

THE CASUAL RELATIONSHIP BETWEEN MACROECONOMIC VARIABLES  
AND ECONOMIC GROWTH: EVIDENCE FROM ALGERIA ECONOMY

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## **ABSTRACT**

Theoretically, less developed countries that are short of domestic resources can further their economic expansion by utilizing foreign capital under conditions of perfect capital mobility, these inflows would also help equalize rate of return on capital across countries and narrow the development gap(Gupta&Islam,1983). in the context of Algeria, is this inflow helps the domestic resources further expansion at economic growth.This paper focuses on the study by using time-series data over the period of 1970-2009 in Algeria. In this study, I used economic growth as dependent variables and export, import, FDI domestic investment were independent variable. This study analyzed the relationship between these variables using unit root test, Vector Autoregressive (VAR) and Impulse Response Function (IRF). The evidence indicates that export has positive influences on economic growth. The VAR and Impulse Response Function (IRF) show that the increases in export will have significant effect on economic growth and there are no strong relationships between FDI, import, Domestic investment and economic growth. The economic growth is influenced by its own past value. In the presence of studies, change in FDI has no positive effect on growth, so the proper monitoring of the foreign funded projects in order to avoid the misutilization of the foreign capital resources is needed. For maintaining and increasing economic growth rate, Algeria need to stabilize the macroeconomic environment, improve human capital, facilitate financial development and gradually liberalize financial sector.

## ABSTRAK

Secara teorinya, Negara kurang maju yang kekurangan sumber dalam negeri boleh mengembangkan ekonomi mereka dengan menggunakan modal asing di bawah keadaan mobiliti modal sempurna, aliran masuk ini juga akan membantu menyamakan kadar pulangan keatas modal di seluruh Negara dan merapatkan jurang pembangunan (Gupta & Islam, 1983). Dalam konteks Negara Algeria, aliran masuk ini dapat membantu sumber domestik mengembangkan pertumbuhan ekonomi. Kajian ini menggunakan data siri masa Negara Algeria bag itempoh 1970-2009. Dalam kajian ini, saya menggunakan pertumbuhan ekonomis ebagai pembolehubah bersanda rmanakalaeksport, import, pelaburan domestik FDI adalah pembolehubah bebas. Kajian ini menganalisis hubungan antara pembolehubah ini menggunakan kaedah “root test”, “Vektor Autoregresi (VAR)” dan “Impulse Response Function (IRF)”. Bukti-bukti menunjukkan bahawa eksport mempunyai pengaruh yang positif keatas pertumbuhan ekonomi. VAR dan Impulse Response Function (IRF) menunjukkan bahawa peningkatan dalam eksportakan memberi kesan yang besar keatas pertumbuhan ekonomi dan tidakt erdapat hubungan yang kukuh di antara FDI, import, pelaburan domestik dan pertumbuhan ekonomi. Pertumbuhan ekonomi dipengaruhi oleh nilai pertumbuhan ekonomi pada masa lalu. Dalam kajian ini, perubahan dalam FDI tidak mempunyai kesan positif keatas pertumbuhan ekonomi, jadi pemantauan dana projek asing adalah perlu untuk mengelakkan penyalahgunaan sumber modal asing. Bagi mengekalkan dan meningkatkan kadar pertumbuhan ekonomi, Algeriaperlu menstabilkan persekitaran makroekonomi, meningkatkan modal insan, memudahkan pembangunan kewangan dan secara beransur-ansur rneliberalisasikan sektor kewangan.

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# CHAPTER ONE

## INTRODUCTION

### 1.1 INTRODUCTION

During the last decade of the 20<sup>th</sup> century there was been a major shift regarding the size and composition in the cross-border financial flows to developing countries. The foreign direct investment, (FDI), flows have increased substantially while the net debt flows have become of less importance and the portfolio flows have become firmly established Aaron *et al*(2001). In 1998 FDI accounted for more than half of all private capital flows to developing countries. In 2000, the total world inflows of FDI were 1.3 trillion US dollars which was four times the level five years earlier. More than 80% of the recipients of FDI inflows together with more than 90% of the initiators of FDI outflows were located to “developed countries” (OECD,2002).

The limited share of FDI that goes to “developing countries” is spread very unevenly, with a major part to Asia and Latin America. The African continent (except South Africa) has had apparent problems with attracting FDI . The main factors which have motivated FDI inflows to Africa the recent decades appears mainly to have been the availability of natural resource in the host economy along with, but to a lesser extent, the size of the domestic economy.

Studies have shown that the main factors holding back FDI is that even though the gross rate of return can be very high in Africa, there are high tax rates and severe risk of

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