

**THE IMPACT OF FOREGIN CAPITAL INFLOW ON ECONOMIC
GROWTH OF YEMEN: DOES INSTITUTIONAL FACTORS MATTER?**



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**A Project Paper Submitted to the Othman Yeop Abdullah Graduate School of
Business, University Utara Malaysia, in Partial Fulfilment of the Requirements
for the Degree Master of Economic**

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ABSTRACT

This study attempts to explain of foreign capital inflows (foreign direct investment (FDI), remittances and aid), corruption and political stability on economic growth of Yemen. However, FDI, Official Development Assistance (ODA) and Personal Remittances have been considered as component of FCI. Furthermore, the model for analysis was developed based on the Two Gaps economic growth model. However, Augmented Dickey-Fuller (ADF) test is used to check for stationarity and Ordinary Least Square (OLS) estimator has been applied for estimation purposes. The analysis of this relationship is based on annual time series data for the period of 2003-2013; while the data have been taken from the World Development Indicators (2015), World Governance Indicators (2015) and some other sources. Furthermore, the correlation between FDI inflows and other variables at the lowest level and the correlation among ODA, political stability and corruption is more than 80% during the study period. The results show that FDI and ODA have a positive and significant effect on economic growth of Yemen, but personal remittances have significant and negative effects on Yemen's economic growth. In addition, corruption and political stability that explain institution environment are insignificant for economic growth of Yemen. However, the insignificant of corruption and political stability could be due to the fact that correlation is higher than 85% and positive in Yemen during the period of the study. The findings, particularly on FDI, personal remittances, corruption and political stability have some policy relevance at the macro development perspective.

Key words: FDI, Official Development Assistance, Remittances, Corruption, Political stability, Yemen.

ABSTRAKT

Kajian ini bertujuan untuk menjelaskan aliran masuk modal asing seperti pelaburan asing (FDI), kiriman wang dan bantuan wang, rasuah dan kestabilan politik keatas pertumbuhan ekonomi di Yaman. Walaubagaimanapun, pelaburan asing (FDI), Bantuan Pembangunan Rasmi (ODA) dan kiriman wang peribadi dikenalpasti sebagai sebahagian dari FCI. Selain itu, model yang digunakan untuk tujuan analisis dibentuk berdasarkan model pertumbuhan ekonomi dua jurang (two gaps economic growth model). Ujian Augmented Dickey-Fuller (ADF) digunakan untuk menguji kepegungan dan Ordinary Least Square (OLS) digunakan untuk tujuan penganggaran. Bagi menganalisis hubungan ini, data siri tahunan bagi tahun 2003 hingga 2013 digunakan dan data ini diperolehi daripada World Development Indicators (2015), World Government Indicators (2015) dan sumber lain. Akan tetapi korelasi diantara aliran masuk pelaburan asing FDI dan pembolehubah yang lain berada di tahap yang paling rendah manakala korelasi diantara Bantuan Pembangunan Rasmi (ODA), kestabilan politik dan rasuah adalah lebih daripada 80% semasa kajian dijalankan. Hasil kajian menunjukkan pelaburan asing (FDI) dan Bantuan Pembangunan Rasmi (ODA) mempunyai hubungan positif dan kesan signifikan keatas pertumbuhan ekonomi di Yaman, tetapi kiriman wang peribadi adalah signifikan dan memberi kesan negatif keatas pertumbuhan ekonomi di Yaman. Selain itu, rasuah dan kestabilan politik menjelaskan institusi persekitaran adalah tidak signifikan keatas pertumbuhan ekonomi di Yaman. Walaubagaimanapun, ketidaksignifikan rasuah dan kestabilan politik boleh mempengaruhi korelasi lebih daripada 85% dan positif di Yaman semasa kajian dijalankan. Hasil kajian mendapati, terdapat perkaitan positif diantara pelaburan asing (FDI), kiriman wang peribadi, rasuah dan kestabilan politik dengan dasar perkaitan dari perspektif pembangunan makro.

Kata kunci: pelaburan asing (FDI), Bantuan Pembangunan Rasmi (ODA), kiriman wang, rasuah, kestabilan politik, Yaman.

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Everlasting love.



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LIST OF ABBREVIATIONS

FDI	Foreign Direct Investment
FCI	Foreign Capital Inflow
OLS	Ordinary Least Square
GDP	Gross Domestic Product
RGDP	Real Gross Domestic Product
ODA	Official Development Assistance
PR	Personal Remittances
PS	Political stability
CPI	Corruption Perceptions Index
ADF	Augmented Dickey-Fuller



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CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

The main challenge facing the policy makers and policy strategist is achieving higher economic growth for less developed countries. Undoubtedly, higher economic growth can improve the creation of jobs, standard of living and the welfares of the people. Therefore, they need to expedite their economic development process. However, the last two decades have noticed a renewed interest in the economic growth concept and focused on the factors that are in consonant with higher economic growth as capital is the main source of economic growth and the least developing countries face littleness in capital so they keep looking for multiple sources of capital, (Azam & Hassan, 2013).

Although, there are argument about the impact of Foreign Capital Inflows (FCI) on the economic growth in developing countries, many research scholars opined that the components related to FCI affect the domestic savings and economic growth negatively in less developed countries in where there is poor policies (Boone, 1994; Enos & Griffin, 1971; Khan, Hasan, Malik, & Knerr, 1992; Leff, 1969; Papanek, 1973). Additionally, FCI serves as one of the ways to support GDP just like the empirical assessment of importance of FCI to growth of economy in some host countries is obviously important (Balasubramanyam, Salisu, & Sapsford, 1996; Borensztein, De Gregorio, & Lee, 1998; Makki & Somwaru, 2004).

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