THE EFFECT OF MACROECONOMIC VARIABLES AND BUSINESS ENVIRONMENT ON FOREIGN DIRECT INVESTMENT IN YEMEN: ROLE OF POLITICAL STABILITY AND ECONOMIC STABILITY

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DOCTOR OF BUSINESS ADMINISTRATION
UNIVERSITI UTARA MALAYSIA
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ABSTRACT

This study was conducted to examine the impact of the foreign direct investment inflows on economic growth in Yemen, and evaluating the role of the moderating effect of political stability and economic stability on the relationships between macroeconomic variables, business environment variables and foreign direct investment inflows. Indeed, the study poses a new stream of research in investigating the effect of political stability and economic stability as moderating variables, recognizing the importance of political stability and economic stability as a critical variable in the course of foreign investment. Thus, the research framework of this study was designed with the integration of New Growth Theory and Firm Theory in tracing the impact of political stability and economic stability on foreign direct investment. This study used annual data for 30 years since the period of 1985 to 2014. The data was collected from the official sources such as Central Bank of Yemen, United Nations Conference on Trade and Development, World Bank and International Monetary Fund. This study used the Augmented Dickey Fuller test to check the stationary of the data and hierarchal regression using STATA statistical software packages. The moderating effects of the determinants political stability and economic stability on the relationships were empirically examined. The findings of this study revealed that gross domestic production growth rate, degree of openness, exchange rate, inflation rate, gross national income, balance of payment, corruption control index, labour cost, infrastructure were significant predictors of foreign direct investment inflows. These findings, therefore, strongly suggested that political stability and economic stability is very important for the country’s domestic and foreign investment in the future course of direction. The study proposed several practical inferences for designing suitable macroeconomic policy and undertaking measures to promote a high economic growth with rising foreign direct investment inflows in the political economy of Yemen.

Keywords: macroeconomic variables, business environment, political stability, economic stability, foreign direct investment.
ABSTRAK


Kata Kunci: pembolehubah makroekonomi, persekitaran perniagaan, kestabilan politik, kestabilan ekonomi, pelaburan langsung asing.
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<td>GCC</td>
<td>Gulf Cooperation Council</td>
</tr>
<tr>
<td>GIA</td>
<td>General Investment Authority</td>
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<tr>
<td>GNI</td>
<td>Gross National Income</td>
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<tr>
<td>GNP</td>
<td>Gross National Product</td>
</tr>
<tr>
<td>HRM</td>
<td>Human Resource Management</td>
</tr>
<tr>
<td>Abbreviation</td>
<td>Full Form</td>
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<tr>
<td>IMF</td>
<td>International Monetary Fund</td>
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<tr>
<td>INFRAS</td>
<td>Infrastructure</td>
</tr>
<tr>
<td>INFR</td>
<td>Inflation Rate</td>
</tr>
<tr>
<td>LBC</td>
<td>Labour Cost</td>
</tr>
<tr>
<td>MENA</td>
<td>Middle East and North Africa</td>
</tr>
<tr>
<td>MNC</td>
<td>Multinational Companies</td>
</tr>
<tr>
<td>NAFTA</td>
<td>North American Free Trade Area</td>
</tr>
<tr>
<td>NPV</td>
<td>Net Present Value</td>
</tr>
<tr>
<td>OECD</td>
<td>Organisation for Economic Co-operation and Development</td>
</tr>
<tr>
<td>OLI</td>
<td>Ownership, Location and Internalisation</td>
</tr>
<tr>
<td>OPEC</td>
<td>Petroleum Exporting Countries</td>
</tr>
<tr>
<td>PS</td>
<td>Political Stability</td>
</tr>
<tr>
<td>SSA</td>
<td>Sub-Saharan Africa</td>
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<tr>
<td>UAE</td>
<td>United Arab Emirates</td>
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<tr>
<td>UK</td>
<td>United Kingdom</td>
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<tr>
<td>UNCTAD</td>
<td>United Nations Conference of Trade and Development</td>
</tr>
<tr>
<td>US</td>
<td>United States</td>
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<tr>
<td>USD</td>
<td>United States Dollar</td>
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<tr>
<td>WIR</td>
<td>World Investment Report</td>
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CHAPTER ONE
INTRODUCTION

1.1 Background of the Study

It has been extensively defined in both theories and practical that Foreign Direct Investment (FDI) often leads to many economic advantages to the recipient country through its provision of capital, foreign exchange, technology transfer, organisational framework, managerial skills and opportunities to exports through the improvement of foreign markets access (Javed, Falak, Awan & Ashfaq, 2012; UNCTAD, 2011; Salman & Feng, 2010; Crespo & Fontura, 2007; Gorg & Greenaway, 2004; Brooks, Fan, Sumulong & Bank, 2003). Economists claimed that FDI can also lead to maximise domestic investment via its linkages in the process of encouraging both innovation and economic growth of the country (Awan, Khan & Zaman, 2011; Brooks et al., 2003). Several studies have examined the role of FDI for the growth of the economy as well as the combination of FDI-attracting factors. In general, research studies have asserted that FDI essentially play a positive role in the process of economic growth in developing countries. In this context for instance, (Lugemwa, 2014; Sayek & Koymen, 2009; Paus & Gallagher, 2006) have argued that foreign associates of TNCs (Transnational Corporations) do well in developing new products and faster adoption of technologies than local firms. Thereby using modest competitive pressure and forcing the local firms to imitate and transform.
The contents of the thesis is for internal user only
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