

**ESTIMATING THE IMPACT OF FOREIGN DIRECT INVESTMENT
ON ECONOMIC GROWTH IN ALGERIA**

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ABSTRAK

Kajian ini menganggar kesan *pelaburan langsung asing* (FDI) ke atas pertumbuhan ekonomi di Algeria. Kesan FDI ini dianggar dan hubungan sebab-akibat antara FDI dan pertumbuhan ekonomi dinilai dengan menggunakan data tahunan dari 1990 hingga 2013. Hasil dapatan menunjukkan bahawa dalam jangka masa panjang, FDI tidak mempunyai kesan yang signifikan ke atas pertumbuhan ekonomi. Tetapi, terdapatnya hubungan sebab-akibat dari FDI ke pertumbuhan ekonomi dalam jangka masa pendek. Ini mungkin disebabkan hakikat bahawa ekonomi Algeria terlalu bergantung kepada minyak dan tiada persekitran yang konduktif untuk pelabur-pelabur asing.

Kata kunci: FDI, pertumbuhan ekonomi, hubungan sebab-akibat, Algeria.

ABSTRACT

This study estimates the impact of foreign direct investment (FDI) on economic growth of Algeria. Using an annual data from 1990 to 2013, the impacts of FDI are estimated and the short run causality relationship between FDI and economic growth are evaluated. Results reveal that in long run, the FDI does not have a significant impact on economic growth. However, there is a short run causal relationship from FDI to economic growth. This may due to the fact that the Algerian economy is heavily relying on crude oil and the absence of a conducive environment for foreign investors.

Keywords: FDI, economic growth, causality relationship, Algeria.

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LIST OF ABBREVIATIONS

IMF	International Monetary Fund
FDI	Foreign Direct Investment
GDP	Gross Domestic Product
GFCF	Gross Fixed Capital Formation
ONS	Office of National Statistics
DA	Dinnar Algerian

CHAPTER ONE

INTRODUCTION

1.1 Background of Study

The beginning of first decade of the 21st century was exceptionally positive for the Algerian economy. From the 2000s till nowadays, the Algerian economy recovered well since the big socioeconomic crisis in 1990s. This recovery is shown with the yearly average growth from 2000 to 2009, of 3.7 and 5.6 percent for real GDP and non-hydrocarbon GDP respectively, while real GDP per head increased by 22 percent, and unemployment decreased from 29.5 percent in 2000 to 10.2 percent in 2009 (IMF Country Report, 2011).

The reason behind this remarkable achievement was an ideal worldwide macroeconomic environment checked by high oil prices, and reasonable macroeconomic strategies that brought about vast financial surpluses and expanding foreign exchange reserves. Regardless of the advancement made, the economy remains greatly reliant on the hydrocarbon area (98 percent of exports), private investment is excessively little, and a frail business climate remains a big obstacle for investment-led economic development. (IMF Country Report, 2011).The Algerian economy has achieved a real growth of around 2.8% (2013), a slight deceleration as compared to 3.3% of 2012. This slowdown is explained by a decline registered in the hydrocarbon sector and lower growth rates in the industry and

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