RELATIONSHIP BETWEEN SAVING AND INVESTMENT IN MALAYSIA AND SINGAPORE – IMPLICATIONS FOR CAPITAL MOBILITY

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ABSTRACT

The objective of this study is to see the relationship between saving and investment and its implication for capital mobility in a country. The evidence of this relationship will focus on the sample of data obtained from Malaysia and Singapore. The data consists of annual data of saving rate and investment rate from 1955 to 2003. The methods used are simple regression analysis, ordinary least square (OLS) and Pearson-product-moment correlation coefficient to examine the relationship between saving and investment in the two countries.

The results show that there is a high positive relationship between saving and investment in Malaysia and Singapore. It also shows that saving affect investment and vice-versa. Although both of the countries have different economic background, where Malaysia is a developing country and Singapore is a developed country, the result indicates that there is high capital mobility in both of the countries.

1.0 INTRODUCTION

1.1 Introduction of the Study

The relationship between savings and investment is a crucial indicator for capital mobility in one country and it has important implication on the countries economic. Studies on the saving and investment relationship have been conducted a long number of divergent lines and have come to varying conclusions regarding the interpretation of findings.

When considering the association between saving and investment rates, it is natural to think in terms of integration (or lack of) of international financial markets. Indeed, in an influential contribution, Feldstein and Horioka (1980) interpreted the cross-country correlation between saving and investment rates as evidence of low international capital mobility. In this case saving is likely to be a limiting factor for investment. A saving to investment link could therefore arise because "an increase in national saving has a substantial effect on the level of investment" (Feldstein and Bacchetta, 1991), as investment must be supported by saving and domestic firms compete for the flow of available domestic saving.

The research is focused on two countries; Malaysia and Singapore. Both of these countries have different background in terms of the size, population and economic background. Malaysia's investment rate has increased significantly in recent years. During the 1960s, Malaysia already had a relatively high rate of saving. However, the investment rate lagged behind the saving rate during this period. The saving rate picked up even further during the early 1970s. The saving rate has followed the investment rate closely during the late 1990s. Singapore presents a story of remarkable growth of both saving and investment rates.