

Capital mobility in Asia: evidence from bounds testing of cointegration between savings and investment

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Abstract:

This paper explores the international capital mobility in North Asia (South Korea and Taiwan), South Asia (Indonesia, Malaysia, the Philippines, Singapore and Thailand) and India. In particular, the Feldstein-Horioka puzzle, which states domestic investment and savings are highly and positively correlated, was examined for cointegration using an autoregressive distributed lag bounds testing procedure. The results did not show a positive correlation between savings and investment. There was essentially no relationship at level between savings and investment in all eight cases. Thirteen out of 16 structural break tests or 81.25% indicate no structural breaks. The analysis concluded with certain limitations that there is high capital mobility in the economies under study.

Keywords: bounds testing; capital mobility; cointegration; Feldstein-Horioka; investment; Savings

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