

**The Impact of Foreign Direct Investment on the Performance
Indicators of Amman Financial Market for the Period (2010-2016)**

أثر الاستثمار الأجنبي المباشر على مؤشرات أداء سوق عمان المالي

للفترة الزمنية (2016-2010)

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Abstract :

The study aimed at identifying the effect of foreign direct investment on the indicators of performance in Amman Financial Market for the period 2010-2016. The researchers used the analytical descriptive method by describing the phenomenon studied in relation to foreign direct investment in Jordan during the period from 2010 to 2016. The performance of the financial market is represented by (trading volume - market value - turnover rate). The study population included all listed companies in Amman Stock Exchange in all sectors. The study found that there is a statistically significant impact on the volume of foreign direct investment on both the volume of trading and the market value and the turnover of shares in Amman Stock Exchange for the period 2010-2016.

The study recommended the development of attractive, suitable and highly flexible investment policies for the countries hosting the investment because direct foreign investment in particular has a significant positive impact on the performance indicators of the financial market for its reliance on the flow of foreign capital along with technology and technical expertise.

Keywords: FDI, Volume, Market Value, Turnover.

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الملخص :

هدفت هذه الدراسة الى التعرف أثر الاستثمار الأجنبي المباشر على مؤشرات أداء سوق عمان المالي للفترة الزمنية (2016-2010) ، وقد استخدم الباحثين المنهج الوصفي التحليلي، وذلك من خلال وصف الظاهرة محل الدراسة والمتعلقة بالاستثمار الأجنبي المباشر في الأردن خلال الفترة من 2010 ولغاية 2016، ومؤشرات أداء السوق المالي المتمثلة بـ(حجم التداول - القيمة السوقية - معدل دوران الأسهم)، و اشتمل مجتمع الدراسة على جميع الشركات المدرجة في سوق عمان المالي في جميع القطاعات، وتم أخذ العينة بمبدأ المسح الشامل . و توصلت الدراسة إلى وجود أثر ذو دلالة إحصائية لحجم الاستثمار الأجنبي المباشر على كل من حجم التداول و القيمة السوقية و على معدل دوران الاسهم في سوق عمان المالي للفترة (2016-2010). وأوصت الدراسة لابد من وضع سياسات استثمارية جاذبة ومناسبة وذات مرونة عالية للبلدان المستضيفة للاستثمار، لما للاستثمار الأجنبي المباشر على وجه الخصوص تأثير ملموس على مؤشرات أداء السوق المالي بشكل إيجابي لإعتماده على تدفق رؤوس الاموال الاجنبية إلى جانب التكنولوجيا و الخبرات التقنية.

الكلمات المفتاحية : الاستثمار الأجنبي المباشر ، حجم التداول ، القيمة السوقية ، معدل دوران السهم.

Foreign investment is based on non-state investors, where new real capital is created outside the country. Yaqubi and Tamara (2006) note that foreign direct investment is divided into two parts: the first is foreign direct investment, and the second is foreign indirect investment. Both types of investments include the ownership of capital in a foreign country (the hosting country). Securities make the real management of the enterprise in the hands of managers from the same country in which the entity is located while maintaining its administrative responsibilities. On the contrary, Foreign Direct Investment (FDI) Where an establishment established outside the state in which the project is located does not provide the project with money only, it is also responsible for managing the project, that is, the transition of work and foreign management. (Hudson, Herand, 1987; Abdalmutaleb, 2006).

According to the IMF and Organization of Economic Cooperation and Development, direct investment reflects the goal of obtaining a permanent interest by a resident entity in a single economy (direct investor) in an institution resident in another economy (direct investment institution).

It is worth noting that there is a lack of studies on the impact of foreign direct investment on the performance indicators of the market in general, especially with regard to Amman Financial Market. Therefore, the present study aims at studying the impact of foreign direct investment on the performance indicators of Amman Financial Market for the period 2010-2016.

Research Background

According to (Sbongh, 1985)(Milan,2018)(Susic, Trivanovic,2017) there are two aspects of foreign direct investment, the first is a financial aspect of the flow of capital and its transfer from one country to another, and the second is a developmental aspect is the transfer of productive and technical resources to the host country.

Accordingly, foreign direct investment is the money coming to the host country associated with the transfer of technology and management in order to obtain profit through these real long-term investments because of their tangible contributions.

(Smith, Profit, Stephens, 1999) noted that foreign direct investment has several advantages, including: The investor has the flexibility to choose high-yielding investment instruments, the provision of multiple investment tools, the opportunity to distribute risks, and the opportunity to invest his money in regular and privatized markets for the exchange of all investment

instruments known as securities markets, gold and commodities, which have active communication channels facilitate the investor to obtain the appropriate information and the expertise of financial analysts and brokers. As for Jordan, Al-Qashi (2009) pointed out that foreign investment in particular has several advantages, including: foreign investment is a good source of foreign exchange, bringing modern technology along with training of manpower, acquiring skills and expertise, creating new jobs for Jordanians, In opening up new international markets in front of the Jordanian goods and creating strong competition, and help stabilize the exchange rates of the currency.

Forms of FDI:

Khreoush and Reda, (1999) noted that foreign direct investment takes several forms:

First: Joint ownership projects (joint investment): Richard (1993) considered that a joint investment is the expansion or commencement of a new business in a particular enterprise, involving two or more parties, one of them foreign, each of whom participates in a certain share. According to the laws governing the acquisition of foreigners, the laws of a number of countries referred to by bin Salama (1998), he stipulated that the percentage of foreign investors shall not exceed 49% of the capital of the investment project.

Joint investment must be one of the parties involved in foreign investment, and it is necessary to agree on the rate of participation among them according to the laws of the hosting country for foreign investment.

(Hussien, 2005) said that joint investment is one of the most direct forms of foreign investment because it contributes to increasing the flow of foreign capital and technological development, creating new job opportunities, improving the balance of payments, developing the capabilities of national cadres and creating economic integration relations with economic and service activities in hosting countries.

Second: Projects wholly owned by foreign companies in the hosting economy: (Yaqubi and Tammar, 2006) pointed out that they represent the most preferred types of investment in multinational companies. These are the establishment of branches for production, marketing or any other type of productive activity or service in the hosting countries. (Khreoush and Reda, 1999) pointed out that foreign investor has full control over decision-making, so many countries do not like to invest it as it leads to dependence and economic hegemony by the foreign investor.

In other words, investments wholly owned by a foreign investor of foreign investment are not desirable for hosting countries as to have full power of the project, which seeks to achieve this kind of goals at the expense of the hosting country.

Third: Multinational Companies, They are companies that have many projects in several countries of the world, where these companies are characterized by the size of their business and activities. "Foreign direct investment and multinational corporations can be said to be inextricably linked to the economy. Economists used to combine them in tandem. (Al-Salama, 1998).

Requirements for attracting foreign investment:

Tamimi and Salam (2004) pointed to the success of the financial market in attracting investments both locally and abroad. There is a need for a suitable environment for investment based on the elements of trust and organization, trust in the political and economic system, and a clear economic philosophy that allows private capital to form joint, as well as the diversity of investment tools to contribute to the diversity of options for savers, the availability of a large number of local and foreign banks and investment companies and public shareholding companies in addition to the availability of financial institutions and banking variety, and the pursuit of a flexible and effective tax system to take into consideration the requirements of society in the development.

Requirements to attract investment in Amman Stock Exchange:

In order for Amman Financial Market to be able to attract local and foreign investment, several factors must be taken into account because they have an effective role in attracting and stimulating investment in Amman Financial Market through a study conducted by Alawneh (2008) Quang,(2017), which is divided into three factors as follows:

First: Factors related to the political and economic system, the most important of which are political and economic stability; whenever the economy is stable, growth rates are high and unemployment is low. This indicates the strong and attractive economic situation of the economy, in addition to the contribution of political stability to this, public administration includes (tax policies, bureaucracy, good governance and judiciary), the development of the banking sector because of its role in collecting savings and investing in the financial market, It is difficult to

create a sophisticated and successful financial market in the absence of a sophisticated banking sector that meets the needs of financial investors, and facilitates the process of investment in the financial market.

Second: the financial market is concerned with the availability and diversification of investment instruments in Amman Financial Market to provide various investment opportunities to investors. The financial market must be efficient because it has a role in attracting foreign investors in the market. The mechanisms of the market, the technology used, the period required to complete transactions, market liquidity, and the extent of market integration with other markets.

Third: regulatory, supervisory and legal factors: the supervisory, regulatory and supervisory bodies of Amman Financial Market should work to develop laws and regulations related to them and adapt them to prevailing conditions. The disclosure and provision of financial and non-financial information should be strengthened periodically.

Fourth: Requirements at the Arab level: It is necessary to coordinate policies related to the financial markets among the Arab countries to limit the obstacles of foreign investment flow, and the Arab markets must be compatible with regulations, instructions and legislation among them, and encourage joint listing operations. Implementing dedicated promotional campaigns highlight the advantages and opportunities of investment offered by the Arab financial markets.

Financial Market Performance Indicators:

There are some indicators that reflect the developments in the performance of financial markets, (Gapu, 2012) (Abdul-Khaliq ,2013) stated the most important of these indicators:

First: Market Size: The size of the market is one of the most important indicators indicating the development of financial markets. The market size can be measured through the market value index which represents the ratio of the market value of local shares to GDP.

(Al-Moussawi, 2009) said that the market value reflects the level of market activity, the higher the market value, whether in terms of increasing the number of shares, the number of listed companies, or the rise in prices, which may be a reflection of the large volume of financial transactions or both, thus reflecting the rise in economic activity.

Second: Liquidity of the Market: The primary function of the financial market is to achieve the liquidity of securities in any period of time, which is taken into account by the investor when making the investment decision.

(Al-Tarawneh et al 2014) pointed out it can be measured through the volume index. Also, (Levine, Zervos, 1996) said that the volume index indicates the value of traded securities at various prices over a period of time, which is usually a year. As for (Siwan, 2016), he clarified the volume of trading reflects the value of shares traded in the market. Additionally, (Levine, Zervos, 1996) mentioned that it can be measured by dividing the total shares traded on the stock exchange.

(Siwan, 2016) indicates that the percentage of trading of shares of a particular company or group of companies during a certain period, ie represents the total value of the shares exchanged over a period of time as a percentage Of the average market value of that period, it is calculated according to the following formula: $\text{Share Turnover} = \frac{\text{Total Volume (Volume)}}{\text{Market Value}}$. (Siwan, 2016; Hanafi and Qariqas, 2005).

Previous studies:

(Siwan, 2016) stressed that the index of the Iraqi market for securities is considered an important and vital sources in moving the various economic sectors. He also showed the weak performance of the industrial and agricultural production sectors against the dominance of the service sectors on both volume and market value, indicating this lack of public confidence. The performance of the productive sectors also showed the weakness of the insurance sector, which is the main driver of the rest of the economic sectors, as well as the fluctuation in the performance of all sectors during the study period.

(Umar, Ismail, Sulong, 2015) pointed out that foreign direct investment plays a vital role in promoting economic growth by boosting the stock market, pointing out that foreign direct investment has a positive long-term effect on the value of the total stock transaction. Ali also noted that foreign direct investment has affected the development of financial markets in Pakistan. (Acheampong, Wiafe, 2013) said that foreign direct investment has a positive impact on the development of the stock market, and this is in line with the complementary hypothesis in the short term. The study also pointed to a two-way causal relationship between foreign direct investment and the development of stock markets.

We note that the previous studies showed the impact of foreign direct investment on the development of financial markets and did not show its impact on the performance indicators of the financial market, and therefore we need a study to measure the impact of foreign direct investment on indicators of performance of the financial market.

(Weshah's study, 2009) highlights the role of the financial market in trying to attract foreign investments in the Palestinian financial market and the Palestinian economy, and try to raise its level commensurate with the size of the Palestinian market in light of the challenges it faces, which concluded that the financial market does not fully support foreign investment in Palestine due to the economic and political situation in Palestine. However, the study of (Al-Tarawneh et al, 2014) examined the effect of Amman Stock Exchange on the investment for the period 1980-2011, which found that the absence of an impact on the financial market on investment as well as the positive impact of the two sectors (financial and services) on investment, and the absence of an impact on the industrial sector on investment.

We note the previous studies focused on the role of financial markets in attracting foreign direct investment, as well as the search for the impact of the financial market on investment, so we need a study to clarify the impact of foreign direct investment specifically on the indicators of the financial market in Jordan.

(Shahbaz, Kalim, Lean, 2013) noted the positive relationship between FDI and long-term capital market capitalization. The result is a complementary role of foreign investment in the development of Pakistan's stock market. (Kalim, Shahbaz, 2009) focused on the relationship between FDI and market capitalization. (AL Halalmeh and Sayah, 2010) also confirmed that foreign direct investment has a significant impact on the market value of shares in Amman Stock Exchange. Consequently, foreign direct investment can play a major role in the market price of shares in Amman Stock Exchange, besides (Kaminsky, Schmukler, 2001) said that foreign direct investment is a positive relationship with the market value of shares and the value traded. This indicates that foreign direct investment is complementary rather than an alternative to the development of the local stock market, thus contributing to the development of the local stock market.

We note from the previous studies that they focused on the market value index (market capitalization) to measure the market performance, and therefore it needs a study to measure the trading volume, the turnover of stocks as a measure of the performance indicators of the financial market.

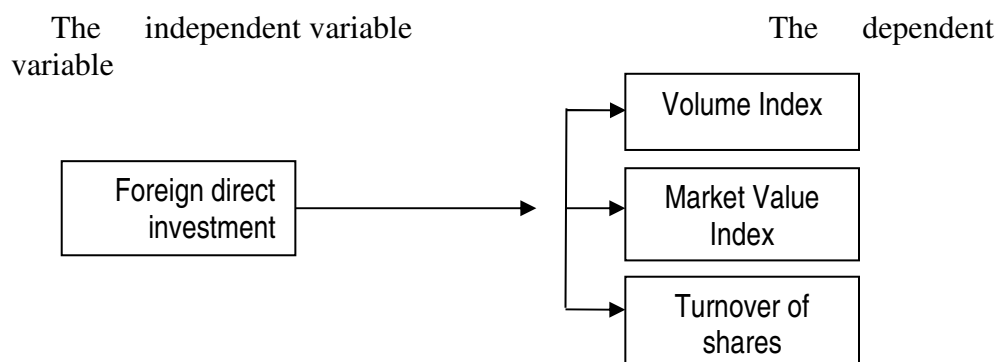
Methodology of the study:

The study followed the analytical descriptive method by describing the phenomenon studied in relation to foreign direct investment in Jordan

during the period from 2010 to 2016, and the performance indicators of the financial market (trading volume, market value, turnover) as well as analysis of the impact of foreign direct investment on financial market performance indicators.

Study Model:

To achieve the objective of the study, the following model was used:



The following assumptions emerge from this model:

The first hypothesis: There is no statistically significant effect at the level of significance ($\alpha \leq 0.05$) between foreign direct investment and the volume index of Amman Stock Exchange.

The second hypothesis: There is no statistically significant effect at the level of significance ($\alpha \leq 0.05$) between foreign direct investment and the market value index in Amman Stock Exchange.

The third hypothesis: There is no statistically significant effect at the level of significance ($\alpha \leq 0.05$) between foreign investment and the share turnover rate in Amman Stock Exchange.

Society and sample of the study:

The study population included all the listed companies in Amman Financial Market in all sectors. The sample was taken according to the comprehensive survey method, based on the study data in all public shareholding companies listed in Amman Stock Exchange.

The following table shows the financial market performance indicators for the years 2010-2016. These indicators represent the dependent variable in the study.

Table 1. Financial market performance indicators

Years	Volume of trade	Market value	Stock turnover
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2010	1,939,385,888	19,027,297,318	0.01%
2011	2,603,540,222	19,043,993,570	0.02%
2012	5,549,884,677	21,440,155,666	0.02%
2013	2,327,606,705	17,339,384,851	27.46%
2014	3,416,964,761	17,984,673,970	39.19%
2015	2,263,259,463	18,082,617,434	35.29%
2016	3,027,255,189	18,233,491,416	40.47%

Source: Amman Financial Market Data (2010-2016)

Foreign direct investment data were also obtained through the World Investment Report issued by the United Nations. The following table shows foreign investment inflows into Jordan during 2010-2016.

Table 2. Foreign direct investment in Jordan during the years 2010-2016

Years	Foreign direct investment (\$1.000000)
2010	1257
2011	1486
2012	1548
2013	1947
2014	2178
2015	1600
2016	1539

Source: Amman Financial Market Data (2010-2016)

Application functionality

In order to achieve the objective of the study, test its hypotheses, produce accurate results, the study used the regression test to measure the impact of foreign direct investment on the performance indicators of Amman Financial Market (the volume of trading - the market value of the shares - the turnover).

1- First hypothesis test: There is no statistically significant effect at the level of ($\alpha \leq 0.05$) between direct foreign investment and the volume index of Amman Stock Exchange.

Table 3. the impact of foreign direct investment in Jordan on the volume of trading in Amman Stock Exchange

The dependent variable	Coefficient of correlation R	R2 Selection Factor	Value (F)	Level of significance *	Parameter (β)	Standard error
Volume of trade	0.415	0.472	84.326	0.000	0.415	0.025

* The effect is statistically significant at (P00.05)

The results of Table (3) indicate that the value of $r = 0.415$ means that there is a correlation between (0.415) between the foreign direct investment in Jordan and the volume of trading in Amman Stock Exchange. This is a positive relationship and trading in Amman Stock Exchange will rise.

It also shows that the value of the coefficient of determination ($r^2 = 0.472$), which means that the difference in the volume of foreign direct investment has explained 47.2% of the variation in the volume of trading in Amman Stock Exchange and 52.8% of the other factors not covered by the study. The value of (F) was (84.326) at the level of confidence ($\text{sig} = 0.000$), which confirms the significance of the regression model at a significant level (P00.05).

The data in the previous table also indicates that the value of ($0.415 = \beta$) means that the change in one unit in the volume of foreign investment leads to a change of (41.5%) in the dependent variable (trading volume).

From the above analysis, it is necessary to reject the first null hypothesis and accept the alternative hypothesis that: (There is a statistically significant effect at the level of significance ($\alpha \leq 0.05$) between foreign direct investment and the volume index of Amman Stock Exchange.

2 - Second hypothesis test: There is no significant statistical effect at the level of significance ($\alpha \leq 0.05$) between foreign direct investment and the index of the market value of shares in Amman Stock Exchange. Table (4) shows the results of the regression test.

Table 4. the impact of foreign direct investment in Jordan on the market value of Amman Stock Exchange

The dependent variable	Coefficient of correlation R	R2 Selection Factor	Value (F)	Level of significance *	Parameter (β)	Standard error
Volume of trade	0.321	0.311	67.225	0.000	0.321	0.031

* The effect is statistically significant at (P00.05)

The results of Table (4) indicate that the value of $r = 0.321$ means that there is a correlation between (0.321) between the foreign direct investment in Jordan and the market value of shares in Amman Stock Exchange. This means the market capitalization of Amman Stock Exchange will rise.

It also shows that the value of the coefficient of determination ($r^2 = 0.311$), which means that the difference in the volume of foreign direct investment has been interpreted as (31.1%) of the variance in the market

value of shares in Amman Stock Exchange, and (68.9%) due to other the factors not addressed in the study. The value of (F) was 67.255 at the confidence level (sig = 0.000), which confirms the significance of the regression model at a significant level (P00.05).

The data in the previous table also indicates that the value of (0.311 = β) means that the change in one unit in the volume of foreign direct investment leads to a change of (31.1%) in the dependent variable (market value of shares).

The above analysis requires rejecting the second null hypothesis and accepting the alternative hypothesis: "There is a statistically significant effect at the level of significance ($\alpha \leq 0.05$) between direct foreign investment and the market value of shares in Amman Stock Exchange"

3- Third hypothesis test: There is no statistically significant effect at the level of significance ($\alpha \leq 0.05$) between foreign direct investment and the turnover of shares in Amman Stock Exchange. Table (5) shows the results of the regression test.

Table (5) examines the impact of foreign direct investment in Jordan on the turnover of shares in Amman Stock Exchange

The dependent variable	Coefficient of correlation R	R2 Selection Factor	Value (F)	Level of significance *	Parameter (β)	Standard error
Volume of trade	0.112	0.102	23.125	0.000	0.112	0.0978

* The effect is statistically significant at (P00.05)

The results of Table (5) indicate that the value of (r = 0.112) means that there is a correlation between (0.112) and FDI in Jordan and the turnover of shares in Amman Stock Exchange. This is a positive relationship and the turnover of stocks in Amman Stock Exchange will rise.

It also shows that the value of the coefficient of determination ($r^2 = 0.102$), which means that the difference in the volume of foreign direct investment has been interpreted as 10.2% of the variation in the turnover of shares in Amman Stock Exchange, and (89.8%) due to the other factors not addressed in the study. The value of (F) was (23.125) at the level of confidence (sig = 0.000), which confirms the significance of the regression model at a significant level (P00.05).

The data in the previous table also shows that the value of (0.112 = β) means that the change in one unit in the volume of foreign direct investment leads to a change of (11.2%) in the dependent variable (turnover).

From the above analysis, the third null hypothesis is rejected, and the alternative hypothesis is accepted. There is a statistically significant effect at the level of significance ($\alpha \leq 0.05$) between the foreign direct investment and the turnover of shares in Amman Stock Exchange.

Conclusion

The effect of foreign direct investment on the volume of trading in Amman Financial Market has been statistically significant. The difference in the volume of foreign direct investment was (47.2%) of the variation in the volume of trading in Amman Stock Exchange for the period (2010-2016). It also revealed a statistically significant effect of the volume of foreign direct investment on the market value of shares in Amman Stock Exchange, the variance in the volume of foreign direct investment accounted for (31.1%) of the variance in the market value of shares in Amman Stock Exchange for the period 2010-2016. In addition, there was a statistically significant effect on the volume of foreign direct investment in Amman Stock Exchange, and the difference in the volume of foreign direct investment has been explained by (10.2%) of the variation in the turnover of shares in Amman Stock Exchange for the period 2010-2016.

The study recommended developing attractive, suitable and highly flexible investment policies for investment-hosting countries. The direct foreign investment in particular has a significant positive impact on the performance indicators of the financial market to its dependence on the flow of foreign capital, in addition to technology and technical expertise, which contributes to achieving liquidity of securities in any period of time as well as improve the economic level of the country.

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