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

By

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ABSTRACT

This study attempts to explain 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 insignificance 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


Kata kunci: pelaburan asing (FDI), Bantuan Pembangunan Rasmi (ODA), kiriman wang, rasuah, kestabilan politik, Yaman.
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In the name of ALLAH, the most gracious, the most merciful. Praise be to ALLAH, the creator and custodian of the universe. Salawat and Salam to our Prophet Muhammad, peace and blessings of ALLAH be upon him and to his family members, companions and followers.

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Everlasting love.
Table of Contents

PERMISSION TO USE ........................................................................................................ iii
ABSTRACT ........................................................................................................................ iv
ABSTRAKT ......................................................................................................................... v
LIST OF TABLES ................................................................................................................ ix
LIST OF FIGURES ............................................................................................................... x
LIST OF ABBREVIATIONS ............................................................................................... xi
CHAPTER ONE: INTRODUCTION ....................................................................................... 1
  1.1 Background of the Study ............................................................................................... 1
  1.2 Problem Statement ...................................................................................................... 5
  1.3 Research Questions ................................................................................................... 7
  1.4 Objectives of the Study ............................................................................................... 7
  1.5 Hypothesis of the Study ............................................................................................ 8
  1.6 Scope of Study .......................................................................................................... 8
  1.7 Significance of Study ................................................................................................. 9
  1.8 Limitations of the Study ............................................................................................ 10
  1.9 Organization of the Study .......................................................................................... 11
CHAPTER TWO: LITERATURE REVIEW ........................................................................... 12
  2.1 Introduction ................................................................................................................ 12
  2.2 Foreign Capital Inflows and Economic growth ........................................................... 13
  2.3 Foreign Capital Inflows and economic growth in Yemen .............................................. 25
  2.4 Institution Variables and Economic Growth ............................................................... 26
  2.5 Institution Variables and Economic Growth of Yemen ............................................... 29
  2.6 Summary and Concluding Remarks ........................................................................... 30
CHAPTER THREE: METHODOLOGY .............................................................................. 32
  3.1 Introduction ................................................................................................................ 32
  3.2 Research Design ....................................................................................................... 32
  3.3 Justification of Variables ............................................................................................ 36
  3.4 Data Source ............................................................................................................... 37
  3.5 Estimation Procedure ................................................................................................. 38
CHAPTER FOUR: RESULTS AND DISCUSSION ................................................................. 40
  4.1 Descriptive Analysis ................................................................................................. 40
  4.2 ADF Test for unit roots ............................................................................................... 41
  4.3 Result of Ordinary Least Square Estimator (OLS) ...................................................... 43
4.4 Summary .......................................................................................................................... 46

CHAPTER FIVE: CONCLUSION AND RECOMMENDATION .............................................. 47

5.1 Conclusion ..................................................................................................................... 47

5.2 Policy Implication and Recommendations ................................................................. 49

REFERENCES .................................................................................................................. 52

APPENDIX ....................................................................................................................... 58
### LIST OF TABLES

Table 1.1: *Macroeconomic indicators of Yemen* .................................................. 5  
Table 3.1: *Variables, Definition, Measurement and Source* ................................ 37  
Table 4.1: *Summary Statistics, Using the Observations 2003-2013* ...................... 41  
Table 4.2: *Correlation Matrix of Residual* .......................................................... 41  
Table 4.3: *Results of ADF Unit Root Tests* ......................................................... 42  
Table 4.4: *OLS Estimates impact of FCI an Institution Variables* ......................... 44
LIST OF FIGURES

Figure 1.1: FCI to Yemen in form FDI, PR, AND ODA from 2003-2013 …………. 3
# LIST OF ABBREVIATIONS

<table>
<thead>
<tr>
<th>Abbreviation</th>
<th>Description</th>
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<tbody>
<tr>
<td>FDI</td>
<td>Foreign Direct Investment</td>
</tr>
<tr>
<td>FCI</td>
<td>Foreign Capital Inflow</td>
</tr>
<tr>
<td>OLS</td>
<td>Ordinary Least Square</td>
</tr>
<tr>
<td>GDP</td>
<td>Gross Domestic Product</td>
</tr>
<tr>
<td>RGDP</td>
<td>Real Gross Domestic Product</td>
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<tr>
<td>ODA</td>
<td>Official Development Assistance</td>
</tr>
<tr>
<td>PR</td>
<td>Personal Remittances</td>
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<tr>
<td>PS</td>
<td>Political stability</td>
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<tr>
<td>CPI</td>
<td>Corruption Perceptions Index</td>
</tr>
<tr>
<td>ADF</td>
<td>Augmented Dickey-Fuller</td>
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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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REFERENCES


