



UNIVERSITI PUTRA MALAYSIA

***RELATIONSHIPS AMONG FOREIGN AID, FOREIGN DIRECT INVESTMENT,
AND ECONOMIC GROWTH IN EAST AFRICAN COMMUNITY MEMBERS***

MASOUD MOHAMMED ALBIMAN

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COMMUNITY MEMBERS**

By

MASOUD MOHAMMED ALBIMAN

**Thesis submitted to the School of Graduate Studies, Universiti Putra Malaysia, in
the fulfillment of the requirements for the Degree of Master of Science**

June 2013

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DEDICATION

Specially dedicated to my beloved family



Abstract of thesis presented to the Senate of Universiti Putra Malaysia in fulfillment of the requirement for the degree of Master of Science.

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By

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June 2013

Chairperson: Shivee Ranjane a/p Kaliappan, PhD

Faculty: Economics and Management

This study has been conducted on a selected sample of EAC members, namely Kenya, Uganda, Rwanda, and Burundi. The study has two main objectives, first being to examine the role of foreign aid in economic growth in the long run, and their interaction in the short run. Second objective is to examine the role of foreign aid (bilateral and multilateral) in FDI inflows in the long run, and their interaction in the short run. In achieving these objectives, the study utilized endogenous growth model originated from neoclassical growth theories. To accomplish these objectives, the study used Dynamic

Ordinary Least Square (DOLS) and Vector Error Correction model (VECM). DOLS method is more suitable in cases which there are serial correlation and a small sample size.

The study found that, in the long run FDI has significant positive impact on economic growth for Kenya and Burundi. On the other hand, the impact is negative for Uganda. In the short run, the study found that, FDI has no impact on economic growth for all EAC members. However, the study revealed that, in the short run, increase in FDI enhances more foreign aid inflows in Rwanda; whilst in Burundi FDI promotes domestic investment.

The study also found that, in the long run, export does not have any impact on economic growth Kenya, Uganda and Rwanda. However, in Burundi, export has a positive and significant role in economic growth. Moreover, in the short run, the results suggest that, export does not have any impact on economic growth for three EAC members out of four. The only impact is found in Uganda, where export granger causes economic growth.

Furthermore, for the case of foreign aid we found that, in the long run it has a positive and significant impact of economic growth for Kenya and Burundi. In contrast, we found the negative and significant impact of foreign aid on economic growth of Uganda. On the other hand, in the short run, the results suggest that, foreign aid causes economic growth and domestic investment in Uganda. Furthermore, we found that, an increase in foreign aid causes increase in exports in Kenya whilst, in Burundi foreign

aid promotes domestic investment. However, this impact failed to interact with the economic growth in either country.

According to the results, it is worthwhile to form appropriate policies that will ensure positive impact of FDI on economic growth for all EAC members in the long run and the short run. On the other hand, major policies to improve export performances and ensuring a positive impact on economic growth have to be reformed. Furthermore, it is worthwhile to reform policies so that, foreign aid would have a sustainable positive impact on economic growth.

For the second objective, the impact of bilateral aid in the long run is negative in the case of Rwanda and positive for Uganda. On the other hand, in the short run bilateral aid does not have any impact on FDI for any countries. In the long run, multilateral aid has significant positive and negative impact on Rwanda and Burundi respectively. Furthermore, results suggest that, multilateral aid has no impact to FDI inflows in Uganda and Kenya. Not only that, but also, in the short run, multilateral aid has no impact to FDI for any EAC members. In general, to enhance FDI inflows, Rwanda and Burundi have to encourage more multilateral aid whilst Uganda, has to encourage more bilateral aid.

Abstrak tesis yang dikemukakan kepada Senat Universiti Putra Malaysia sebagai memenuhi keperluan untuk Ijazah Master Sains

**HUBUNGAN ANTARA BANTUAN ASING, PELABURAN LANGSUNG ASING
DAN PERTUMBUHAN EKONOMI DI KALANGAN AHLI KOMUNITI
AFRIKA TIMUR**

Oleh

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Kajian ini dijalankan dengan menggunakan sampel yang dipilih daripada ahli EAC, iaitu, Kenya, Uganda, Rwanda, Burundi, dan Tanzania. Dua objektif kajian ini adalah: pertama, untuk meneliti peranan bantuan asing terhadap pertumbuhan ekonomi bagi jangka panjang dan interaksi mereka untuk jangka panjang. Objektif kedua, untuk meneliti peranan bantuan asing (bilateral dan multilateral) terhadap aliran masuk FDI bagi jangka panjang dan interaksi mereka bagi jangka pendek. Bagi mencapai objektif tersebut, kajian ini mengguna pakai model pertumbuhan endogenous yang berasal daripada teori pertumbuhan neoklasikal. Bagi mencapai kedua-dua objektif tersebut, kajian ini menggunakan “*Dynamic Ordinary Least Square*” (DOLS) dan Model

Pembetulan Kesilapan Vector (VECM). Kaedah DOLS adalah sesuai bagi kes yang terdapat korelasi bersiri dan bagi saiz sampel yang kecil.

Bagi bantuan asing, kajian ini mendapati bahawa, bagi jangka panjang, terdapat impak pertumbuhan ekonomi yang positif dan signifikan bagi dua daripada empat ahli EAC, iaitu, Kenya dan Burundi. Sebaliknya, kajian ini mendapati kesan bantuan asing yang negatif dan signifikan terhadap pertumbuhan ekonomi di Uganda. Walau bagaimanapun, untuk jangka pendek, kajian ini mencadangkan bahawa bantuan asing menyebabkan pertumbuhan ekonomi dan pelaburan domestik di Uganda. Tambahan pula, kajian ini mendapati bahawa peningkatan bantuan asing menyebabkan eksport di Kenya, manakala di Burundi merangsang pelaburan domestik. Walau bagaimanapun, impak ini gagal untuk berinteraksi dengan pertumbuhan ekonomi bagi kedua-dua negara.

Kajian ini juga mendapati bahawa untuk jangka panjang, FDI mempunyai impak yang signifikan dan positif bagi Kenya dan Burundi. Sebaliknya, impak negatif adalah bagi Uganda. Untuk jangka pendek, kajian ini mendapati bahawa, FDI tidak mempunyai kesan terhadap pertumbuhan ekonomi bagi semua ahli EAC. Walau bagaimanapun, kajian ini menunjukkan bahawa, bagi jangka pendek, peningkatan FDI merangsang kemasukan lebih banyak bantuan asing di Rwanda, manakala di Burundi, FDI mempromosi pelaburan domestik.

Kajian ini juga mendapati bahawa bagi jangka panjang, eksport tidak mempunyai sebarang kesan terhadap pertumbuhan ekonomi bagi —Kenya, Uganda dan Rwanda. Walau bagaimanapun, di Burundi, eksport mempunyai peranan yang positif dan

signifikan terhadap pertumbuhan ekonomi. Oleh itu, untuk jangka pendek, hasil kajian menunjukkan bahawa eksport tidak mempunyai sebarang kesan terhadap pertumbuhan ekonomi bagi tiga daripada empat ahli EAC. Hanya satu impak didapati di Uganda, yang memperlihatkan eksport menyebabkan pertumbuhan ekonomi.

Berdasarkan hasil dapatan, adalah wajar untuk membentuk polisi yang sesuai yang akan memastikan impak PLA yang positif terhadap pertumbuhan ekonomi bagi semua negara EAC untuk jangka panjang dan pendek. Sebaliknya, polisi utama untuk memperbaiki performan eksport, memastikan kesan positif bagi pertumbuhan ekonomi harus dibentuk. Adalah juga wajar untuk mereformasikan polisi yang sesuai supaya bantuan asing dapat memberikan kesan positif yang mapan terhadap pertumbuhan ekonomi bagi semua ahli EAC.

Bagi objektif kedua, impak bantuan bilateral untuk jangka panjang adalah negatif di Rwanda, manakala positif di Uganda. Sebaliknya, bantuan bilateral jangka pendek tidak mempunyai sebarang impak terhadap PLA bagi semua negara. Untuk jangka panjang, bantuan multilateral mempunyai kesan positif di Rwanda, manakala impak negatif di Burundi. Di samping itu, hasil kajian mendapati bahawa bantuan multilateral tidak mempunyai impak terhadap aliran PLA di Uganda dan di Kenya. Bukan itu sahaja, malah untuk jangka pendek, bantuan multilateral tidak mempunyai impak terhadap PLA bagi semua ahli EAC.

Umumnya, untuk merangsang aliran PLA -Rwanda dan Burundi harus menggalakkan lebih banyak bantuan multilateral, manakala, Uganda harus menggalakkan lebih banyak bantuan bilateral

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I certify that a thesis examination committee has met on 11 June 2013 to conduct the final examination of Masoud Mohammed Albiman on his Master of Science thesis entitled “Relationships Among Foreign aid, FDI and Economic Growth in East African Community (EAC) members” in accordance with the Universities and University Colleges Act 1971 and the Constitution of the Universiti Putra Malaysia (P.U. (A) 106) 15 March 1998. The committee recommends that the student be awarded the degree of Master of Science.

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DECLARATION

I declare that the thesis is my original work except for quotations and citations which have been dully acknowledged. I also declare that it has not been previously, and is not concurrently submitted for any other degree at Universiti Putra Malaysia or at any other institution.



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Date: 11 June 2013

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