

**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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INVESTMENT IN YEMEN: ROLE OF POLITICAL STABILITY
AND ECONOMIC STABILITY**

By

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UUM
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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

Kajian ini dijalankan untuk mengkaji kesan daripada aliran masuk pelaburan langsung asing ke atas pertumbuhan ekonomi di Yemen dan penilaian kesan perantara kestabilan politik dan kestabilan ekonomi mengenai hubungan antara pemboleh ubah makroekonomi, pemboleh ubah persekitaran perniagaan dan aliran masuk pelaburan langsung asing. Kajian ini mewujudkan satu aliran baru penyelidikan dalam mengkaji kesan kestabilan politik dan kestabilan ekonomi sebagai pemboleh ubah sederhana dan mengiktiraf kepentingan kestabilan politik dan kestabilan ekonomi sebagai pemboleh ubah penting dalam pelaburan asing. Jadi, kerangka kerja penyelidikan dalam kajian ini direka dengan mengintegrasikan teori pertumbuhan baru dan teori firma dalam menguji kesan kestabilan politik dan ekonomi ke atas pelaburan langsung asing. Kajian ini menggunakan data tahunan selama 30 tahun iaitu semenjak 1985 hingga 2014. Data pula dikumpulkan dari sumber-sumber rasmi seperti Bank Pusat Yaman, Persidangan Bangsa-Bangsa Bersatu mengenai Perdagangan dan Pembangunan, Bank Dunia dan Tabung Kewangan Antarabangsa. Kajian ini menggunakan ujian Augmented Dickey Fuller untuk menguji kepegungan data dan regresi hierarki menggunakan STATA pakej perisian statistik. Kesan perantara kestabilan politik dan ekonomi ke atas hubungan dengan penyederhana telah diperiksa secara empiris. Justeru, hasil kajian ini menunjukkan bahawa kadar pertumbuhan pengeluaran dalam negara kasar, tahap keterbukaan, kadar pertukaran, kadar inflasi, pendapatan negara kasar, imbangan pembayaran, indeks kawalan rasuah, infrastruktur kos buruh, adalah bersignifikasi dengan aliran masuk pelaburan langsung asing. Hasil penemuan ini amat mencadangkan bahawa kestabilan politik dan kestabilan ekonomi adalah sangat penting bagi pelaburan domestik dan asing di negara yang dikaji untuk kelangsungan ekonomi masa hadapan. Selain itu, kajian ini turut mencadangkan beberapa kesimpulan praktik untuk mereka bentuk dasar makroekonomi yang sesuai dan mengambil langkah-langkah untuk menggalakkan pertumbuhan ekonomi yang tinggi dengan peningkatan aliran masuk pelaburan langsung asing dalam ekonomi politik Yaman.

Kata Kunci: pemboleh ubah makroekonomi, persekitaran perniagaan, kestabilan politik, kestabilan ekonomi, pelaburan langsung asing.

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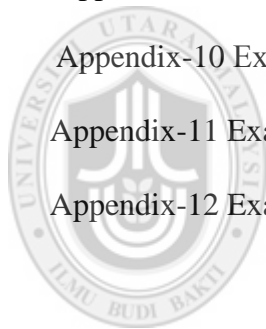


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LIST OF ABBREVIATIONS

ADF	Augmented Dickey Fuller
ARDL	Autoregressive Distributed Lag Model
B/D	Barrels Per Day
BoP	Balance of Payments
BRICS	Brazil, China, India, Russia, South Africa.
BTA	Bilateral Trade Agreement
CBY	Central Bank of Yemen
CCI	Corruption Control Index
CEEC	Central and Eastern European Countries
COMESA	Common Market for Eastern and South Africa
CRP	Commodity-Producing Sector
DoP	Degree of Openness
ECM	Error Correction Model
ES	Economic Stability
ETE	European Transition Economies
EXR	Exchange Rate
FA	Foreign Aid
FDI	Foreign Direct Investment
GDPGR	Gross Domestic Production Growth Rate
GCC	Gulf Cooperation Council
GIA	General Investment Authority
GNI	Gross National Income
GNP	Gross National Product
HRM	Human Resource Management

IMF	International Monetary Fund
INFRAS	Infrastructure
INFR	Inflation Rate
LBC	Labour Cost
MENA	Middle East and North Africa
MNC	Multinational Companies
NAFTA	North American Free Trade Area
NPV	Net Present Value
OECD	Organisation for Economic Co-operation and Development
OLI	Ownership, Location and Internalisation
OPEC	Petroleum Exporting Countries
PS	Political Stability
SSA	Sub-Saharan Africa
UAE	United Arab Emirates
UK	United Kingdom
UNCTAD	United Nations Conference of Trade and Development
US	United States
USD	United States Dollar
WIR	World Investment Report

CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

It has been extensively define 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.

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