

The Role of the Global Financial Crisis on Foreign Investment in Jordan

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Introduction

The financial crisis has resulted a sudden decline in the prices of one or more assets such as capital assets used in the production process (such as machinery and buildings), financial assets (such as equity of physical capital or commodity inventory, such as shares and savings accounts) The crisis took the form of a sudden collapse in the stock market, in the currency of a country, or in the real estate market, or in a group of financial institutions, and then spread to the rest of the economic sectors (Abdullah , Ali, 2008).

Since 2000 real estate values have soared, so real estate companies listed on the stock exchange have been rising continuously around the world, especially in the United States, until the purchase of the property become the best type of investment, while other activities, including modern technology, are subject to loss. The Americans individuals and companies started to buy property for housing, long-term investment or speculation. Real estate facilities have expanded to such an extent that banks have extended loans even to individuals unable to pay their debts because of their poor incomes (Sabah, Naoush, 2008).

The real estate bubble swelled to its peak and exploded in the summer of 2007 as real estate depreciated and individuals were no longer able to repay their debts even after the sale of their encumbered properties. More than 2 million Americans have lost their real estate ownership and are bound by financial obligations throughout their lives. Due to the damage of creditor banks as a result of non-payment by borrowers of their loans, the value of their shares fell on the stock market and many real estate companies declared bankruptcy.

The global financial crisis has spread to the rest of the world. In this context, the role of the global financial crisis on foreign investment in Jordan will be explored

The Study Problem

By reviewing the main causes of the global financial crisis and its impact on the world in general, this study came to know the impact of the global financial crisis on foreign direct investment in Jordan and to answer the following questions:

1. Has the non-Jordanian shareholders in the market value of companies listed on the Amman Stock Exchange affected by the global financial crisis?
2. Has the net of non-Jordanian investments in the Amman financial market been affected by the global financial crisis?
3. Has the market value of foreign-owned shares on the Amman Stock Exchange affected the global financial crisis?

The significance of the research

The importance of research stems from the importance of attracting foreign investment, which can radically change the local economy by reducing the burden of the state and providing job opportunities that contribute to reducing unemployment levels, reducing poverty, raising social welfare and keeping pace with globalization.

If the researcher can reach the appropriate results and propose appropriate recommendations on the subject of the study may be able to contribute to the statement of the impact of the global financial crisis on foreign direct investment, and thus the modest contribution to the strengthening of our local economy.

Research Hypotheses:

1. There are no statistically significant differences on the non-Jordanian contribution to the market value of companies listed on the Amman Stock Exchange before and after the global financial crisis.
2. There are no statistically significant differences on net of non-Jordanian investment in the Amman Stock Exchange before and after the global financial crisis.
3. There are no statistically significant differences on the market value of foreign-owned shares in the Amman Stock Exchange before and after the global financial crisis.

Research Methodology:

The descriptive and analytical statistics methodology was used to conduct this research, and the researcher relies on data published by the Amman Stock Exchange on the extent to which foreign investments contribute to the operations of the Amman Stock Exchange.

Previous Studies

Shaheen (2008) conducted a study entitled "The Global Financial Crisis: Its Causes and Implications for the Global Economy", this study confirmed that this financial crisis will result in negative effects summarized as follows:

1. Losses in the banking system in the United States and other developed countries
2. Slowing growth rates globally
3. High unemployment rate globally

The study stressed that the crisis has a clear impact on the Palestinian economy represented by the reduction of remittances of Palestinians abroad, the reduction of periodic financial support to the Palestinian Authority and society, in addition to a significant decline in the economy due to international financial difficulties.

Lotfi (2009) conducted a study entitled "The Global Financial Crisis: Causes, Implications, Confrontation" This study confirms that the economy of the Arab countries will be affected by the global financial crisis because the Arab countries are part of the global economic system. These effects are:

- The Arab oil countries have been affected by the crisis as a result of the drop in the international price of oil from about \$ 150 to \$ 40 per barrel, especially the GCC countries.
- Arab exports will decline; especially since the bulk of Arab exports are directed towards the United States and European countries, which are the most affected by the crisis.
- The impact of Arab investments abroad is estimated to be around \$ 2.5 trillion and is owned by governments, institutions and individuals.
- Stock markets were affected by the financial crisis, which resulted in a decline in the general index of global exchanges.

Fendi study (2012) entitled "The impact of the global financial crisis on the performance of Islamic banks and traditional Jordanian banks" The study aimed to identify the impact of the global economic crisis before it started from 2005 until 2007 and during its start in 2008 until 2010, through analyzing the financial ratios, mainly the return on assets, the return on equity, the rate of profits to expenses, the ratio of loans To deposits and other financial ratios, and the adoption of four main variables namely profitability, liquidity, risk and financial solvency through the study of 12 commercial banks compared to 2 Islamic banks.

The results showed that banks were generally affected by the global financial crisis, especially commercial banks rather than financial banks, where Islamic banks proved to be risk-taking and the strength of Islamic banking.

Theoretical framework

First: Definition of Foreign Direct Investment

It is different from investment in the portfolio because it involves the foreign investor's ownership of part or all of the investments in the project, in addition to participating in the management of the project with the national investor in the case of joint investment or full control over management and organizing in case of absolute ownership of the investment project, For the foreign investor to transfer a quantity of financial and technological resources and technical expertise in all areas to the host countries.

Developing countries seek to attract greater foreign direct investment, for its advantages as well as its impact on domestic investment and stronger growth than loan and portfolio investment.

It refers to investment in the portfolio or employment of the movable, meaning "the purchase of bonds and equities from financial markets". In other words, this type of investment involves natural or legal persons resident in a country buying bonds or shares of existing companies in a foreign country, with no interest in the degree of influence exercised, but the concern is to preserve the integrity of their capital and increase the value of the securities they own (Agha, 2002).

In the past, this type of investment has had major developments in international markets, especially with the expansion of euro-dollar markets. Recent studies point to the development of this type of investment, but remain vulnerable to developments as a result of financial crises, for its flexibility during financial crises.

Foreign Direct Investment is one of the most important forms of international capital flows. It contributes to the spread of globalization, because it receives the attention and preference of host countries, which find the benefits and gains associated with the process of development in the economy and therefore occupies a great place in the economic literature. The conclusions of the conference, which included economists and representatives of business leaders in the United States of America in March 1961, confirmed that foreign investment has become the main channel of international relations (Khaza'leh, 2000).

FDI involves several forms:

1. Joint investment:

An investment project owned or shared by two or more parties from two different countries on a permanent basis. The joint investment includes production or marketing operations in a foreign country, and one of the parties to invest in them is an international company that operates without full control (Zu'bi, 2002).

2. Investment wholly owned by the foreign investor:

Investment projects wholly owned by foreign investors are the most preferred form of foreign investment in multinational companies, which are the establishment of branches of production or marketing, etc. On the other hand, developing countries are very hesitant about this form.

3. Projects or assembly operations:

These projects shall be in the form of an agreement between the national party and the foreign party (public or private). The latter shall provide the first party with the components of a particular product to be assembled in order to become a final finished product. In some cases, especially in developing countries, the foreign party shall evaluate the experience or knowledge. The projects or assemblies may take the form of joint investment or the form of full ownership of the investment projects of the foreign party (Al-Otaibi, 2004).

4. Free Zones:

The Free Zone is a part of the territory of a state and its borders are defined in a decisive manner. The free zone is considered an extension of the outside, it is isolated as a customs, but it is subject to national sovereignty from a political point of view. In which the local and foreign goods are traded and some industrial operations are carried out and customs duties are not paid on those goods except when they cross the borders of the free zone into the country.

Foreign Investment in Jordan

Jordan's ability to attract foreign direct investment:

According to an article entitled "Jordan in the list of the top 20 countries on the performance index of FDI inflows" (www.asharqalawsat.com) (Monday, November 27, 2006, November 27, 2006 No. 10226), and that the classification of Jordan in the list of the first 20 countries out of 141 countries in the FDI performance index for 2006, ranking 19th in the world in 2005, indicate the effectiveness of the measures taken by the Jordanian government to enhance confidence in the investment environment. Azerbaijan, Brunei, Hong Kong, Estonia, Singapore, Luxembourg, Lebanon, Malta, Bulgaria, Congo, Belgium, Iceland, Georgia, the United Arab Emirates, Sudan, the Democratic Republic of Congo, Angola and Trinidad.

Data analysis and hypothesis testing

Introduction

This chapter presents an analysis of the trend of pre and post crisis values to determine the direct impact of the crisis on the values of study variables:

1. Non - Jordanians' share in the market value of companies listed on the ASE.
2. Non - Jordanian investments in the financial market.
3. Percentage of market capitalization of foreign-owned shares on the ASE.

The trend of values before and after the crisis will be studied by studying the explanatory chart of the values of the variables according to the years of study. The hypothesis of the presence of the moral effect of the financial crisis on the values of these variables will be examined by subjecting these values to simple regression analysis and ANOVA.

Description of the change in the variables of the study

First: Non-Jordanians' share in the market value of companies listed on the ASE

Figure 1 shows that during 2005, 2006 and 2007, the share of non-Jordanians in the market capitalization of listed companies increased significantly until 2008, the year in which the global financial crisis took place. The upward trend in values was reflected in a decline, as shown in the following figure:

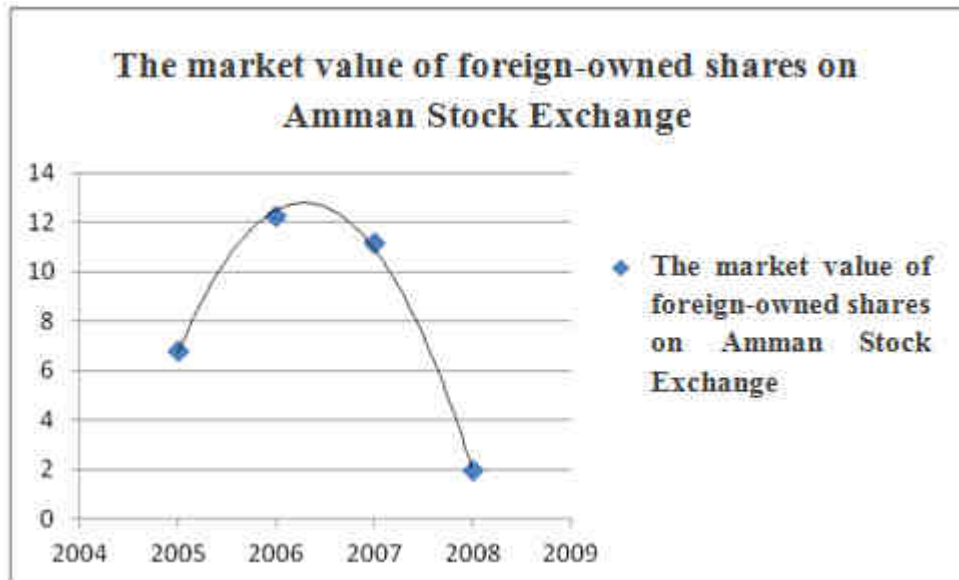


Figure (1)

Depending on this figure, the financial crisis may have an impact on the decline in the value of this ratio, with all other economic factors being considered constant or affected by the same amount affected by this ratio.

Second: Non-Jordanian investments in the financial market

Figure 2 shows that the volume of net of non-Jordanian investments in the financial market was increasing in 2005 and 2006 and peaked in 2007, but the volume of investments during and after the crisis was significantly affected. The volume of net investment for non-Jordanians in 2006 was (180,608,977) JD and rose significantly in 2007 to (466,256,050) JD. In 2008, the crisis year it decreased to JD (309,815,179). The consequences of the financial crisis have turned these investments into a loss of (3,776,966) JD.

Thus, the follower can verify the impact of the financial crisis on the net investments of non-Jordanians in the financial market. Figure (2) illustrates this.

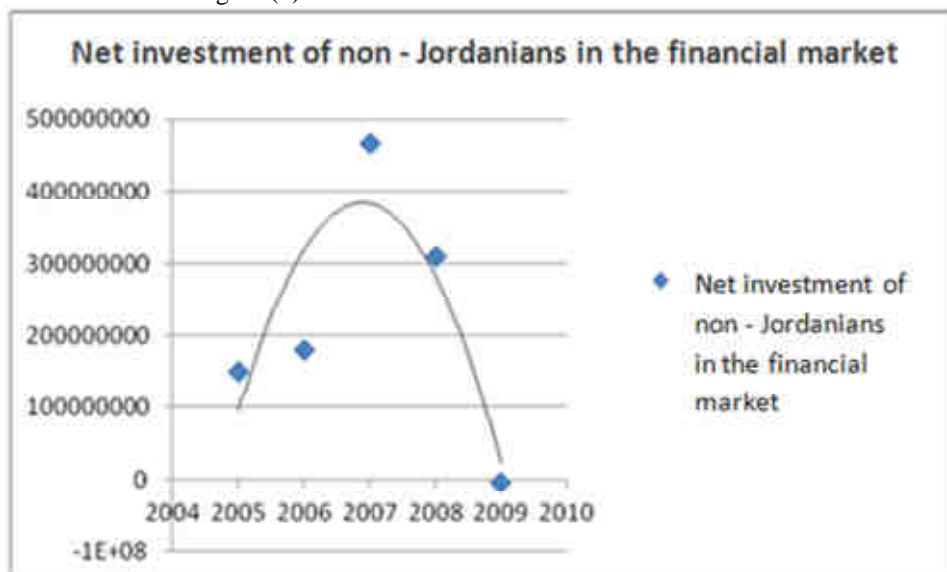


Figure (2)

Third: Growth in the market value of foreign-owned shares on the Amman Stock Exchange

Figure 3 shows the change in the growth of the market value of foreign-owned shares on the Amman Stock Exchange during the years 2005 to 2009, where the increase in market capitalization during 2007 was 12.26%

and in 2008 it was 11.13%. 1.96%, a marked decline indicating the impact of the financial crisis on the market values of stocks. The following figure illustrates this.

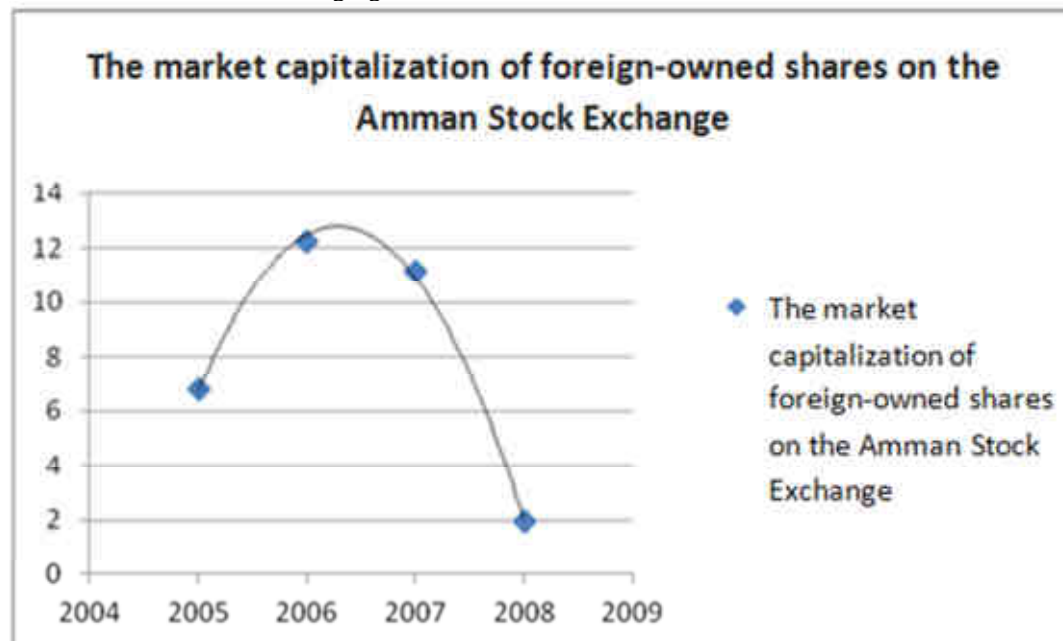


Figure (3)

Test the hypotheses of the study

In this section we will examine the hypotheses of the study to determine whether the changes observed in the study variables due to the financial crisis have a significant effect.

The first nihilistic hypothesis H01

"There is no statistically significant impact of the financial crisis on the non Jordanians' contribution to the market value of companies listed on the ASE"

The study hypotheses were subjected to simple linear regression analysis and ANOVA test. The results were as follows:

Table (1): The results of the test of the impact of the global financial crisis on the non-Jordanians' share in the market value of companies listed on the ASE

* The effect is statistically significant at α (0.05)

The dependent variable	R	R ²	Calculated F	DF	Sig**	Regression coefficient				
						The statement	β	Standard error	Calculated t	Sig**
Non-Jordanian contribution rate	0.663	0.440	2.356	1	0.222	The global crisis	3.146	2.050	1.535	0.222
				3						
				4						

Results of table (1) show that the simple variable regression model of the contribution of non-Jordanians to the independent variable of a global financial crisis was not statistically significant at the level of (0.05) where the value of calculated F equal to (2.356), and the value of the correlation coefficient (0.663) and it is evidence of a positive relationship between the two variables, and the determination coefficient has reached (0.440), ie, the occurrence of the global financial crisis explains the percentage of (44.0%) of the changes in the proportion of the contribution of non-Jordanians, in addition to this, the value of the degree of β has reached (3.146), representing the overall impact of the financial crisis and it is not a moral significance where the value calculated t to it reached (1.535) not significant at the level of statistical significance (0.05), and thus the first nihilism hypothesis is accepted and the alternative hypothesis is rejected, which states:

"There is a statistically significant impact of the financial crisis on the non-Jordanians' share in the market value of companies listed in the ASE"

The second nihilistic Hypothesis H02

"There is no statistically significant impact of the financial crisis on the net investment of non-Jordanians in the financial market"

The study hypotheses were subjected to simple linear regression analysis and ANOVA test. The results were as follows:

Table (2): The results of the test of the impact of the global financial crisis on the net investment of non-Jordanians in the financial market

The dependent variable	R	R ²	F	DF	Sig**	Regression coefficient				
						The statement	β	Standard error	t	Sig**
Net foreign investment	0.864	0.746	8.813	1	0.059	The global crises	2.790	9.397	2.969	0.059
				3						
				4						

* The effect is statistically significant at α (0.05)

The results of Table (2) show that the simple regression model of the dependent variable, net of non-Jordanians, on the independent variable the occurrence of the global financial crisis is insignificant in statistical terms (0.05), where the calculated F value is (8.813) and the correlation coefficient is (0.864) it is evidence of the positive relationship between the two variables, the determination factor has also reached (0.746). In other words, the occurrence of the global financial crisis is accounted for(74.6%) of the changes in the net non-Jordanian investments. In addition, the value of the β score was (2.79), which represents the total effect of the financial crisis is not significant with the calculated value of t (2.969) is not significant at the level of statistical significance (0.05), and therefore accepts the first nihilistic hypothesis and rejects the alternative hypothesis that states:

"There is a statistically significant impact of the financial crisis on the net investment of non-Jordanians in the financial market"

The third nihilistic Hypothesis H03

"There is no statistically significant impact of the financial crisis on the market value of foreign-owned shares on the ASE"

The study hypotheses were subjected to simple linear regression analysis and ANOVA test. The results were as follows:

Table (3): The results of the test of the impact of the global financial crisis on the market value of foreign-owned shares on the ASE

The dependent variable	R	R ²	F	DF	Sig**	Regression coefficient				
						The statement	β	Standard error	t	Sig**
Market value of foreign-owned shares	0.428	0.183	0.674	1	0.472	The global crises	4.717	5.747	0.821	0.472
				3						
				4						

* The effect is statistically significant at α (0.05)

Results in table (3) show the simple variable regression of the market value of the shares owned model of foreigners on the independent variable of a global financial crisis was not statistically significant at the level of

(0.05) where the value of calculated F equal to (0.674), and the value of the correlation coefficient (0.428), which is evidence of a positive relationship between the two variables, and the determination coefficient has reached (0.183), ie, the occurrence of the global financial crisis explains the percentage of (18.3%) of the changes in the market value of shares owned by foreigners, in addition to this, the value of the degree of β has reached (4.717), It represents the total impact of the financial crisis and it is not significant at the value of calculated t (0.821) were not significant at the level of statistical significance (0.05), and it accepted the first nihilism hypothesis and rejects the alternative hypothesis, which states:

"There is a statistically significant impact of the financial crisis on the market value of foreign-owned shares on the ASE"

Results and Recommendations

First: Results

The main findings of the research are:

1. The impact of the global financial crisis on the non-Jordanians 'share of the market value of companies listed on the Amman Stock Exchange (ASE) has been significantly reduced after 2008 due to investors' fear of the financial crisis.
2. The impact of the global financial crisis on the volume of net non-Jordanian investments in the Amman Financial Market has been significantly reduced in 2008, but in 2009 the decline was so large that the decline was negative.
3. The impact of the global financial crisis on the market value of foreign-owned shares in the Amman Financial Market is very low.

Second: Recommendations

The main recommendations of the research based on the previous results include the following:

1. Economic authorities should rethink the misuse of laws and regulations on financial and monetary systems that occur in the market.
2. The attempt to apply Islamic banking effectively because of the financial crisis of the deterioration of financial markets due to the excessive use of interest rates and derivatives.
3. Call for reconsideration of the dollar as a basis for global currencies and for the global banking, financial and economic system, rethinking the currency basket system, and calling on the Arabs to provide a strong reserve that constitutes adequate protection for Arab currencies.
4. Conducting detailed studies that illustrate the importance of investment in Jordan to encourage and attract investors to the consequent support for the national economy, increase the gross domestic product, create new jobs and promote social welfare.
5. To call upon Arab and international financial institutions to make reservations about the issuance of financial assets, leveraging stock market shares, credit procedures and mortgage controls to be balanced with real assets and assets of individuals, companies, countries and banks, and to prevent purely speculative transactions.
6. To advocate for the development of institutional finance from banks and non-institutional finance from the market to achieve direct linkage to the real market for goods and services, and to provide ethical standards in financing as well as profitability criteria.
7. The call for the formulation of a common Arab vision in terms of banking, capital markets, investment and relations with the world markets and banks, and what constitutes an integrated Arab financial unit that protects the rights of Arabs and their money from the international financial shocks carried out by many international adventurers, as proved during the last century and on the eve of the new century.

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