

The Impact of Terrorism on Foreign Direct Investment in Jordan

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Paper Type: Research Paper

Abstract:

In this paper, it is found out the association between terrorism and foreign direct investment of Jordan. For this purpose, we have taken the monthly data from 1996 to 2014. we have found that data are stationary at first difference. For the analysis of finding the long run association, we have applied the Johnson co integration approach. The results are showing that terrorism have negative relationship with the foreign direct investment. This study suggested that there is need of proper planning for the improvement of the foreign direct investment.

Keywords: Foreign direct investment, co -integration, Jordan, long run association.

Introduction:

From last few decades, it is very interesting topic to discuss that impact of terrorism on the foreign direct investment of progress of all countries. The discussion about the decisiveness of foreign direct investment is the very burning topic for all researchers. For foreign direct investment has crucial role for the development of the poverty. Foreign direct investment is the best way to enhance the managerial skills and latest technology. All the emerging countries are formulating the latest polices for the better performance. According to William (2006) foreign direct investment is the basic element for the development of the economy. There is need of rigorous view to understand the importance of the foreign direct investment. Unfortunately, only few countries are getting benefit from the foreign direct investment. Most of the scholars had worked out on this issues that why rate of foreign direct investment is moving towards decline position .According to different surveys, it is proved that Pakistan has the come at the low that due to terrorism activities the foreign direct investment is at very critical position .The terrorism activates are increasing day by day due to lack of security system .Since 2006,the ratio of terrorism actives are at the peak .Due to terrorism actives the economics of Pakistan is facing the problems like declines the productivity. According to poon (2009) the current position of the Jordan economy is going towards decline position. According to Akhtar (2000) after 1947 the inflows level of foreign direct investment is low in Jordan due to political instability. Our study is trying to show that terrorism has very worst impact on the economy of Jordan. The main reason of increasing the terrorism activist's mismanagement of security. Foreign direct investment is known as the superlative way for progress of the national markets in Jordan, there is not proper source to fulfill the gap between saving and investment. It is seen that foreign direct investment is the single tool through which any country can enhance the managerial skills. In the 1980, the inflows of foreign direct investment of Jordan were 17\$billion.During the period of 2005, the growth rate were 2.5\$. Consequently, the foreign direct investment rate is going to decline due to poor policies.

Objective:

- 1) The Impact of terrorism on the foreign direct investment of Jordan.

- 2) The impact of terrorism on the foreign investors.
- 3) The Impact of foreign direct investment on the welfare of the society.

Problem statement:

Impact of terrorism on the stock exchange of Jordan

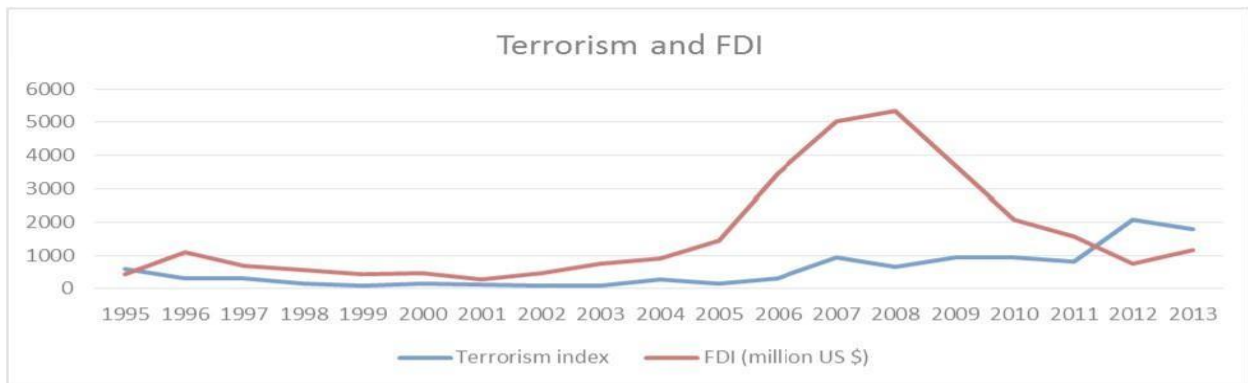


Figure No1: *Trends of Terrorism and FDI in Jordan*

Literature Review:

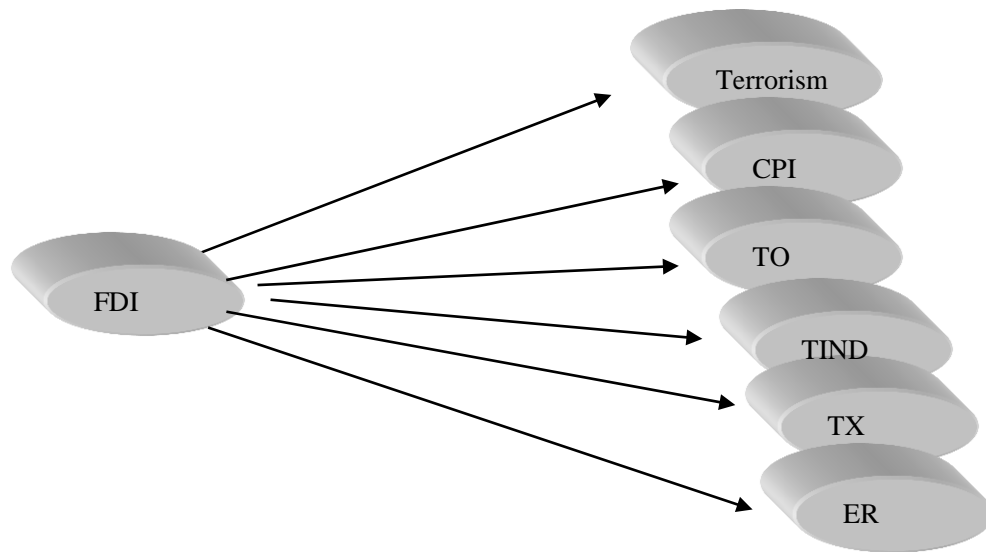
Abadie, A., & Gardeazabel, J. (2008), analyzed the impact of terrorism on performance of the stock market of Pakistan. For this purpose, they were taken the data from 1998 to 2008 and applied the VAR model .Their results are showing that terrorism had negative influences on the stock market of Pakistan. They suggested that Government should have focused on such sort of terrorism activities [1]. Accam, B. (1997), observed the impact of terrorism on performance of the stock market of India. For this purpose, they were composed the data from 1999 to 2010 and applied the ECM model .Their results are showing that terrorism had negative influences on the stock market of India. They suggested that Government should have focused on such sort of terrorism activities [2]. Agrawal, S.(2011), Applied the impact of terrorism on performance of the stock market of Malaysia. For this purpose, they were taken the data from 1995 to 2005 and applied the VAR model .Their results are showing that terrorism had negative influences on the stock market of Malaysia. They suggested that Government should have focused on such sort of terrorism activities [3].

Ali, Sharafat (2014), analyzed the impact of terrorism on performance of the stock market of UK. For this purpose, they were collected the data from 1993 to 2001 and applied the ARDL model .Their results are showing that terrorism had negative influences on the stock market of UK. They suggested that Government should have focused on such sort of terrorism activities [4]. Asiedu, E., & Freeman, J. (2009), viewed the impact of terrorism on performance of the stock market performance of USA. For this purpose, they were collected the data from 1986 to 2004 and applied the multiregression equation. Their results are showing that terrorism had negative influences on the stock market of USA. They suggested that Government should have focused on such sort of terrorism activities [5]. Bandera, V.N., & J.T. White. (1968), analyzed the impact of terrorism on performance of the stock market of France. For this purpose, they were collected the data from 1989 to 2009 and applied the ECM model .Their results are showing that terrorism had negative influences on the stock market of France. They suggested that Government should have focused on such sort of terrorism activities [6]. Belington, N. (1999), Observed the impact of terrorism on performance of the stock market of France. For this purpose, they were collected the data from 1989 to 2009 and applied the ECM model .Their results are showing that terrorism had negative influences on the stock market of France. They suggested that Government should have focused on such sort of terrorism activities [7].

Bloomberg, B., & Ashoka M., Viewed the impact of terrorism on performance of the stock market of Libya. For this purpose, they were collected the data from 1983 to 2001 and applied the unit root model .Their results are showing that terrorism had negative influences on the stock market of Libya. They suggested that Government should have focused on such sort of terrorism activities [8]. Bloomberg, B., Hess, G. & Orphanides, A, observed the impact of terrorism on performance of the stock market of Nigeria. For this purpose, they were collected the data from 1989 to 2009 and applied the ADRL model .Their results are showing that terrorism had negative influences on the stock market of Nigeria. They suggested that Government should have focused on such sort of terrorism activities [9]. Chandrapalart, A. (2000), examined the impact of terrorism on performance of the stock market of China. For this purpose, they were collected the data from 1981 to 2005 and

applied the VAR model .Their results are showing that terrorism had negative influences on the stock market of China. They suggested that Government should have focused on such sort of terrorism activities [10].

Theoretical Framework:



Research Methodology:

Data:

In this paper, observing the long run relationship between terrorism and foreign direct investment of Jordan For this purpose taken the data from 1996 to 2014 and applied the different tests .Foreign direct investment is the considered dependent variable and CPI ,trade openness ,exchange rate and terrorism.

Mathematically the relationship between the variables can be presented as follows:

$$\text{LnFDI} = \beta_0 + \beta_1 \text{Ln GDP} + \beta_2 \text{LnER} + \beta_3 \text{LnTX} + \beta_4 \text{LnCPI} + \beta_5 \text{LnTO} + \beta_6 \text{LnTIND} + \epsilon$$

Table No. 1:

	LNFDI	LNGDP	LNCPI	LNER	LNTO	LNTX	TIND
LNFDI	1						
LNGDP	0.1252	1					
LNCPI	-0.1183	-0.2272	1				
LNER	-0.2121	-0.1215	0.94013	1			
LNTO	-0.3733	0.24163	-0.6563	-0.4713	1		
LNTX	-0.0773	-0.3251	0.85231	0.7581	-0.7041	1	
TIND	0.04081	-0.1391	0.68651	0.46712	-0.7661	0.70271	1
Mean	-0.0002	0.021	0.0045	-0.0051	0.0012	-0.0022	5.6481
Maximum	0.3391	0.7962	0.0302	0.0231	0.1161	0.1761	7.6291
Minimum	-0.1891	-0.581	-0.0431	-0.0351	-0.0891	-0.2211	4.1091
Std. Dev.	0.0487	0.1023	0.008	0.0062	0.0195	0.0265	1.0187
Skewnes	1.7051	2.4531	1.471	0.3711	0.8941	-2.5351	0.2181
Kurtosis	18.0371	33.2951	9.0021	8.5801	15.8571	45.9991	2.0281
Jorque-Bera	1614.81	6396.91	304.001	215.261	1144.51	12732.1	7.7141

Source: author’s calculations

Table No. 2:

Variables	ADF Test	PP Test		
	At Level	At first difference	At Level	At first difference
LnFDI	-5.075031	-12.03272		
LnGDP	-2.3351	-5.57620	-2.511	-11.48701
LnCPI	-5.88731	-4.324997		
LnTX	-1.2261	-15.05501	-1.2261	-15.05501
LnTO	-5.48501	-12.03412		
LnER	-0.4581	-3.641321	-1.0121	-8.68561
LnTINDX	-5.354381	-12.00103		
At Critical Level				
1% level	-6.92201	-6.918331		
5% level	-2.8741	-2.874931	-2.8741	-2.874141
10% level	-5.148481	-5.147063		

Source: author's calculations

Table No. 3:

	Eigenvalue	Trace Statistic	0.05 Critical Value	Prob.**
None *	0.1501	136.1	125.6151	0.0090
At most 1 *	0.13610	99.8530	95.75360	0.0250
At most 2	0.09210	6.910	69.8188	0.0830
At most 3	0.08040	45.1700	47.85610	0.0870
At most 4	0.06400	6.2990	29.79700	0.10
At most 5	0.04370	11.3970	15.49470	0.1880
At most 6	0.00580	.3210	3.841460	0.2500

Source: author's calculations

Table No. 4:

o	Coefficient	Standard Error	t-Statistics
LnGDP	1.725820*	0.40730	3.08870
LnCPI	-8.73469*	3.12065	2.55350
LnTO	3.615500*	1.43790	-2.51420
LnTX	-2.283366	2.73637	-0.83447
LnER	-9.131470*	3.23270	-2.82560
LnTIND	1.775630*	0.41440	-4.28460

Source: author's calculations

Table No. 5:

	Obs.	F-Statistic	Prob.
RGDP does not Granger Cause RFDI	227	4.94920*	0.0070
RFDI does not Granger Cause RGDP	0.7890	0.4550	
RCPI does not Granger Cause RFDI	220	3.62100**	0.0280
RFDI does not Granger Cause RCPI		6.34970*	0.0020
RTO does not Granger Cause RFDI	227	1.62630	0.190
RFDI does not Granger Cause RTO	3.18830**	0.0430	
RTX does not Granger Cause RFDI	220	2.60780***	0.070
RFDI does not Granger Cause RTX		0.44470	0.6410
RER does not Granger Cause RFDI	227	0.34310	0.7090
RFDI does not Granger Cause RER	0.3110	0.7320	
RTIND does not Granger Cause RFDI	227	0.43660	0.6470
RFDI does not Granger Cause RIND		1.05440	0.3500
Source: author's calculations			

Table No. 6;

	S.E.	LNFDI	LNGDP	LNCPI	LNTX	LNT0	LNER	LTIND
1	0.05840	100	0	0	0	0	0	0
2	0.09490	99.8650	0.00020	0.00260	0.04070	0.05740	0.0070	0.02590
3	0.13290	99.4400	0.00420	0.0310	0.11500	0.27210	0.01780	0.11820
4	0.16820	98.8780	0.00750	0.10200	0.17620	0.55460	0.02970	0.25100
5	0.20190	98.1380	0.01100	0.24030	0.23060	0.91540	0.03960	0.42420
6	0.23390	97.2630	0.0130	0.45770	0.27780	1.31880	0.04640	0.62160
7	0.26450	96.2510	0.01580	0.76760	0.31930	1.76040	0.04910	0.8350
8	0.29390	95.1160	0.0170	1.17450	0.35590	2.22990	0.04820	1.05690
9	0.3220	93.8630	0.01940	1.68020	0.38800	2.72450	0.04450	1.27960
10	0.35020	92.5000	0.02140	2.28190	0.41600	3.24160	0.03920	1.49860

Source: author's calculations

Empirical Results:

The table no 1 is showing that there is significant positive association between GDP and FDI .There is found negative association between real exchange rate and foreign direct investment of Jordan .There is moderate correlation between trade openness and foreign direct investment. Our results are showing the tax and terrorism index are negatively correlated with foreign direct investment .in this paper, analyzed the relationship with the help of the co-integration.our results are showing that data are stationary at level 1 at first difference .Then used Phillips- peron test and found that there is weak dependency in all variables .The value of Schwarz criterion is showing that it is at lag2 .There are found spurious results, so, OLS is not the best here ,therefore we applied the co-integration. Different researchers studied that there is positive impact of long run market size and foreign direct investment .Here, there has also found long run relationship between inflation and foreign direct investment. There is significant negative association between trade openness and foreign direct investment .It is proved that there is negative association between terrorism and foreign direct investment .This thing is showing that due to terrorism activates investors are feel fear to invest in Jordan. Table no 5 is showing that there has found both unidirectional and bidirectional relationship .There is unidirectional relationship between FDI and GDP and bidirectional relationship between CPI and FDI. There is not found lead lag relationship between FDI, terrorism and exchange rate. Table no 6 is showing that there is 99% volatility in FDI .The main variables are trade openness and terrorism ,which has main role in the volatility of FDI.

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Notes

Note 1. This is Research Paper.