3. Adjust the taxation system of certain sectors so as to attract foreign investment.
4. Raise the governmental trusteeship on social security and his administration on the basis of more commercial.
5. Develop the capital market to facilitate the investment process.
6. Reducing the role of the public sector to provide more space to the private sector, in order to reduce public spending & lift the efficiency of public enterprises (after privatization).
7. Streamlining governmental procedures of investment processes to reduce bureaucracy.
8. Maintaining and enhancing the political and economic stability, conducting peaceful negotiations with the parties in the region in the attempt to achieve economic gains & create a climate appealing to foreign investments.

RECOMMENDATION & CONCLUSION

As indicated by the Middle East FDI inflows table shown in a previous section, The Jordanian government needs to identify ways of attracting more & more FDI to be able to

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compete with other countries in the Middle East region. Thus the government should condense & direct all its effort towards applying the FDI attracting measures discussed before.

As for the unemployment challenge the country is facing, studies have clearly showed that FDI in Jordan has not been serving its intended purpose in that area, therefore, the government must focus on taking the utmost advantage of FDI to help reduce the unemployment rates in the country.

For instance the government could develop processes & regulations forcing foreign investors to hire local labor. Or on the other hand the government could provide conditional incentives & exemptions (meaning higher benefits & incentives granted to those-investors- hiring locals instead of foreigners)

In parallel & from a higher perspective, the government should work on creating a strategic action plan targeted towards the enhancement & empowerment of the Educational system in Jordan, in an attempt to achieve an approximate equilibrium between the labor market's demand from one side & the education-acquired skills' supply from another side.

If so, FDI would therefore contribute efficiently in reducing unemployment rates- when hiring locals- by creating new jobs opportunities leading to new sources of income & consequently increasing the people's purchasing power.

As a result, the higher demand on goods & services will cause an increase in the production capacity & thus more taxes will be paid to the government by both the local consumers & producers. This tax revenue will be used by the government to invest in the country's infrastructure (e.g. roads, bridges, dams, electricity & water networks), public health, public education ...etc)

That will all lead to an overall economic growth of the country, higher GDP rate & an improved quality of life for the Jordanian citizens

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