



منتدى الاستراتيجيات الأردني  
JORDAN STRATEGY FORUM

---

# The Economics of Local & Foreign Direct Investment (FDI): Learned Lessons for Jordan

July 2023



Policy Paper





## منتدى الاستراتيجيات الأردني JORDAN STRATEGY FORUM

The Jordan Strategy Forum (JSF) is a not-for-profit organization, which represents a group of Jordanian private sector companies that are active in corporate and social responsibility (CSR) and in promoting Jordan's economic growth. JSF's members are active private sector institutions, who demonstrate a genuine will to be part of a dialogue on economic and social issues that concern Jordanian citizens. The Jordan Strategy Forum promotes a strong Jordanian private sector that is profitable, employs Jordanians, pays taxes and supports comprehensive economic growth in Jordan.

The JSF also offers a rare opportunity and space for the private sector to have evidence-based debate with the public sector and decision-makers with the aim to increase awareness, strengthening the future of the Jordanian economy and applying best practices.

For more information about the Jordan Strategy Forum, please visit our website at [www.jsf.org](http://www.jsf.org) or contact us via email at [info@jsf.org](mailto:info@jsf.org). Please visit our Facebook page at [Facebook.com/JordanStrategyForumJSF](https://Facebook.com/JordanStrategyForumJSF) or our Twitter account [@JSFJordan](https://twitter.com/JSFJordan) for continuous updates about Jordan Strategy Forum.

-  #JSFJo
-  @JSFJordan
-  /JordanStrategyForumJSF
-  Jordan Strategy Forum

Amman, Jordan  
T: +962 6 566 6476  
F: +962 6 566 6376

**Policy Papers: A policy paper is a research piece which focuses on a specific issue or problem and provides clear recommendations for policy makers**

The Jordan Strategy Forum (JSF) is pleased to make this publication available to all users to benefit and quote from provided that they the JSF is explicitly and properly cited as the reference.

**Rate this paper**



## Contents

Background .....	3
The Jordanian Economy's Need for Local and FDI .....	6
The Inflows of FDI: Some General Observations .....	8
The Determinants of Investment and FDI .....	12
The Investment Framework in Jordan .....	17
The Jordan Strategy Forum's Policy Recommendations.....	23

## 1. Background

Local Investment and Foreign Direct Investment (FDI) have always caught the attention of academia, governments, international organizations, and think tanks. This interest is what one would expect.

1. Local investment (human and physical) leads to increases in the production of goods and services, productivity improvements, promotion of exports and in turn, promotes real economic growth and development. The generated growth leads to improved profits and more investments.
2. FDI can transform economies through innovation and increased productivity. FDI inflows can also enhance the volume of exports of the host countries and provide them with better-paid and more stable jobs and increase the inflows of foreign exchange.
3. FDI can transmit foreign firms' technology, knowledge, and practices to domestic supplies.

At the opening of the First Ordinary Session of the 19th Parliament (November 2021), His Majesty King Abdullah II emphasized the importance of investment in the process of economic growth and development by stating “as for economic development and administrative reform, the aim is to achieve recovery from the implications of the COVID-19 crisis, and to build a firm basis for efficient partnership between the public and the private sectors, in order to establish investments that provide job opportunities, stimulate growth, and tap into promising sectors and qualified human resources”.

The Economic Modernization Vision, which was launched by His Majesty on 5 June 2022, aims to attract more than JD 41 billion of foreign and local investments over the next ten years, while emphasizing two pillars:

- 1. Economic Growth:** This Pillar's goals are the creation of 1+ million new income opportunities by 2033, realization of a 3% annual increase in real per capita income, and the improvement of Jordan's ranking in the Global Competitiveness Index to top 30<sup>th</sup> percentile.
- 2. Quality of Life:** This Pillar's goals are to double the percentage of Jordanians who are satisfied with their quality of life to reach 80%, make one Jordanian city ranked among the top 100 cities in the world, and improve Jordan's rank in the Legatum Prosperity Index to the top 30<sup>th</sup> percentile.

The objectives of this Policy Paper, issued by the Jordan Strategy Forum (JSF), are four-fold:

1. Outline a few commonly known observations whose objective is to argue for **why Jordan needs more investments in general, and more FDI inflows in particular.**
2. Outline a few observations about the inflows of FDI globally, regionally, and locally.
3. Outline what impacts local investment and FDI.
4. Outline a few recommendations whose objective is to increase local investment and FDI.

## 2. The Jordanian Economy's Need for Local and FDI

To appreciate Jordan's urgent need for local investment and FDI, this section outlines several commonly known observations about the realities of the economy.

1. The growth performance of the Jordanian economy has not been strong. During the period 2010 - 2022, the mean annual growth rate in real GDP was equal to 2.1%. As a result, the overall unemployment rate has increased from 12.5% in 2010 to 22.8 in 2022.
2. In 2022, high of the **unemployed Jordanians** belong to the age groups 20-24 (32.7%), 25-29 (29.5%), and to 30-39 group (22.3%). In addition, most of the unemployed have either less than secondary education (44.5%) or an undergraduate degree or higher (42.2%).
3. A large proportion (30.6%) of the unemployed are unemployed for **12 to 23 months. In addition, 20.4% of the unemployed are unemployed for 2 years or more.**
4. Jordan's trade balance has always been poor. Trade deficits are the norm.
5. Over time, the poor status of public finance has resulted in significant increases in public debt. Public debt to GDP ratio has increased from 65.4% in 2010 to 106.4% in 2022. In actual fact, I 2022, **interest payments accounted for 148.5% of what was spent on health.**
6. Public investment as well as private sector investment have been decreasing. Indeed, during the period 2015 - 2021, the mean annual gross fixed capital formation to GDP ratio was equal to 17.1%. This ratio is much lower than in, for example, China (42.2%) and in Ireland (34.5%).
7. Jordan's GDP (constant prices) per worker (converted to U.S. dollars at purchasing power parity) has decreased from **54,140.4 dollars in 2010 to 41,971.6 dollars in 2022.**
8. During the period 2010-2022, the percentage change in output per worker in Jordan **decreased by -22.5%**. This ratio is in a stark contrast to the **75.6% Irish increase.**

Given the above-mentioned socio-economic challenges, one can understand why the objectives of the Economic Modernization Vision are to **“develop Jordan into a regional industrial hub through high growth exports with high quality and value products”**, and **“stimulate domestic and foreign investments through an attractive and efficient investment and doing business ecosystem”**. It is also not surprising that under the Vision's Economic Growth Roadmap, it is stated:

- A.** “The ambition is to increase real GDP from JD 30.2 billion to JD 58.1 billion, which represents an increase of JD 27.9 billion and a growth of 5.6% per annum”.
- B.** “The ambition is to increase employment opportunities for Jordanians from 1.6 million jobs to 2.6 million jobs by 2033, which reflects a 4.2% growth per year”.
- C.** “An overall investment of about JD 41 billion is required to achieve Vision’s goals, with the majority driven by the private investments (72%) coming from both domestic and foreign investments and public private partnerships.

### 3. The Inflows of FDI: Some General Observations

FDI is 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” (UNCTAD). FDI types can be distinguished as follows:

- A. The creation of a new subsidiary and / or manufacturing base or services center in the host country. Typically, this is called **Greenfield FDI**.
- B. Mergers and acquisitions (M&A) of existing businesses in the host country.
- C. Joint ventures (JVs).
- D. Re-investment of profits into projects in the host country.

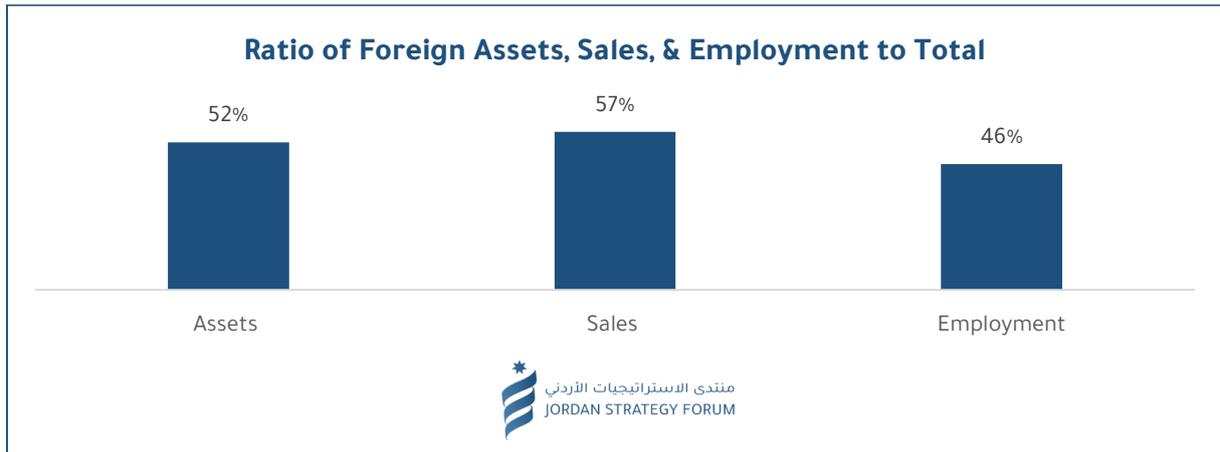
**3.1** Based on the 2022 World Investment Report and the UNCTAD’s database, we outline below several observations about the global inflows of FDI.

**First**, the global inflows of FDI have been on an upward trajectory. Indeed, these inflows have increased from 204.9 billion dollars in 1990 to more than 1.3 trillion dollars in 2022.

**Second**, the proportion of FDI inflows to developing (developed) countries has been increasing (decreasing). The share of developing countries increased from 16.4% to 52.9%.

**Third**, the top 100 non-financial multinational enterprises (MNEs) in the world are huge. Their total assets and sales amount to more than **18.7 and 11.1 trillion dollars** respectively. These enterprises (only 100) employ more than **9 million individuals** outside their own countries (UNCTAD).

**Fourth**, a significant proportion (about 50%) of the assets, sales, and employment of these top 100 MNCs are in foreign countries.

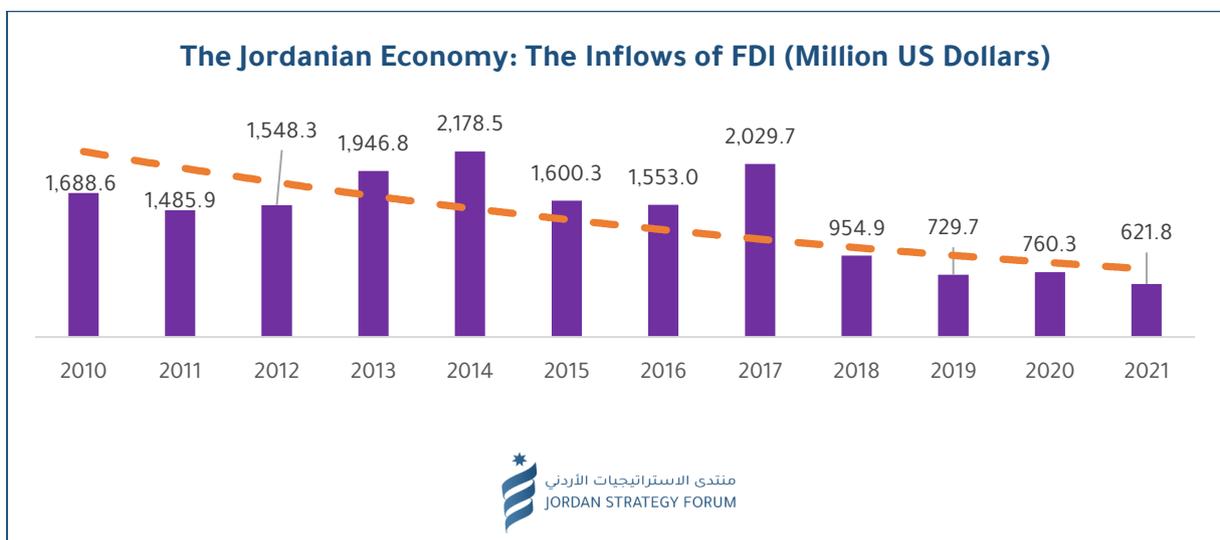


Source: UNCTAD.

**Fifth**, the top 100 non-financial MNEs in developing and transition countries<sup>1</sup> are also huge. Their total assets and sales amount to **10.06 and 6.53 trillion dollars** respectively. These enterprises employ 4.05 million individuals outside their own countries.

**3.2** Based on the 2022 World Investment Report and the UNCTAD's database, we outline below several observations about the inflows of FDI to Jordan.

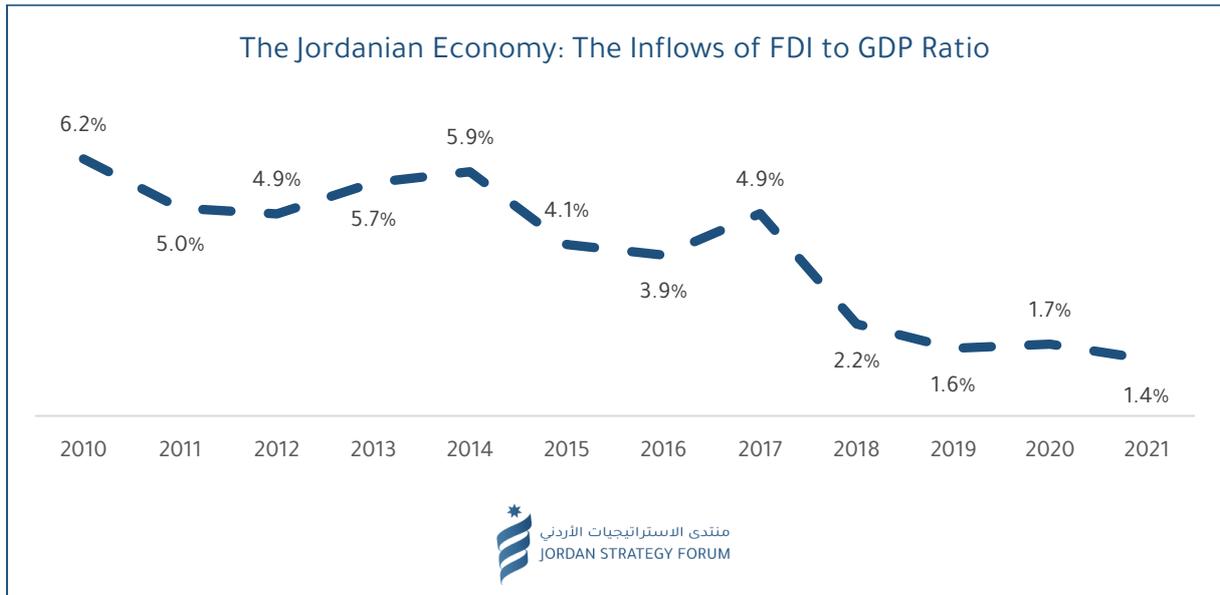
**First**, relative to the global increase, the Jordanian economy's inflows of FDI have been decreasing. However, it is encouraging to note the significant increase in this inflow in 2022.



Source: UNCTAD.

**Second**, the decreases in FDI are reflected in reciprocal decreases in FDI to GDP ratio.

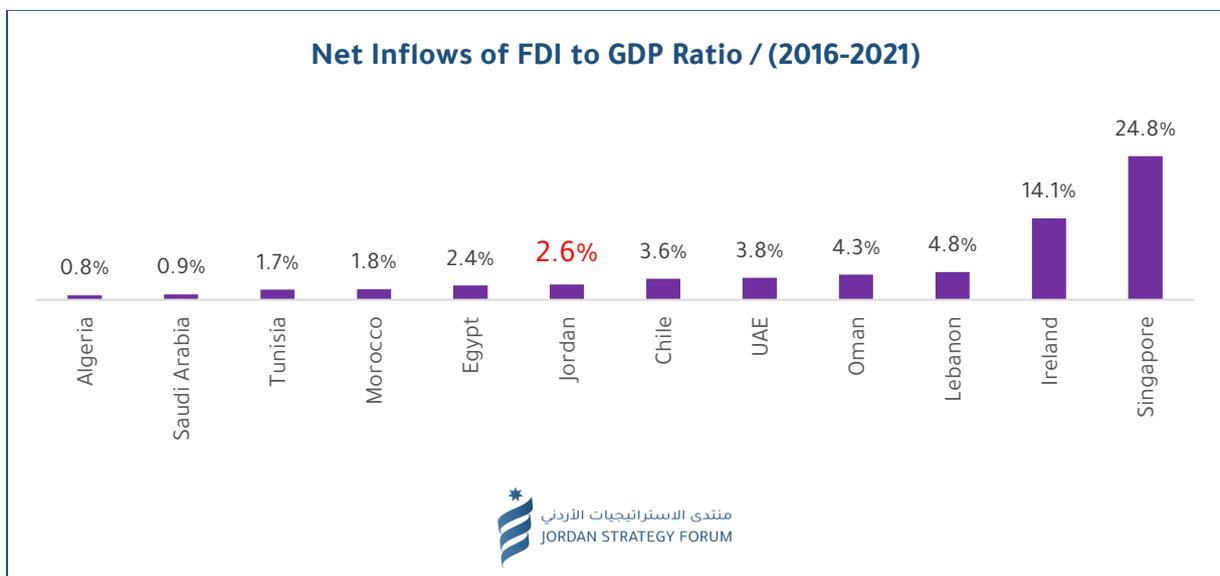
<sup>1</sup> <http://jsf.org/uploads/2023/08/01/The%20top%20100%20non-financial%20MNEs-1690885265.xlsx>



Source: UNCTAD.

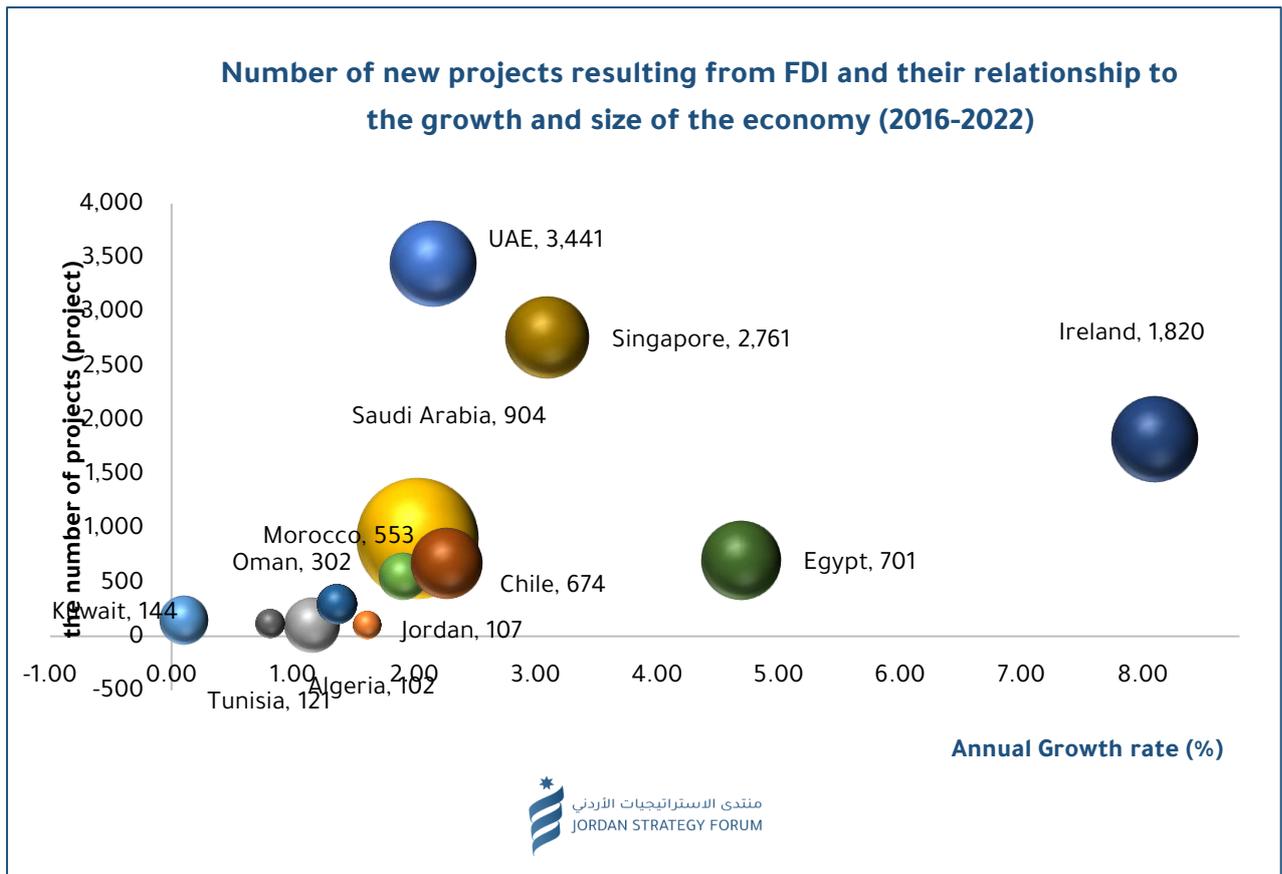
**Third**, based on the inflows of FDI to Jordan, one cannot make a definitive judgement about the economy's experience. One needs more information.

1. Singapore and Ireland are exceptionally successful in attracting net inflows of FDI. At 2.6% of GDP in 2016-2021, Jordan's net inflows of FDI are modest.



Source: UNCTAD.

2. In terms of the total number of greenfield projects, the performance of Jordan during the period 2016-2021 leaves a lot to be desired.



Source: UNCTAD.

**To Sum Up**, and within the context of the Jordanian economy's performance in growth, unemployment, trade, economic complexity index, high technology exports, budget deficit and public debt, investments (GFCF), and the relatively poor performance in attracting FDI inflows, Jordan must succeed in attracting more, a lot more, local investment as well as FDI. Here, it is timely that the OECD published a report in 2022 (**"FDI Qualities Review of Jordan: Strengthening Sustainable Investment"**). From this report, it is worth noting the following two quotations.

- A. "FDI in manufacturing created many jobs in the early 2000s, particularly for women, but accounted for 20% of greenfield FDI, a share that has been gradually declining in recent years, compared to 40% in most ASEAN economies".
- B. "Manufacturing FDI has been concentrated in low productivity and low skill-intensity sectors, such as the garment industry and has been responsible for large shares of oil-based fuel consumption".

## 4. The Determinants of Investment and FDI

When a firm invests in its' local economy or abroad, it pursues its own aims. For this reason, what motivates local investment and FDI is not necessarily the same across all firms. Motives are dependent upon the structure of the firm and on the characteristics of the economy in which the investment is made.

At the outset, it should be mentioned that the **factors that affect the investment behavior of foreign companies are very similar to what affect the investment behavior of local firms**. It can also be stated that the attraction and promotion of local investments and FDIs is not an easy task. Indeed, this process is a complex task and dependent on many interrelated factors. These factors can be classified under three categories:

# Factors that Affect the Investment Behavior

## Economic Conditions

### Market:

Size and income levels, stability and growth prospects, access to regional markets, and demand patterns.

### Resources:

Natural resources, technology and skills resources, and labor resources.

### Competitiveness:

Availability of affordable and productive labor force: Cost, skills, managerial skills, access to inputs, physical infrastructure, and financial institutions.

### Macroeconomic Fundamentals:

Tax rates and structure, inflation rate, exchange rates, interest rates, and public debt.

## Country Policies & Legal Framework

### Macroeconomic Policies and Laws:

Fiscal policy, monetary policy, and access to foreign exchange.

### Private Sector Policies and Laws:

Promotion and degree of private ownership, clear and stable policies, easy entry/exit policies, efficient financial markets, government effectiveness.

### Trade and Industry Policies and Laws:

Import and export controls/liberalization policies, membership in regional trade agreements, competition policy, support for SMEs, and intellectual property rights (IPR) protection.

### Investment Policies:

Membership and nature of international investment agreements. Ease of entry, pre-establishment & post-establishment, most-favored-nation (MFN) treatment and national treatment, ownership, incentives, access to inputs, stability and transparency of policies and laws.

## Investment Strategy

### Risk Perception:

Perception of country risk based on political factors and macro-economic management, labor markets, policy stability, and IPR protection.

### Company Strategies:

Sourcing of products / inputs, integration of affiliates and supply chain management, and strategic alliances.

**Source:** Adapted from the Economic and Social Commission for Asia and the Pacific (ESCAP): Handbook on Policies, Promotion, and the Facilitation of FDI for Sustainable Development in Asia and the Pacific: United Nations 2022.

Relative to the determinants of investment, it is useful to take note of the 2022 **“Kearney Foreign Direct Investment Confidence Index”**. This Index is an annual survey of global executives (500). The 2022 survey results reveal two interesting observations.

1. There is no dominant factor that affects where FDI goes. Only 17% of the respondents see “transparency of government regulations and corruption” as the most important factor.
2. The rankings of the 19 factors reflect some changes over time.

Most Important Factors When Choosing Where to Make FDI / 2022 Survey					
Factors	%	Rank in	Rank in	Rank in	Rank in
	2022	2022	2021	2020	2019
Transparency of Government Regulations & Corruption.	17%	4	3	5	1
Technological & Innovation Capabilities.	15%	2	2	2	2
Tax Rates & Ease of Tax Payment.	15%	1	1	1	3
Ease of Moving Capital into & out of the Country.	14%	7	5	9	4
Strength of Investor & Property Rights.	13%	5	13	6	5
Efficiency of Legal & Regulatory Processes.	13%	10	11	4	6
General Security Environment.	11%	3	9	10	7
Government Incentives for Investors.	11%	8	12	7	8
Talent / Skills Level of Labor Pool.	10%	16	18	15	9
Participation in Trade Agreements.	10%	11	8	13	10
Domestic Market Size.	9%	14	6	11	11
Availability of Raw Materials & Other Inputs.	9%	18	16	18	12
Availability of Financial Capital in Domestic Market.	9%	17	14	14	13
Quality of Digital Infrastructure.	9%	9	4	12	14
Cost of Labor.	8%	6	17	8	15
Quality of Physical Infrastructure.	8%	15	15	16	16
Domestic Economic Performance.	8%	12	10	17	17
Research & Development Capabilities.	7%	13	7	3	18
Availability of Land / Real Estate.	5%	19	19	19	19

One can also state that open economies with good growth prospects, rule of law, economic policy, political and economic stability, productive labor, natural resources, large market, physical, financial, and technological infrastructure, access to markets and trade, investment protection and promotion, and with good governance and quality of institutions stand a better chance in attracting local and foreign investments.

## Investment Promotion Agencies

It is important to remember that firms that seek to invest spend a lot of time, effort, and cost on learning about the general and sector-specific regulations that need to be complied with. In addition, investing firms analyze tax-related issues, projected demand for their products and services, processes and costs of exporting and importing their inputs, and many other issues.

**Unlike local firms**, however, **firms that seek to invest abroad are disadvantaged in terms of collecting all the information that they need**. In other words, there is no **symmetry** in information between local and foreign firms. Indeed, for foreign firms, the cost of collecting the needed information can be high. This is why, if not addressed by the host country's public policies, they can lead to less or sub-optimal inflows of FDI.

To reduce the information gap of foreign investors, governments around the world have resorted to several policies to attract FDI. Traditionally, these policies included incentives to foreign (and local) firms in the form of income tax holidays, tariff exemptions, and subsidies for infrastructure (framework of free zones). More recently, the establishment of **"investment promotion agencies" (IPAs)** has become the norm. There are four main types of IPAs.

1. An IPA as an integral part of an existing ministry.
2. An IPA in the office of the head of Government.
3. An IPA as an autonomous agency.
4. An IPA as a separate ministry.

### Main Tasks of Investment Promotion Agencies:

While each of these structures has its own advantages and disadvantages, most IPAs cover the same core tasks, albeit with a different focus and intensity (IPA Toolkit / WAIPA & GIZ):

1. Investment promotion to create awareness, improve the image and generate interest from potential investors.
2. Investment facilitation to secure and fast-track investment projects.
3. Aftercare to scale up investments and their impact and to improve the investment environment.

Relative to the performance of the existing IPAs in the world (more than 170) in terms of their impact on promoting investments, it is worth noting one recently published paper by the World Bank (What Makes an Investment Promotion Agency Effective? Findings from a Structural Gravity Model / January 2023). The primary aim of this paper is to understand the

characteristics of an IPA that makes it effective in attracting foreign direct investment. The results are revealing.

**Distinguished Characteristics of Successful Investment Promotion Agencies:**

“IPAs with a higher degree of autonomy and a stronger connection to the private sector tend to be more effective”.

“IPAs are more likely to succeed when they focus strategically on promoting specific sectors or business activities”.

“Many countries expand the role of IPAs to focus on other tasks including supporting domestic direct investment (DDI), negotiate investment agreements, issue licenses, promote exports, negotiate public concessions, and administer public- private partnerships (PPPs)... this “may also dilute a focus on FDI promotion”.

“IPAs should have “appropriate guidelines, protocols, and key performance indicators (KPIs) that correspond to its strategy. In addition, such IPAs are ensured to receive sufficient and sustained financial resources over the medium-term, to ensure a stable and continued ability to purpose investment promotion. A greater overseas presence of IPAs through dedicated offices may also help their functioning. Yet the most important resource for IPAs tends to be its staff - and so effective IPAs recruit workers with the appropriate experience and pay”.

## 5. The Investment Framework in Jordan

In Jordan, the Ministry of Investment replaced Jordan Investment Commission (previously Jordan Investment Board) on 11 October 2021. **The Vision of the Ministry** is to “stand out in promoting investments and contributing to economic growth”. **The Mission of the Ministry** is to “stimulate and activate investments in the Kingdom by keeping pace with and developing infrastructures and promoting investment opportunities and exports to increase the effectiveness of domestic and foreign investments and ensure financial sustainability”. **The objectives of the Ministry** are to “increase the effectiveness of the investment environment, increase the effectiveness of investment, enhance solvency and financial sustainability, and enhance institutional capacity for excellence”.

In addition to the above, it is useful to note that the 2022 Law (Regulating the Investment Environment) was issued in its new form. The aim of this Law is to improve competitiveness of the business environment in the Jordanian economy, by relying on the following principles:

- Equality between the Jordanian and non-Jordanian investors in terms of rights and privileges.
- Protection of investments and non-interference in investment activities, rights and interests.
- Shifting from the principles of prior control to post control.
- Stimulating and encouraging investment in pioneering projects, innovation, and research and development projects.
- Creating a suitable environment for the development of small and medium enterprises.
- Digitization and automation of all investment procedures and services.
- Enhancing competition, preventing monopoly and ensuring consumer protection.
- Protecting the environment and transitioning to green economy, safety, health, and the public.

In addition, the Ministry of Investment launched the “Invest in Jordan” platform, as the first interactive promotional electronic platform in the Kingdom for investors. The aim of this platform is to facilitate communication with local and foreign investors, and to enable new investors to learn about the business environment in the Kingdom, and the most important priority investment opportunities.

### **Investment Promotion Priorities According to Economic Activities and Role in Stimulating Growth and Job Opportunities**

From the outset, it should be stated that small, open, and developing economies like Jordan, have no choice but to rely on national exports to realize healthy real economic growth. Jordan must revive export-led economic growth. With its small market, Jordan’s growth must be driven by exports and by export-supporting investments.

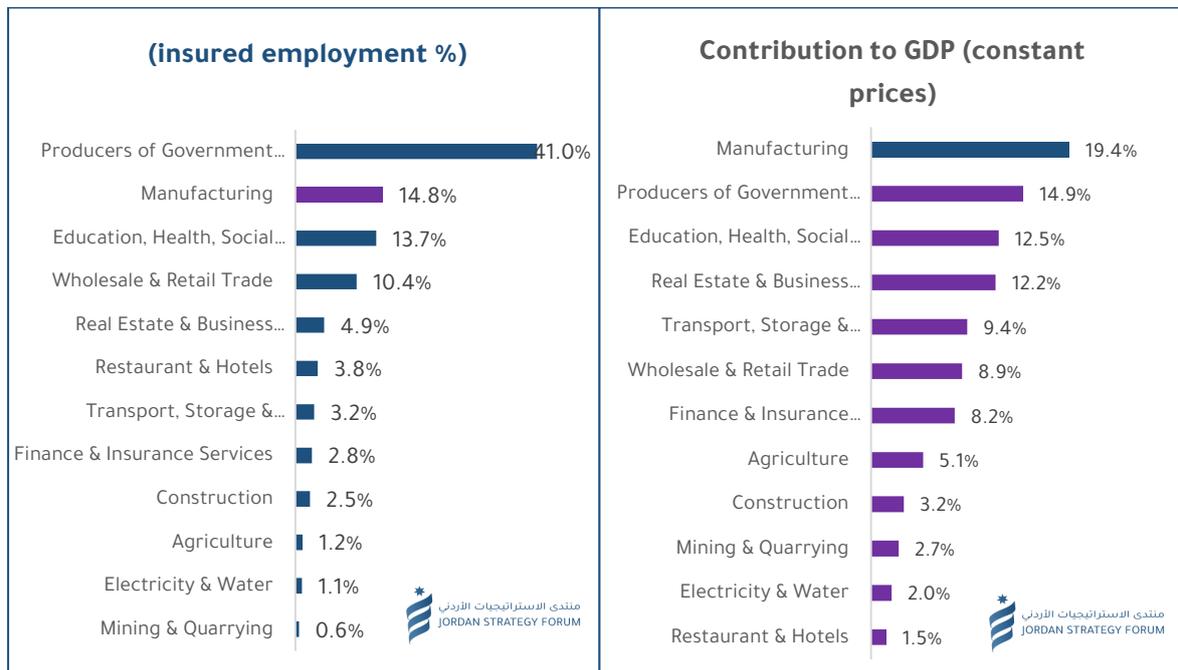
It should also be stated that the realization of economic growth would not necessarily translate into more (and better) employment opportunities, especially for the poor and the vulnerable. Economic growth sets the “absolute ceiling within which growth in employment and growth in labor productivity can take place” (International Labor Organization/ ILO). However, the impact of growth on the creation of more productive employment depends not only on the rate of growth itself, but also on the efficiency by which growth translates into productive jobs. The efficiency by which growth translates into productive jobs depends on factors like the sectoral composition of growth and the capital / labor intensity of growth within the individual sectors. In other words, what if the source of the realized economic growth is a sector that does not employ a large number of people? Similarly, what if the source of economic growth is heavy investments in capital intensive industries?

Based on the above-mentioned arguments, the **“employment content of growth”** should always be a matter of policy concern. From the Jordanian perspective, given the existing high unemployment rate and relatively large informal sector (employment), all relevant stakeholders should be aware of what basic economic logic asserts. Within this context, the question becomes: What are the sources of economic growth that can generate sufficient productive employment opportunities to reduce unemployment? **What are the sources of economic growth that can play the balancing act between growth and employment growth?**

To answer this question, we outline below a few observations about the sectoral composition of Jordan’s GDP, sectorial distribution of employment, main national exports, and the distribution of socially insured manufacturing establishments (exporters) according to their size of employment.

1. The manufacturing sector is the largest. This sector contributes 19.4% to GDP and employs 14.8% of the 1,320,852 socially insured individuals. This sector deserves the attention of policy makers. This sector can play the balancing act between economic growth and employment growth.
2. The services sector is dominated by producers of government services. This sector contributes **14.9%** to GDP and employs **41.0%** of the 1,320,852 socially insured individuals.

### Contribution of economic activities to GDP (at constant prices) and insured employment - average (2020-2022)



Source: Department of Statistics (DOS) and 2021 Annual Report / Social Security Corporation.

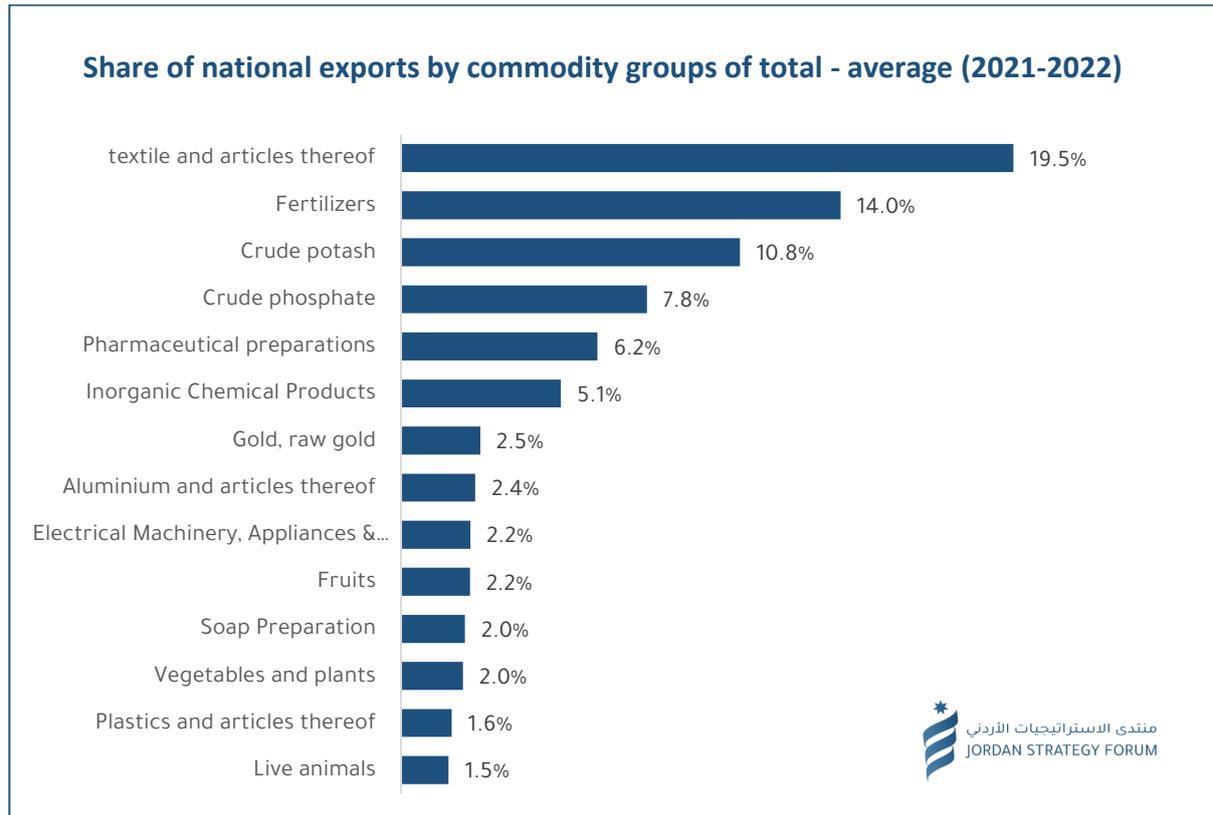
3. The second largest service sector is education, health, and social services. It contributes 12.5% to GDP. This sector contributes 13.7% to total employment.
4. The third largest services sector is real estate and business services. It contributes 12.2% to GDP. This sector contributes 4.9% to total employment.
5. The fourth largest services sector is transport, storage, and communications. It contributes 9.4% to GDP. This sector contributes 3.2% to total employment.
6. The fifth largest services sector is wholesale and retail. It contributes 8.9% to GDP. This sector contributes 10.4% to total employment.
7. The sixth largest services sector is finance and insurance. It contributes 8.2% to GDP. This sector contributes 2.8% to total employment.
8. The smallest services sector is restaurants and hotels. It contributes 1.5% to GDP. This sector contributes 2.8% to total employment.
9. Based on the above-mentioned observations about the contribution of the various economic sectors to GDP and to the total number of socially insured individuals, we can state the following observations / conclusions:

1. Producers of government services (**which employ 41.0% of the socially insured**), should not, and cannot, create sufficient employment opportunities to reduce unemployment.
2. Education, health, social Services, and others (**which employ 13.7% of the socially insured**) cannot create sufficient employment opportunities to reduce unemployment. This sector is likely to grow (in employment) according to, mainly, population.
3. The wholesale and retail trade sector (**which employs 10.4% of the socially insured**) cannot create sufficient employment opportunities to reduce unemployment. This sector is likely to grow (in employment) according to, mainly, population and real per capita income growth rates.
4. Together, the agriculture and mining and quarrying sectors account for **7.8%** of GDP. However, they account for only 1.8% of the socially insured individuals. These sectors cannot create sufficient employment opportunities to reduce unemployment.
5. Together, electricity and water, construction, restaurants and hotels, transport, storage, and communications, finance and insurance services, and real estate and business services constitute a significant proportion of GDP (**36.5%**). However, they account for only **18.3%** of the socially insured individuals. These sectors (largely non-tradeable) cannot play a balancing act between growth and employment growth.

The manufacturing sector should have, and can have, the potential to create sufficient employment opportunities. **Indeed, this sector has the potential to play the much-needed balancing act between economic growth and employment growth.** If this is the case, one should ask what does Jordan export and who these manufacturing companies (exporting) are?

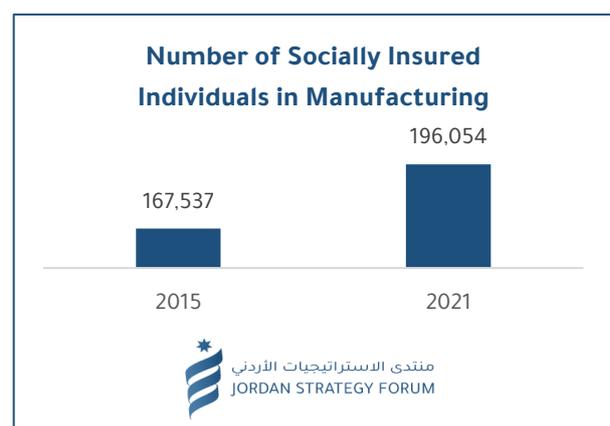
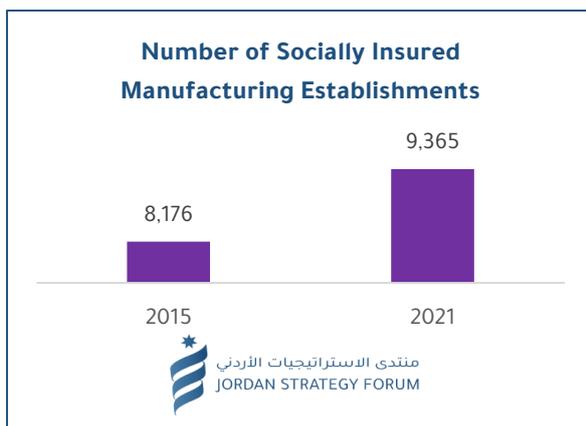
1. A limited number of goods constitutes a large proportion of total national exports. The top 6 and 14 exported goods account for 63.4% and 79.8% of total national exports respectively.

#### **The Jordanian Economy: Main National Exports in JD and Relative to Total National Exports**

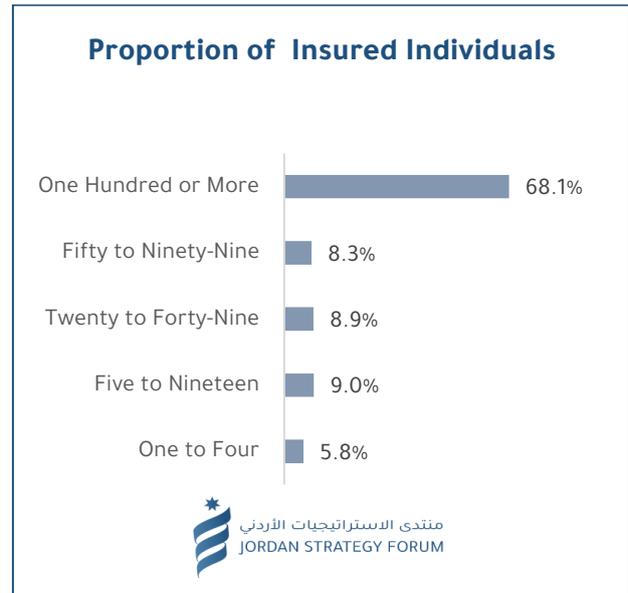
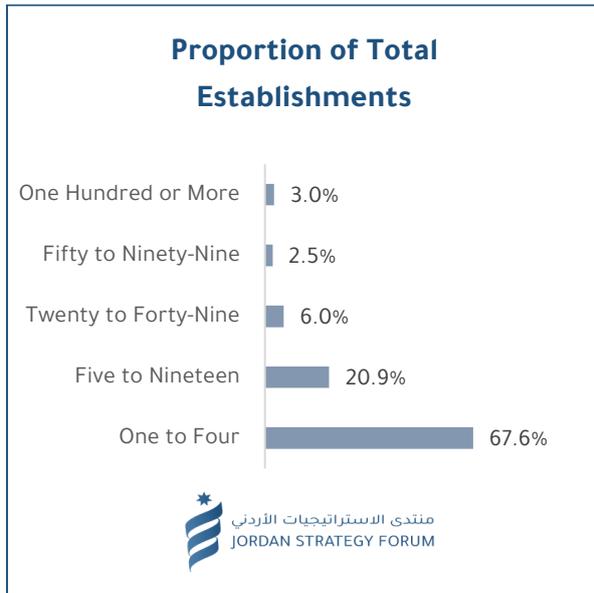


Source: Department of Statistics (DOS).

The total number of compulsory insured manufacturing establishments has increased from 8,176 in 2015 to 9,365 in 2021. Similarly, the number of socially insured individuals working at manufacturing establishments has increased from 167,537 in 2015 to 196,054 in 2021.



Most of the insured manufacturing establishments employ between 1 - 4 employees. Most of the socially insured individuals work at establishments which employ 100 individuals or more.



In fact, 3.0% of the socially insured establishments employ 100 individuals or more. In addition, 68.1% of the socially insured individuals work at establishments which employ 100 individuals or more. In other words, employment in manufacturing is dominated by a limited number of companies.

## 6. The Jordan Strategy Forum's Policy Recommendations

Within the context of Jordan's socio-economic challenges, and the shared responsibility in promoting local investments as well as foreign investments, we outline below several policy recommendations whose objective is to promote local and foreign investments.

### Policy Recommendation 1: Care Services to Investors

Greater levels of attention to local and foreign and investors should be given. In addition, investors' local experience should be enhanced. Such attention should attract more local and foreign investments.

- A. That the Ministry of Investment should provide qualitative services to investors, including smart analyses at the sectoral level.
- B. That the Ministry of Investment should adopt smart and effective systems to monitor and address complaints and resolve disputes that investors may be exposed to.
- C. The Ministry of Investment should develop a set of performance indicators to track the performance of investments, including size and number of investments, number of employees, volume of exports, sectoral distribution, investment expansions, regional investments, diversity of establishments, and new investments.
- D. The Ministry of Investment should have representative offices whose main objective is to attract and take care of investors.
- E. The Ministry of Investment must have experts and professionals on the various committees, including the Investment Council. The available evidence shows that successful countries in attracting FDI, such as Singapore and Ireland, tend to have such people on the committees.

### Policy Recommendation 2: Follow Best Practices in Attracting Investment

It is worth noting the following quotations from the Irish lessons (International Development Ireland / IDA) in FDI attraction and retention: Success Factors, and from the evidence collected by the World Association of Investment Promotion Agencies / World Bank Group Joint Global Survey.

- A. "FDI is a long-term game - Stamina by IDA Ireland in the execution of its mandate. Supported with consistency by Government in its economic policies & constantly enhancing the business operating environment it influences".

- B. “FDI is a relationship led process not transactional. Constant engagement with the large multinational companies & the early-stage companies poised for international growth is embedded in the Ireland FDI business model”.
- C. “Very clear FDI sectoral focus by Ireland. We know where we can compete and win FDI. This results in a very focused approach to targeting companies”.
- D. “The skills profile within IDA Ireland to attract, win and retain FDI is a source of competitive advantage. Strong business development & sectoral knowledge skill sets. Not your typical ‘public sector’ profile”.
- E. “IDA Ireland pays strong attention to aftercare - winning new investments from the existing FDI base”.

### **Policy Recommendation 3: Adopting Effective Financing Tools to Encourage Investment**

The government / Ministry of Investment should accelerate its reliance on Public-Private Partnerships (PPPs). In addition, the government should look at PPPs as an instrument to deliver **“effective and cost-efficient”** projects. Within this context, and the fact that the promotion of investment is a shared responsibility, it is surprising to learn that the already issued local bonds by the central government and various public entities do not trade on the secondary market and these bonds are bought mainly by local banks. The “almost zero” corporate bond market is equally surprising.

The fact that infrastructure projects (i.e., PPP projects) require long-term commitments of capital, the presence of a primary and a secondary market for government bonds and corporate bonds eases this problem by providing an asset to savers which they can invest in and sell them whenever they choose to do so. In other words, the financing of any “large” PPP does not need direct bank lending, which in many cases, is not forthcoming.

### **Policy Recommendation 4: Focus on Existing National Exports and Priority Sectors**

The Economic Modernization Vision refers to the need to focus on creative sectors with high added value and existing national exports as a priority. Accordingly, the Ministry of Investment and other stakeholders should:

- A. Have a direct relationship with the **leaders of Jordan’s national exporters** and discuss with them what should be done to increase their production capacity, exports, and hence, their employment levels. Where possible, they should also discuss what needs to be done to diversify their exported goods. **As mentioned above, the number of these individuals (establishments) is not really large.**

- B. Accelerate the implementation of the Vision's initiatives whose objectives are to increase the competitiveness level of industrial exports and contribute to improving the investment environment, particularly those related to production and energy costs.
- C. Encourage investments in projects related to potash and phosphate and strengthen horizontal and vertical linkages with local fertilizer-related companies. The aim should be to increase the added value of national industries and increase their volume of exports. Indeed, if successful, this effort would bring in more foreign exchange.
- D. Focus on the tourism sector and as a priority sector. Indeed, and relative to many countries across the globe, tourism receipts in Jordan to total exports are high. During the period 2010 - 2019, the mean annual percentage of tourism receipt to total exports was equal to 36.7% (latest data issued by the World Bank). This ratio declined to 16.7% of total exports in 2020, in both cases, these percentages are considered high globally.

**TO SUM UP**, and within the context of the many and interrelated factors that affect investment, and the Jordanian economy's urgent need for this capital, it should be noted that the subject matter of attracting local and foreign investments is not limited to the Ministry of Investment only. Indeed, it is a shared responsibility with other Ministries and governmental and non-governmental institutions. As is the case in most countries, a large number of concerned ministries and institutions are involved in the issue of attracting investment, and these include the Ministry of Finance, Ministry of Industry and Trade, Ministry of Planning and International Cooperation, Ministry of Foreign Affairs, Central Bank, Chambers of Industry and Commerce, and many others.

# The Main Challenges of the Jordanian Economy



**%2.1** The mean annual growth rate in real GDP

**%22.8** The overall unemployment rate in 2022 \*

\* The methodology used in estimating this rate was changed in 2017

**%17.1** The mean annual of gross fixed capital formation (investment) to GDP ratio (2021-2015) in Jordan. This ratio is relatively low.



**%91** The ratio of public debt to GDP\*\* \*\*

\*\* Excluding the debt held by the social security investment fund

**%38.5-** The mean annual change in listed industrial companies' net fixed assets (investment) during 2021-2010

**%21.1-** The mean annual change in listed services companies' net fixed assets (investment) during 2021-2010



**%2** only of Jordan's manufacturing exports are high-tech (2021-2015)

# Local and Foreign Direct Investment: Some Local and Global Observations

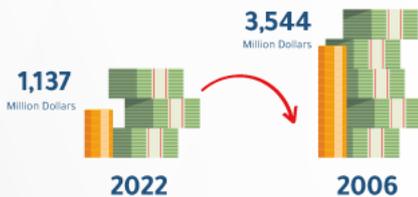
The global inflows of foreign direct investment have increased from 204.9 billion dollars in 1990 to more than 1.3 trillion dollars in 2022 or by %635.



The proportion of the global inflows of foreign direct investment to developing countries has increased from 16.4% in 1990 to 70.8%.



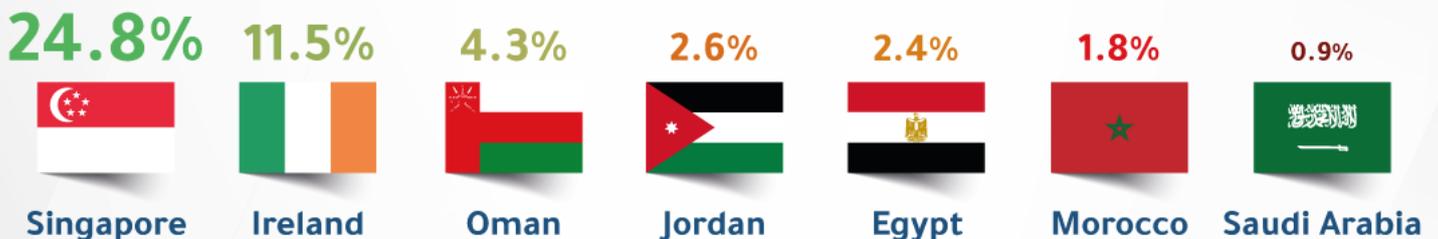
Despite the increase in 2022, Jordan's inflows of foreign direct investment have decreased.



The total assets and sales of the top 100 non-financial multinational enterprises in the world are equal to 19.2 trillion dollars and 12.96 trillion dollars respectively. These enterprises employ 9.2 million people outside their origin countries.



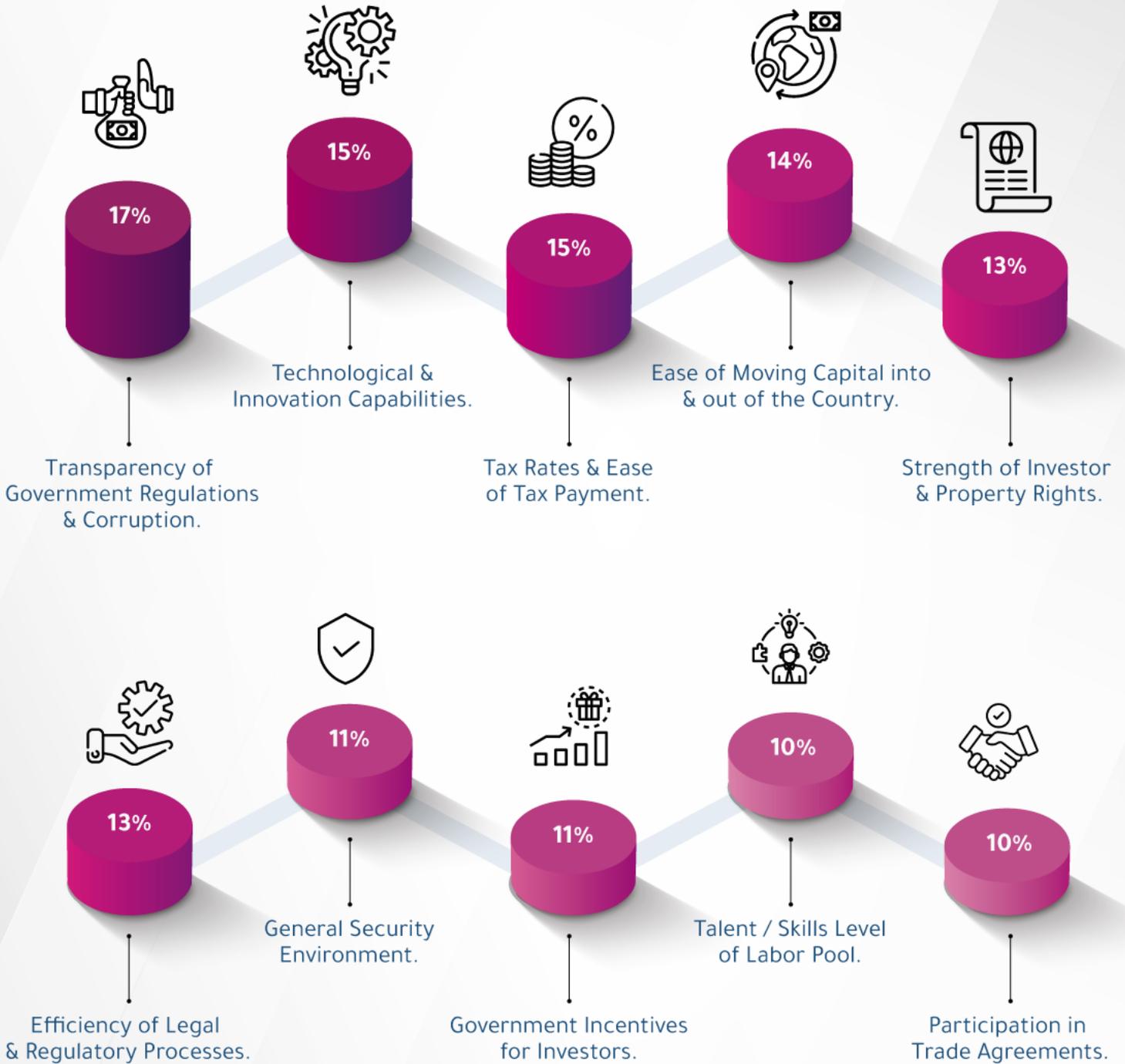
## The annual mean of foreign direct investment inflows to GDP (2022-2016)



## The Number of greenfield foreign investment projects (2022-2016)



# The Main Factors Affecting the Investment Behavior of Foreign Companies



# The Importance of Foreign Direct Investment (FDI)



Transforms economies through innovation and increased productivity.



Enhances the volume of exports of the host countries.



Provides better paid and more stable jobs, especially to females.



Transfers foreign firms' technology, knowledge, and practices to domestic supplies.



Increases the inflows of foreign exchange.



# The Jordan Strategy Forum's Policy Recommendations to Promote Investments

Provide greater levels of attention to local and foreign investors, and their local experience.



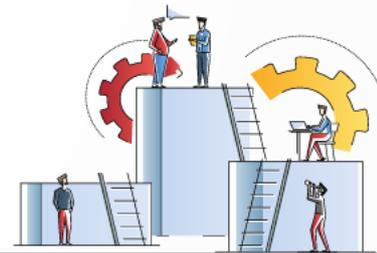
Provide qualitative services to investors, including smart analyses at the sectoral level.

Follow best practices in attracting investment like the Irish experience and focus on the largest 100 multinational firms in the world.



Adopt effective financing tools instead of borrowing to finance the budget deficit and capital spending.

Accelerate the implementation of the Economic Modernization Vision's initiatives whose objectives are to increase the competitiveness level of industrial exports and contribute to improving the investment environment.



Work on a direct relationship between the Ministry of Investment and the leaders of Jordan's national exporters, and discuss with them what should be done to increase their production capacity, exports, and hence, their employment levels.



منتدى الاستراتيجيات الأردني  
JORDAN STRATEGY FORUM

[Rate this paper](#)



[www.jsf.org](http://www.jsf.org)

[www.jsf.org](http://www.jsf.org)  [/JordanStrategyForumJSF](https://www.facebook.com/JordanStrategyForumJSF)  [@JSFJordan](https://twitter.com/JSFJordan)