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Abstract:

Objectives: The current research focuses on proving that Foreign direct investment (FDI) is a significant source for developing countries like Jordan. Therefore, Current research aims to investigate the impact of FDI on the economic prosperity of Jordan, focusing on how this relationship is affected by the country's political stability. The study incorporates the time series data from 2011 to 2021. The economic prosperity of the country is measured through the real gross domestic product (Real GDP) growth rate.

Methods: The econometric analysis indicates that FDI has a positive significant impact on the economic prosperity of Jordan, but the political stability of the country also influences this effect. by using these indicators Unit Root Test, Regression Analysis, and Hierarchical Regression Analysis.

Results: The findings indicate that the political instability of the country hurts the relationship between FDI and economic prosperity. Current research has positive significant implications for economic policymakers and politicians of Jordan.

Conclusion: Jordanian policymakers and politicians should focus on improving the country's political stability, which will lead to attracting more FDI and economic prosperity.

Keywords: *FDI; Economic prosperity; Real GDP; Employment rate; Jordan.*

الملخص:

الأهداف: يركز البحث الحالي على إثبات أن الاستثمار الأجنبي المباشر (FDI) هو مصدر مهم للبلدان النامية مثل الأردن. لذلك يهدف البحث الحالي إلى البحث عن تأثير الاستثمار الأجنبي المباشر على الازدهار الاقتصادي للأردن مع التركيز بشكل كبير على كيفية تأثر هذه العلاقة بالاستقرار السياسي للبلاد. تتضمن الدراسة بيانات السلاسل الزمنية من 2011 إلى 2021. ويقاس الازدهار الاقتصادي للبلد من خلال معدل نمو الناتج المحلي الإجمالي الحقيقي (الناتج المحلي الإجمالي الحقيقي).

المنهجية: تم استخدام تحليل القياسي للعثور على أن الاستثمار الأجنبي المباشر له تأثير إيجابي كبير على الازدهار الاقتصادي للأردن ولكن هذا التأثير يتأثر أيضًا بالاستقرار السياسي للبلاد. من خلال استخدام المؤشرات الآتية: اختبار جذر الوحدة وتحليل الانحدار وتحليل الانحدار الهرمي.

النتائج: تشير نتائج البحث إلى أن عدم الاستقرار السياسي في البلاد يضر بالعلاقة بين الاستثمار الأجنبي المباشر والازدهار الاقتصادي. وأن هنالك آثار إيجابية كبيرة على صانعي السياسات الاقتصادية والسياسيين في الأردن.

الخلاصة: بناءً على هذة النتائج خلص البحث إلى أنه يجب على صانعي السياسات والسياسيين الأردنيين التركيز على تحسين الاستقرار السياسي للبلاد مما سيؤدي إلى جذب المزيد من الاستثمار الأجنبي المباشر وبالتالي المزيد من الازدهار الاقتصادي.

الكلمات المفتاحية: *الاستثمار الأجنبي المباشر؛ الازدهار الاقتصادي؛ الناتج المحلي الإجمالي الحقيقي؛ معدل التشغيل؛ الأردن.*

1 Introduction

Foreign direct investment (FDI) implies "an investment involving a long-term relationship and reflecting a lasting interest and control by a resident entity in one economy (foreign direct investor or parent enterprise) in an enterprise resident in an economy other than that of the foreign direct investor (FDI enterprise or affiliate enterprise or foreign affiliate)" (UNCTAD, 2007).

It contributes significantly to the economic growth of a country but its effects on economic prosperity may vary by varying the absorptive capacities of different economies (Sethi et al., 2020). FDI plays a significant role in the economic development of nations but trade policies of host countries also matter a lot which are designed by the political system of the country. In this regard, globalization has created exceptional opportunities, especially for developing countries to achieve their objectives of enhanced economic growth by escalating their trade and investment which has also led to enhancing the flow of FDIs among countries (Sabir et al., 2019). Globalization has enhanced the significance of FDI in terms of establishing markets, transfer of technologies, procurement of networks for enhanced and efficient productions, enhancing international sales, utilization of assets by foreign investors for their benefits, and benefits of host countries in terms of acquiring new technologies and involvement in international trade and production systems (Louzi and Abadi, 2011).

The flow of FDI to poor and developing countries ensures the provision of immensely required resources like technology, access to markets, managerial skills, capital, brands, entrepreneurial capabilities, etc. Such resources are needed in developing countries for the creation of jobs, industrialization, and development to cope with the economic challenges of the country (Sukar et al., 2007). Consequently, most of the developing countries realize the potential worth of FDI and make efforts to promote investment activities to attract FDI. Such efforts are made by developing countries with the intention that FDI contributes significantly to their economic prosperity (Khan and Mashque, 2013).

However, the literature reports contradictory views about the impact of FDI on the economic prosperity of the country. Some studies also indicate the negative or insignificant impact of FDI on the economic prosperity of the country (Chakraborty and Nunnenkamp, 2006; Shaikh, 2010). Different factors shape the impact of FDI on the economic prosperity of the country i.e. technological spillovers, human capital, macroeconomic stability, trade openness, level of financial development, learning by doing and the political stability of the country are among some dominating factors (Shahbaz and Rehman, 2010; Rasheed and Tahir, 2013; Anwar and Nguyen, 2010). These factors influence the relationship between FDI and economic prosperity i.e. some lead to a positive relationship while others lead to a negative relationship.

Therefore, there is a need to explore this relationship in light of the effect of different contributing factors in the context of particular economies. Hence in this regard, current research aims to explore the impact of FDI on the economic prosperity of Jordan while investigating the moderating role of political stability of the country. Whereas Jordan is ranked among the politically unstable economies of the world by the World Bank.

2 Literature Review

Literature reports contradictory findings about the impact of FDI on economic development and growth of different economies. In some economies, FDI is found to have a positive contribution to the economic development and prosperity of the country (Shahbaz and Rehman, 2010; Sukar et al., 2007; Rasheed and Tahir, 2013; Anwar and Nguyen, 2010) while in some other economies, it is found to harm the economic prosperity of the country ((Chakraborty and Nunnenkamp, 2006; Shaikh, 2010; Louzi and Abadi, 2011). The following sections report the findings of previous relevant studies to highlight the relationships among the variables of interest for current research.

2.1 FDI and Economic Prosperity

Literature provides significant evidence for different economies that FDI contributes significantly to their economic growth, development, and prosperity. Sukar et al. (2007) investigated the impact of FDI on the economic growth and prosperity of Sub-Sahara African countries. Economic growth and prosperity are measured through the real per capita income of the countries. The study reported a positive impact of FDI on the economic growth of Sub-Sahara African countries.

Sethi et al. (2020) studied the relationship of FDI with the financial and economic development of South Asian countries including Sri Lanka, India, and Pakistan. The study incorporated per capita GDP as a measure of economic development and found that FDI has a significant positive impact on the per capita GDP of these countries. Similarly, Chakraborty and Nunnenkamp (2008) reported the positive impact of FDI on the economic prosperity of India. Siddique et al. (2017) reported its positive impact on the economic prosperity of Pakistan. Samantha and Haiyun (2017) reported its positive impact on the economic development of Sri Lanka. Gunby et al. (2017) reported the positive contribution of FDI to the economic growth of China.

Choi and Baek (2017) investigated the impact of inward FDI on the economic prosperity of India measured by total factors of productivity of the country. The study reported the positive impact of FDI on the economic prosperity of the country. Das and Sethi (2020) reported that FDI plays a significant role in the economic prosperity of India through the enhancement of business competitiveness, employment rate, and enhanced export levels in the country. Sivalogathasan and Wu (2014) indicate that in South Asian countries the inflow of FDI results in the enhancement of the country's innovative capacity that leads to enhanced economic growth and development.

Contrary to the findings of the above-mentioned studies, Duasa (2007) reported no significant relationship between economic development and FDI in Malaysia indicating that FDI has no significant contribution to the stability of economic growth in Malaysia. Sinha et al. (2019) reported that in Asian countries the flow of FDI is less significant in having a significant impact on real economic development. Rahman et al. (2019) investigated the impact of FDI on the economic growth of South Asian nations using GMM. The study reported that FDI is not found to have a significant positive impact on the economic development and growth of these developing countries because these countries were unable to efficiently utilize the knowledge spillovers acquired through trade and investment.

2.2 Political Stability and FDI

Researchers in the fields of economics and finance indicate that different factors affect the flow of FDI in a country (Kim, 2010). Ali (2019) argues that political risk is among the most significant factors in limiting the flow of capital in an economy. Especially in developing economies, the investments are exposed to enhanced political risks therefore politically unstable economies have larger FDI inflows. Similarly, politically stable countries have larger FDI outflows that are invested in economies having larger political risks. Jeutang and Kesse (2021) argue that business operating conditions are dependent on the political environment of the country because different governments have different policies that affect the business environment as well (Rasheed et al., 2021a, b).

Sabir et al. (2019) argue that countries having lower levels of FDI are found to have higher levels of socio-political instabilities because countries' orientation to exports is among the dominating factors determining the reasons to attract FDI by a country and such orientations are determined by the prevailing political system of the country. Chan and Gemayel (2004) argue that one of the most critical determinants of FDI is the interrelationship of political instability of the country and investment risk. Such risks are found to be dominating the political systems of developing economies, especially the ones facing political instabilities (Kim, 2010).

Kurecic and Filip (2017) argue that the political stability of the countries affects the outflow or inflow of FDI in economies in a way that FDI outflows from countries that are politically stable and these flows move towards economies that are politically less stable. The study also indicates that the political stability of the country significantly influences the FDI flows in developing countries while no evidence is found to have a significant impact of political stability on FDI flows in developed economies. Khan and Mashque (2013) reported a significant negative relationship between FDI and political risks prevailing in the economies.

2.3 Political Stability and Economic Prosperity

The political systems of the countries have a significant impact on economic growth and development because economic policies are designed and established by political authorities (Kurecic and Filip, 2017). Khan and Mashque (2013) indicated that FDI inflows in an economy have a significant positive impact on the economic development and growth of the country but at the same time these inflows are affected by different kinds of factors among which political risk is one of the dominating factors. Political risk is found to be at higher levels in developing nations which hurts the flow of FDI and hence also affects the economic growth and prosperity of the country (Radu, 2015).

Kurecic and Filip (2017) studied the interrelationship of political stability with FDI and then the association of FDI with the economic growth of the economies. Employing the Granger causality and VAR (vector autoregressive) framework, the study found that there is a significant positive relationship between FDI and the economic growth of a country but this relationship is also dependent on the political stability of the country. Political stability is found to have a significant impact on the FDI inward or outward flows of countries. Politically stable economies are found to have increasing levels of FDI outflows that are attracted by the politically unstable economies due to the need for resources for their economic growth and development (Shahzad and Al-Swidi, 2017; Iamsiraroj and Doucouliagos, 2015; Javed et al., 2012).

In light of the findings of the above-mentioned studies, current research proposes the following relationships among FDI, political stability, and economic prosperity. FDI contributes to the economic prosperity of the country but at the same time the flow of FDI is affected by the country's political stability hence the current research assumes that political stability moderates the relationship between FDI and economic prosperity.

2.4 Political Stability of Jordan

Although Jordan is considered a stable and peaceful country especially in comparison with the neighboring countries including Israel, Syria, Iraq, and Palestine at the same time widespread social protests against the government about the rising economic issues create political unrest in the country (EIU, 2021). Based on these facts and some other indicators identified by the World Bank including "terrorism, politically motivated violence and uncertainty about the stability of government", Jordan was ranked as a politically unstable economy on a ranking from 1996 to 2020 (Global Economy, 2022).

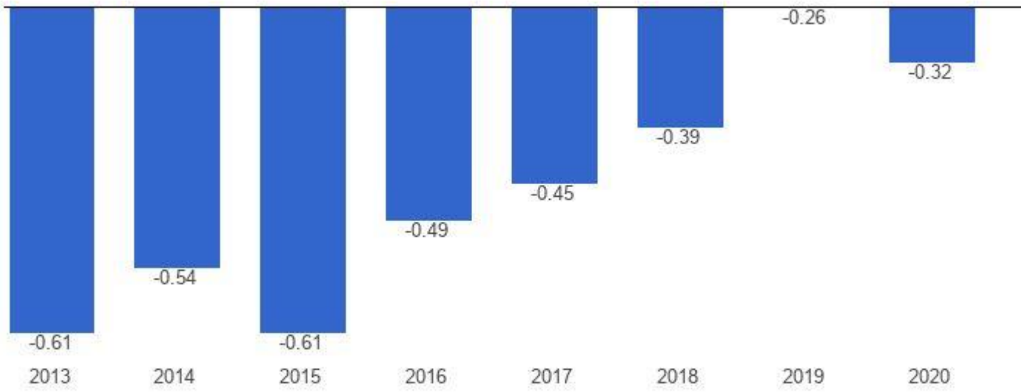

Fig. (1): *Political Stability of Jordan (Political stability index; -2.5 weak; 2.5 strong)*
Source: https://www.theglobaleconomy.com

Fig. 1 indicates that Jordan is continuously at a negative level on the Political stability index of the World Bank. Such political instability in the country is a significant concern for economic policymakers as it influences economic activities at national and international levels. In this regard, the Jordanian government makes efforts to design policies to attract foreign direct investment to enhance the real GDP of the country. In light of this fact and the above-mentioned studies indicating that politically unstable countries have higher FDI inflows, current research assumes that Jordan has higher FDI inflows but there is a need to explore whether these FDI inflows contribute positively to the economic prosperity of the country or the effect of FDI on economic prosperity is moderated by the political instability of the country. Therefore, the following hypothesis is proposed by current research:

H$_0$: Political stability moderates the relationship between FDI inflows and the economic prosperity of Jordan.
H$_1$: Political stability does not moderate the relationship between FDI inflows and the economic prosperity of Jordan.

The following framework indicates these relationships;

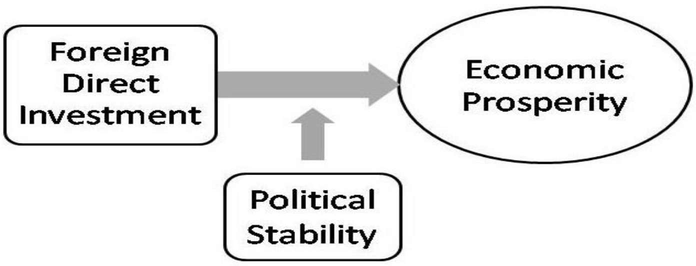

Fig. (2): *Proposed Framework of the Study*

Current research incorporates a quantitative research approach as it includes secondary quantitative data of all the variables of interest. Previous research reports Real GDP as an indicator of the economic prosperity of the country hence current research also incorporates the GDP growth rate of Jordan as an indicator of the economic prosperity of Jordan. Data for political stability (PS) is collected from the political stability index of the World Bank (https://www.theglobaleconomy.com) and data for FDI and economic indicators is collected from the official website of OECD (https://www.oecd.org/). The period of the study is from 2011 to 2020. The collected data is analyzed using SPSS software. Regression analysis is used to investigate the relationships of economic indicators with FDI, while hierarchical regression analysis is employed to investigate the moderating effect of political stability.

3 Data Analysis and Results

To investigate the relationship of FDI with the Real GDP (economic prosperity) and the moderating effect of political stability, current research is preceded through flowing steps. Which are Unit Root Test, Regression Analysis, and Hierarchical Regression Analysis.

3.1 ADF Test (Unit Root Test)

The analysis is initiated by investigating the characteristics of time series data so that spurious regression can be avoided. For this purpose, the ADF (unit root) test is employed to find out the nature of data i.e. stationary or non-stationary. ADF test is widely employed to test the stationary form of data due to its simplicity and effectiveness. Table (1) indicates the results of the ADF test. Results indicate that all the variables of interest are stationary.

Table (1): *ADF (unit root) test results with trend and intercept*

Variable	1st Difference	2nd Difference	Lagged
FDI	0	S	2
GR-GDP	0	S	1
PSI	S	-	1

FDI= foreign direct investment, GR-GDP= growth rate of GDP, PSI=political stability index

3.2 Results of Regression Analysis

The predictive power of the proposed model is investigated using regression analysis by SPSS 19.0. Based on the results indicated in Table (2) it is found that FDI inflows (b=0.273, t= 2.906, $p<0.05$) have a significant positive impact on GR-GDP at a 5% significance level. Hence, the results indicate that the FDI inflows in Jordan significantly contribute in the enhancement of the GDP growth rate which is an indicator of the economic prosperity of the country.

Table (2): *Predictive Power of Variables*

Variables	Beta	t-values
FDI	0.273**	2.906
F value		11.829
F sig.		0
R2		0.839
Adjusted R2		0.792
Durbin Watson		2.291

*** p<0.05, ***p< 0.01*

3.3 Hierarchical Regression Analysis; Investigating the Moderating Effect

Hierarchical regression analysis is employed to investigate the moderating effect of political stability (PSI) on the relationship between FDI and GDP. The study follows the Frazier et al. (2004) model that employs the interaction terms of variables i.e. FDI and political stability (PSI) to examine the moderating effect. The results reported in Table (3) indicate that the relationship between FDI and GDP is negatively affected by the political stability of the country. The values in parenthesis are the relevant t-values.

Table (3): *Results of Moderating Effect*

Variables	Predictors	Moderated	Interactions
FDI	0.273**	0.243**	0.223**
	(2.906)	(2.890)	(3.142)
PSI		0.691	0.312
		(3.109)	(0.813)
FDI-PSI			-0.398**
			(3.783)
F value	11.829	34.21	43.2
F sig.	0	0	0
R2	0.839	0.879	0.898
Adjusted R2	0.792	0.923	0.914
R2 change	0.839	0.040	0.019
Significant R2 change	0	0.057	0.023

*** p<0.05, ***p< 0.01*

Results reported in Table 3 indicate the investigation of interaction terms between political stability and FDI to highlight the moderating effect of political stability. The interaction term between FDI and PSI is found to be significant at a 5% significance level (b=0.223, t=3.142, $p<0.05$) and the interaction term between FDI, PSI, and GR-

GDP is found significant and negative (b=-0.398, t=3.783, p<0.05). Hence the findings indicate that the political stability of Jordan negatively influences the impact of FDI on the economic prosperity (GDP) of the country. These findings support the proposed hypothesis of current research.

4 Discussions and Conclusion

Empirical findings of current research are based on the period of 2011 to 2020 related to the FDI inflows and political stability of Jordan. The proposed hypothesis was tested employing the hierarchical multiple regression analysis. The findings indicate that the proposed hypothesis of current research is supported indicating that the political stability of Jordan moderates the relationship between FDI and GDP. Initially, the regression analysis indicates the positive relationship between FDI and GDP indicating that foreign direct investment inflows in Jordan contribute positively to the economic prosperity of the country. But when the moderating effect is tested it is found that political stability transforms the relationship from positive to negative hence indicating that the political stability of the country contributes negatively in generating benefits from FDI for the economic prosperity of Jordan.

The rise in FDI inflows is a good sign for developing countries like Jordan because such countries are facing the scarcity of essential resources required for the economic development of the country. Therefore, the inflows of FDI cause economic prosperity in the country by providing of required resources. But at the same time unfortunately the country is not politically stable and such instability of the country negatively affects the inflows of FDI and their impact on economic prosperity. These findings indicate that despite having increasing levels of FDI inflows in the country, the political instability in the country causes a lack of efficiencies for the effective utilization of these resources acquired by FDI hence affecting the positive contribution of FDI in economic prosperity of the country.

These findings have significant implications for Jordanian government and economic policymakers. Government and policymakers make significant efforts to attract FDI to have a positive contribution in economic development, growth, and prosperity but if they are unable to efficiently utilize the gained resources in their best interest due to the politically unstable situation in the country then there is no benefit of such inflows. In addition to creating attraction for FDI inflows, the Jordanian government should also make efforts to eliminate the political uncertainty in the country by resolving the economic issues that are of greater concern to the Jordanian public. FDI inflows have the potential to enhance the GDP growth rates but there is a need to stabilize the political environment in the country.

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