FOREIGN CAPITAL INFLOWS, DOMESTIC SAVINGS AND ECONOMIC GROWTH

THE CASE OF ALGERIA

MOHAMMED TAHAR NID

808230

MASTER OF ECONOMICS

UNIVERSITI UTARA MALAYSIA

2012
FOREIGN CAPITAL INFLOWS, DOMESTIC SAVINGS, AND ECONOMIC GROWTH: THE CASE OF ALGERIA

A thesis Submitted to the
Othman Yeop Abdullah Graduate School of Business,
in partial fulfillment of the requirements for the
degree of Master of Science Economics
Univesiti Utara Malaysia

By
MOHAMMED TAHAR NID
(808230)

©Mohammed Tahar Nid, June 2012. All Rights Reserved
PERAKUAN KERJA KERTAS PROJEK
(Certification of Project Paper)

Saya, mengaku bertandatangan, memperakukan bahawa (I, the undersigned, certified that)
MOHAMMED TAHAR NID (808230)

Calon untuk ijazah Sarjana
(Candidate for the degree of) MASTER OF ECONOMICS

telah mengemukakan kertas projek yang bertajuk
(has presented his/her project paper of the following title)

FOREIGN CAPITAL INFLOWS, DOMESTIC SAVINGS AND ECONOMIC GROWTH: THE CASE OF ALGERIA

Seperti yang tercatat di muka surat tajuk dan kulit kertas projek
(as it appears on the title page and front cover of the project paper)

Bahawa kertas projek tersebut boleh diterima dari segi bentuk serta kandungan dan meliputi bidang ilmu dengan memuaskan.
(that the project paper acceptable in the form and content and that a satisfactory knowledge of the field is covered by the project paper).

Nama Penyelia
(Name of Supervisor) ASSOC. PROF. DR. JAUHARI B DAHALAN

Tanda tangan
(Signature)  

Tarikh
(Date) 11 JUNE 2012
PERMISSION TO USE

In the submission of this thesis in fulfilment of the requirement for a postgraduate degree program under Universiti Utara Malaysia (UUM), I hereby agree to permit the University Library to use this project paper as reference purposes, duplication or extraction for academic usage. All the above mentioned condition can be done by getting approval from my supervisor or The Dean of College of business, UUM. Any duplication, publication or extraction for profitable purposes is highly restricted for this study without my written permission. It is also understood that due recognition shall be given to me and to Universiti Utara Malaysia for any scholarly use which may be made of any material from my thesis.

An appreciation should be given to UUM due to the permission allow to use all the resources for the project paper. An application letter to use it can be addressed to the:

Dean
Othman Yeop Abdullah Graduate School of Business
Universiti Utara Malaysia
06010 UUM Sintok
Kedah Darul Aman
Malaysia
DISCLAIMER

The author is responsible for the accuracy of all opinion, technical comment, factual report, data, figures, illustrations and photographs in this dissertation. The author bears full responsibility for the checking whether material submitted is subject to copyright or ownership right. Universiti Utara Malaysia (UUM) does not accept any liability for the accuracy of such comment, report and other technical and factual information and the copyright or ownership rights claims. The author declares that this dissertation is original and his own except those literatures, quotations, explanations and summarizations which are duly identified and recognized. The author hereby granted the copyright of this dissertation to College of Business, Universiti Utara Malaysia (UUM) for publishing if necessary.

Date: Student Signature:
DEDICATIONS

My special thanks to my beloved family, especially my parents, brothers, and sisters, who sacrificed so much and supported my efforts with love, understanding and constant encouragement without which it would not have been possible for me to earn this degree.

Also I would like to dedicate my sincere gratitude and appreciation to friends around me Moussab Bey Abbas Ramdani, Tarek Kacemi, Ghimari Abdelkarim, Boubakeur Baba, Oussama Saoula, Mouslem Damkhi, Djamal Amouri, Hacine Gherbi Elhachemi, Rochdi Debili, Hocine Meddor, Ali Mehalou, shahrouranouar, Mohammed Madi, Tamer Madi, Othmany, Mohammed Qeshta, Mohammed Aljabry, Rababah Hamisu Ibrahim Alhaj, Musa Sulaiman and all of my friends in UUM (2011-2012) for the time, experiences and knowledge that we shared together at UUM, May Bank Campus.

Lastly, I would like to thank my Brothers in Algeria Iakhdar Rezag Bara, Yahya Benin, Dr Faouzi Mehrig, Khalil Fouhma, Abdelraouf Mesoudi, Brahim Bia, Okba Abdellaoui, Ilyes Midoun, Yakoub Guezoun, Habib Allah Salmi, Said Bouchoul, Abdeldjalil Chellig, Abdelhakoim Ben Sghir Chaib Boushoul and many others for helping me in one way or another throughout the completion of this project.

Mohammed Tahar Nid
Master of Economics
June, 2012
ACKNOWLEDGEMENT

First and foremost, the highest gratitude to Allah S.W.T and his Prophet Muhammad S.A.W for giving me the strength to complete thesis even though with the tight schedule. Thousands and millions of my sincere and utmost appreciation and gratitude to my dedicated supervisor Prof. Madya Dr. Jauhari B Dahalan has helped me tremendously in focusing my thoughts and coaching me to put my pieces of ideas into a meaningful structure. Moreover, he has been very patient in guiding me and also giving me tonnes of moral support needed.

It would not have been possible for me to complete my Master of Science (Economics) program and this project paper without the support of my family. My first expression of gratitude goes to my dearest parents deserve special mention for their inseparable and prayers. My father Ismail, in the first place is the person who put fundament my learning character, showing me the joy of intellectual pursuit ever since I was a child. My mother, Rabia Debbab, is the one who sincerely raised me with caring and gently love. My deep gratitude goes to brothers-in-law, Abdallah who sacrificed much of his time taking care of my work, while I was busy and away doing my master. I extend my thanks to my younger and eldest my sisters-in-law Asmaa, and djouiria, and my younger brothers Nadir, and Ayman.

I would like to thank Dr Laid Derouiche, Dr Soufian Bouragaa, Dr Rachida Bouchoul also to my colleagues and friends for the many moments of insights, inspiration, laughter, and support throughout the completion of the program and this project paper. My special thanks to my roommate, and classmate Mousaab Bey, and my close friend Abbas Ramdani who had countless hours helping me during my life in Malaysia, My lectures in faculty of Economy, Banking, and Finance, who had shown their concern and interest in
this paper, and thirdly I convey my heartfelt gratitude to my dear brother who was supportive me financially and morally and was very patience with my absent of our work during the period of my study.

My sincere thanks also goes to all other people who may be involved directly or indirectly in helping me to complete this final project paper. May Allah bless all of you and Alhamdulilah!

Thank you.

Mohammed Tahar Nid

June, 2012
Understanding the growth process is central to development economics. Analyzing and interpreting the determinants of growth, either the process has worked or failed in countries is ultimately an empirical issue. This study attempts to explain this issue not limited to the economic impact of FCI, domestic savings, and Interest rate on economic growth in Algeria but also on how they are related in a dynamic framework. The model for analysis was developed based on the Two Gaps economic growth model. The analysis of this relationship is based on annual time series data for the period of 1980-2010. This study employs approaches in its estimation of the dynamic relationship vector error correction model and granger causality. The results show that domestic savings have a positive and significant effect, but foreign capital inflows are insignificant to Algeria's economic growth in the long run. Also, the interest rate has significant influence towards economic growth in Algeria in the long run. The insignificant impact of FCI on economic Growth in Algeria. Could be due to the fact that FCI in Algeria during the period of the study is quite small. The finding, particularly on interest rates and savings has some policy relevance at the macro development perspective.
ABSTRAK

# TABLE OF CONTENTS

PERMISSION TO USE................................................................................................................. i
DISCLAIMER ........................................................................................................................... ii
DEDICATIONS ........................................................................................................................... iii
ACKNOWLEDGEMENT ............................................................................................................ iv
ABSTRACT ............................................................................................................................... vi
ABSTRAK ................................................................................................................................. vi
TABLE OF CONTENTS .............................................................................................................. viii
LIST OF FIGURES ................................................................................................................... x
LIST OF TABLES ...................................................................................................................... xi
CHAPTER ONE ......................................................................................................................... 1
  1.1 Introduction ......................................................................................................................... 1
  1.2 Background of this Study ..................................................................................................... 2
  1.3 Statement of Problem ......................................................................................................... 5
  1.4 Objective of The Study ....................................................................................................... 7
  1.5 Hypothesis of The Study .................................................................................................... 7
  1.6 Research Question ............................................................................................................. 8
  1.7 Scope of Study .................................................................................................................... 9
  1.8 Significant of Study ........................................................................................................... 9
  1.9 Organization of Study ....................................................................................................... 11
CHAPTER TWO ........................................................................................................................ 13
  2.1 Introduction ....................................................................................................................... 13
  2.2 Savings and Growth ......................................................................................................... 14
  2.3 Foreign Capital Inflows and Growth ................................................................................. 20
  2.4 Summary and Concluding Remarks .................................................................................. 25
CHAPTER THREE ..................................................................................................................... 27
  3.1 Introduction ....................................................................................................................... 27
  3.2 Research Design .............................................................................................................. 27
      3.2.1 Conceptual Framework ............................................................................................. 27
      3.2.2 Model Specification ................................................................................................. 29
  3.3 Estimation Technique ....................................................................................................... 33
      3.3.1 Univariate Analysis ................................................................................................. 34
      3.3.1.1 Unit Root Test .................................................................................................... 34
LIST OF FIGURES

Figure 3 1 ...................................................................................................................................... 28
LIST OF TABLES

<table>
<thead>
<tr>
<th>Table</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>Table 4.2</td>
<td>44</td>
</tr>
<tr>
<td>Table 4.3</td>
<td>45</td>
</tr>
<tr>
<td>Table 4.5.1.1.1</td>
<td>47</td>
</tr>
<tr>
<td>Table 4.5.1.1.2</td>
<td>47</td>
</tr>
<tr>
<td>Table 4.5.1.2.1</td>
<td>48</td>
</tr>
<tr>
<td>Table 4.5.1.2.2</td>
<td>48</td>
</tr>
<tr>
<td>Table 4.5.2.1</td>
<td>49</td>
</tr>
<tr>
<td>Table 4.5.2.2.1</td>
<td>51</td>
</tr>
<tr>
<td>Table 4.5.2.2.2</td>
<td>52</td>
</tr>
<tr>
<td>Table 4.5.2.3</td>
<td>53</td>
</tr>
<tr>
<td>Table 4.5.2.4</td>
<td>54</td>
</tr>
</tbody>
</table>
CHAPTER ONE

INTRODUCTION

1.1 Introduction

One of the most central questions in economics over the years has been why some countries are poor than the others. A vast majority of economies in the world today are seemingly experiencing economic destitution whereas a few countries are experiencing the fruits of prosperity. Economists have endeavoured to explore the nature and the causes of economic growth for explaining the path to prosperity. As a result, numerous determinants of economic growth have been established in macroeconomic growth theory and policy. There has seemingly been increased attention on the role of foreign capital, and domestic saving in growth. Though recent developments of this literature have generated insights relevant for explaining the general characteristics of developing economies, the extended research is necessary in this area.

In recent years, there has been extensive empirical work on savings, investment and economic growth. The reasons for this are threefold. Firstly, the growing concern over the falling savings rates in the major developing countries; secondly, the growing divergence in saving and investment rates between the developing countries; and thirdly, recent growth literature which emphasizes the role of investment in economic growth. Foreign capital inflows have also received considerable attention recently, which have beneficial effects in financing investment and economic growth. However
The contents of the thesis is for internal user only


Bahmani-O, M., & J. Alse (1994). Short-Run versus Long-Run Effects of Devaluation:


Comparative Analysis. Journal of Development Economics. 51(1), 5-44.


in Pakistan 1975-2004. MPRA Paper 1233, Department of Economics, GC University, Lahore.


include the require of graduate degree. University Yahya Fares. Media.


Project Paper include the require of graduate degree. High School of Commerce. Algeria.23.


