



# The Impact of International Capital Flows on Economic Growth in Palestine

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## **Authors' contributions**

*This work was carried out in collaboration between both authors. Author NB helped in conceptualization, data curation, formal analysis, methodology, investigation, visualization, literature searches, wrote original draft of the manuscript, reviewed, edited and supervised the study. Author MA helped in conceptualization, methodology, literature searches, supervision, wrote original draft of the manuscript, reviewed, edited and supervised the study. Both authors read and approved the final manuscript.*

## **Article Information**

DOI: 10.9734/JEMT/2020/v26i1130307

### Editor(s):

(1) Kamarulzaman Ab. Aziz, Multimedia University, Malaysia.

### Reviewers:

(1) Batrancea Larissa, Babes-Bolyai University, Romania.

(2) Grigoras Gheorghe, "Gheorghe Asachi" Technical University of Iasi, Romania.

Complete Peer review History: <http://www.sdiarticle4.com/review-history/64368>

**Original Research Article**

**Received 27 October 2020**

**Accepted 30 December 2020**

**Published 31 December 2020**

## **ABSTRACT**

The study aims to investigate and examine the impact of International Capital Flows and other Financial Flows on Economic Growth in Palestine during the period (2007-2018). This study also included trends and methods of forming Capital Flows and Financial Capital Flows. The study used the appropriate descriptive and analytical approach by the authors for the purposes and requirements of the research to investigate the real results and required. The researchers used the time intervals method, and the study concluded that Foreign Direct Investment (FDI), Foreign Portfolio Investment (FPI), Large Loans (World Bank), Worker Remittances (WR), Foreign Affairs Borrowing and Financial Grants (GR) have a noticeable positive impact on Economic Growth in Palestine. The study made several important and useful recommendations, the most notably: That Palestinian Government must lay down and establish lighter and comfortable rules and regulations for investors to attract more investors and Foreign Investments to Palestine. Besides, the Palestinian Government must work hard side by side with the other Developed Countries for

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reaching better Economic Development and increasing a good rate. To achieve a good rate of Economic Growth, the government must work hard to create job opportunities for citizens to reduce the high Unemployment rate in the country. The Government should improve the standard of living and competitiveness in global markets and obtain a sufficient share in the International Financial Markets, so the Government must work to provide new opportunities for Global Markets Integration by creating a good environment to increase Economic Growth and Technology Development.

**Keywords:** *International Capital Flows; Foreign Direct Investment; Foreign Portfolio Investment; Worker Remittances; Grants; Economic Growth; Palestine.*

**JEL Classification:** *E44, G17, G18, F21, F37, O16*

## 1. INTRODUCTION

Currently, International Capital Flows (ICF) and other Foreign Financial Inflows representing a very important factor in the Economic Growth of Developing Countries with fragile Infrastructure as well as countries experiencing remarkable Economic Growth at the current time.

For example, the least developed countries almost permanently, such as African countries and some developing Asian countries, depend on Financial Aid and Grants (GR) that are provided from their donor countries, while East Asian countries receive the largest share of Foreign Direct Investment (FDI), which brings them great benefit and remarkable economic recovery [1].

In our present time, many countries continue to have a lower rate of Economic Growth in the initial stages and focus their attention on developing the foundations and primary foundations, and then Foreign Capital Flows in various forms such as Financial Grants, Loans, Foreign Direct Investments (FDI), and revenues from export industries to the National and Manufacturing Industries, which It is exported abroad [2].

These reasons are among the reasons for the slowdown in Economic Growth, as Israel is the one who established the seizure of funds for Palestinians from Donor Countries and prevented their transfer to the Palestinian territories, they imposed strict sanctions on the Palestinian Authority and also imposed very high taxes on goods and products imported from abroad into Palestine [3,4].

Some countries have sound Macroeconomic Policies, Financial Institutions, and others that

work well and effectively to reap and collect many benefits from Capital Flows and seek to reduce the risks that these and other flows pose [5,6].

The Palestinian economy needs constant International Capital Flows and Foreign Direct Investment (FDI), which justifying on the ground because some reasons and factors demonstrate, and clarify its need for these flows, and they have convincing reasons and the main argument is the "The Global Economic Crisis", there is a persistent deficit in the balance of payments of the Government, which constitutes a major and sufficient argument in favour of the Foreign Capital Inflows Process [7].

The Palestinian economy considered weak and slow in growth, due to its being under the Israeli occupation and its direct link with it, because the Israeli Occupation is a convincing and big reason for Palestine's need for such financial and Capital Flows.

Besides, Palestine takes large loans from the World Bank, developed countries and the Arab Gulf States, and the State of borrowing. This is also in the form of Foreign Aid that facilitates and accelerates Economic Growth rates in Palestine: As for the political problems and the Israeli Occupation of Palestine [8].

From this standpoint and in detail, we can clarify the role of Financial Flows, International Capital Flows and Capital Inflows in the case of Palestine, as the inflow of Foreign Capital plays a very important and also representing an important role in the process of the Economic Development in the country and achieving continuous Economic Growth rates as well [9].

## 2. LITERATURE REVIEWS

In the past decades, the financial wave of Financial Globalization has experienced a boom

and deficiency in International Capital Flows between countries, between industrialized countries and Developing Countries with fragile economies. These Capital Flows are intense with high rates of Economic Growth in some developing and Underdeveloped Countries [1].

International Capital Flows and Foreign Direct Investment (FDI) in Palestine gradually diminished due to the Israeli control over the capital coming from abroad to Palestine and its imposition of complete control over it. The process of operating the economic downturn between Financial Aid and Economic Growth leads to a clear impact on Economic Growth in itself, and it is clear that Foreign Aid provided to Developing Countries increases the per cent of Economic Growth, and this result is taken into account due to the increase in the volume of Foreign Aid provided to Developing Countries [10].

There are diminishing returns on foreign aid, so this Aid is very sensitive, sacred, and very important for Developing Countries, up and running. However, Aid continues to affect Economic Growth due the Foreign Direct Investment (FDI) and other Direct Financial Flows [11].

It is also noteworthy that most of the troubles experienced by the economy of Developing Countries are due to many factors, the most important of which are the movement of Financial Capital, Financial Flows and Foreign Direct Investment (FDI). For this reason, the Government and Decision-Makers impose new policies to facilitate the movement of capital and other Financial Flows.

However, the Financial Inflows in the country supporting the case of the Foreign Direct Investment (FDI) and the investment of the portfolio influencing on macro economy of the country, the Economic Stability and Regional Stability will achieve high and remarkable Economic Growth for the State if these flows managed in an organized and carefully studied manner [12].

There are multiple cases in which such theoretical and practical studies have conducted, such as Nigeria, Ghana and India during the period (1986-2012).

Besides, the economy doubts whether Foreign Capital Inflows are so large and huge to

Developing Countries and over the years as well, this is what allows the real economy to achieve the highest rates of Economic Growth [13].

The study used the "Dickey-Fuller" test unit to assess the stability and reliability of the data available and analyzed in this study, and the "Johansen", which is called hypothetical co-integration, used to estimate the type of relationship and Long-Term balance between the variables that were used in the study [14].

The symptomatic relationship tested by using the causal method (Granger), and the normal method used smaller and smaller terms to evaluate the model and approach used.

The method of multiple regression and simple regression equation has used for different and widely spaced periods to reach accurate results and to verify the real and direct impact of all available used study variables.

Improving domestic skills policies have been set up within the country to bring out Foreign Direct Investment (FDI) to Developing Countries that need Economic Growth, and that was based on the contexts of global competition in the field of Foreign Direct Investment (FDI) and other investments, such as the investment of Human Capital (HC), whose absorptive capacity has been strengthened in Developing Countries to benefit from Financial Flows and Foreign Direct Investment (FDI), which has improved the quality in recent times and increased significantly in these countries [15].

Some studies dealt with the same problem that has proven the positive effect of the current study variables on the economic growth of some Developing Countries such as Nigeria, Ghana and India that have Foreign Direct Investment (FDI), and Foreign Portfolio Investments (FPI) positively affects Economic Growth, as well as Foreign Loans and Grants (GR) etc., of course, does not affect the significant and positive effect on Economic Growth [16].

He studied the importance and impact of the process of International Capital Flows, Foreign Investment, and Foreign Aid on Economic Growth in Developing Countries, and studied this case in detail and logically [5].

She tried to integrate both Foreign Capital Flows and other Foreign Investment and some other

variables that explain their direct impact on Economic Development in rich and Developing Countries and chose 21 Developing Countries from (1990-2013) to study this problem [17].

Their studies of the problem of International Capital Flows (ICF) and other Financial Flows, such as Foreign Direct Investment (FDI), Foreign Portfolio Investment (FPI), and various other foreign investments have demonstrated the direct impact of these variables on Economic Growth in many different Developing Countries such as Indonesia, Malaysia, the Philippines, and Singapore [18].

These researchers have studied and verified the impact of Foreign Capital Inflows from abroad, which come in the form of Foreign Direct Investment (FDI), Official Development Aid (ODA), and loans from the World Bank and economically Developed Countries, these sources have a strong and remarkable impact on the growth of the economy in poor and Developing Countries [19].

This researcher studied the effect of international Capital Flows (ICF) on Economic Growth in Senegal by using the automatic regression and lagging model during the period (1970-2014), and his study showed that Workers Remittances (WR) achieved a positive Long-Term effect on Economic Growth in Senegal [6].

Besides, Corona pandemic (Covid-19) led to the exit of a large number of investors outside the country, which negatively affected consumption and Economic Growth, for example, the Palestine case (2001-2011), which showed empirical evidence, similar to the experience of Palestine in the past decades.

International Capital Influx had a significant positive impact on the Gross Domestic Product (GDP), national consumption and investment within Palestine [20].

Foreign Direct Investment (FDI) is one of the most important and strongest factors and variables from an economic point of view on Economic Growth, as it constitutes the interaction of this investment's savings on the country's (GDP), and it is at the forefront of the most influencing factors on the country's Economic Growth, but as much as this coefficient which has not statistically significant [21].

Besides, when we revised the analysis, such as the Regression-based Panel Effects, the study

pointed out that Financial Flows, International Capital Flows (ICF) and Foreign Direct Investments (FDI) as economic variables affecting the process of Economic Growth form a positive relationship and are negatively related to the real per capita rate and its growth in direct proportion to the gross domestic product.

This study conducted to find the difference between two forms of Foreign Capital Flows to be the more effective and powerful effect on Economic Growth through a combination of two catalysts that can be used for assessment and evaluation in the same regression models [22].

There are 77 Developing Countries are covered in this case under the World Bank between the period (1997-2012) [23].

The Short-Term of International Capital Flows as investments other founds a negative effect on the Economic Growth rate of real (GDP) per capita and came to sample at intervals and the influence becomes statistically negative in the period which we mentioned.

The term "Modifying the Negative Errors" refers to the convergence of variables towards a Long-Term balance. These highlights need to allocate foreign resources from abroad in a highly effective and efficient manner.

International Capital flows (ICF), Foreign Direct Investment (FDI), Net Foreign Debt, and direct development aid constitute a negative impact on the Economic Development of Developing Countries, while net Foreign Direct Investment (FDI) profits and other economic activities have a very important role and a positive impact on Economic Growth in Palestine in the Long-Term.

In this study, the last decade was tested, which was called (OLS), the process of testing the regression and the effect of the fixed variable in the study explained that the use of this type of regression as an attempt to control the process of flexible and inelastic change is often this change in the process of data analysis and data list [24].

The results of this study show that Foreign Direct Investment (FDI), official development assistance for Developing and Poor Countries (ODA) and other Financial Grants have clear and significant positive effects on Economic Growth and Economic Development significantly [25].

In contrast, external debt harms Economic Growth.

The results of the agricultural, development and rural analysis in Senegal showed that there is no complementarity between aid and Economic Growth and Foreign Direct Investment (FDI) and that it has a direct positive impact on Economic Growth in Palestine usually.

Moreover, Foreign Aid played a positive role on the process of Economic Development in the Developing Countries in Asia and Africa too.

There are large transfers from abroad, as Capital Inflows formed the largest percentage this year, which included Foreign Direct Investment (FDI) and Foreign Portfolio Investment (FPI), Workers' Remittances (WR) from abroad to the country, Grants (GR) and other Financial Aid that positively affected the Economic Growth of most Developing Countries [26,27].

Finally, rather than later, analyses of different time parameters that were used in (1991) as a curve doll reveal that Worker Remittances and Grants were promoting Economic Growth after (1991).

### 3. OBJECTIVES OF THE STUDY

- Finding and proposing a specific model related to the study to uncover and study the impact and importance of Capital Flows and Foreign Direct Investment (FDI) on Economic Growth and Economic Development in Developing Countries like Jordan, Syria, Lebanon, India and some countries in the Middle East, besides, Some North-South African countries such as Egypt, Nigeria, Senegal, Ghana, Rwanda and Ethiopia.
- Work to clarify and study all trends and movements of capital and other Financial Flows and methods of formation.
- Writing and composing a clear summary showing the design of an effective theoretical framework for the variables of the current study.
- Investigating, concluding and presenting some important and useful recommendations of direct evidence of the results of this study and submitting them to Decision-Makers.

#### 3.1 Date and Period of the Study

The study contains two types of data analyzed by the quality and quantity of both sides. There are

three sub-sections for secondary data and they are as follows: First, the document data scanning process, secondly, the multiple data scanning process and third, the secondary data source, which we obtained from the following source [7].

Available secondary data also used, such as previously published articles related to the current study topic, some books and other internet resources, and previous studies related to the study topic.

The researchers collected, formulated and summarized the history of the current study from the data available on the official website of the Palestinian Monetary Authority (PMA) and the Palestinian Central Bureau of Statistics (PCBS), and from (UNCTAD, 2019) [28].

The objective of the study is to examine the impact of International Capital Flows (ICF) and other Financial Flows in one way or another on Economic Growth in Palestine and Economic Development during the period (2007-2018) [29].

In this study, the researchers used descriptive statistics, analyzing the quantitative and qualitative content of the data, and the use of standard deviation and the study addressed the use of social statistical groups for the process of data analysis and the qualitative and quantitative content of the study. Decision-Makers in the country [29,30].

#### 3.2 Methodology of the Study

Researchers in this study have followed an analytical and descriptive approach to the methodology, as it is appropriate for the proposed research objectives. Implemented in a systematic way to improve the data used in the research to study and explain the common relations and linkages between variables of this study by using four hypothesizes.

The field of methodology in the current study specifically used to cover the practical and applied side of this study through clarification, and answering some of the questions and inquiries contained in this study.

#### 3.3 Model Design of the Study

Some previous studies have studied what is related to International Capital Flows (ICF) and Foreign Financial Flows and tested their effect on

Economic Growth within specific standards and specifications (Quantity and Quality), and also determined the relationship of Foreign Direct Investment (FDI) and Foreign Portfolio Investment (FPI) on the other hand, and the effect of Workers Remittances (WR) from abroad and Grants (GR) which provided by Foreign Countries, this study used the previously mentioned variables in testing the following units such as Dickey-Fuller (DF), Dick Fuller [14] and the test of "Philips" and Perron [31].

In simple terms, previous models were used to test the units of regression and to reveal the effect of these variables (FDI, FPI, WR, and GR) on Palestine's Economic Growth, which used in the research paper of [32] and it can be written as the following form:

$$GDP = \alpha_0 ICF + \alpha_1 FDI + \alpha_2 FPI + \alpha_3 WR + \alpha_4 GR$$

Where:

(GDP): Gross Domestic Product / Primary Variable

(ICF): International Capital Flows / Primary Variable

Study Constant Independent Variables in light of the Hypotheses

(FDI): Foreign Direct Investment

(FPI): Foreign Portfolio Investment

(WR): Worker Remittances

(GR): Grants

a: The regression coefficients were estimated by measuring units of the country's (GDP), which were changed according to the changing of the unit of independent variables for the study (FDI, FPI, WR, and GR).

### 3.4 Hypotheses of the Study

#### 3.4.1 The first hypothesis (Ho1)

There is no statistical indication and impact of Foreign Direct Investment (FDI) on Economic Growth at ( $\alpha \leq 0.05$ ) in Palestine.

#### 3.4.2 The second hypothesis (Ho2)

There is no statistical indication and impact of Foreign Portfolio Investment (FPI) on Economic Growth at ( $\alpha \leq 0.05$ ) in Palestine.

#### 3.4.3 The third hypothesis (Ho3)

There is no statistical significance and effect of Workers Remittances (WR) on Economic Growth at ( $\alpha \leq 0.05$ ) level in Palestine.

#### 3.4.4 The fourth hypothesis (Ho4)

There is no statistical significance and effect of Grants (GR) on Economic Growth at ( $\alpha \leq 0.05$ ) level in Palestine.

### 4. TRENDS OF INTERNATIONAL CAPITAL FLOWS FORMATIVE INTO PALESTINE

The tourism sector and the financial services sector of all kinds dominate the main and largest factor in the Palestinian economy and its growth. The Remittances of expatriate workers abroad are also an important factor for the Palestinian Economic Growth process [25,33].

Palestine suffers from political problems because of the Israeli Occupation and restrictions by the Occupation, and they invest heavily in water recycling and facilitate the Agriculture and Livestock Industries National Light to increase the (GDP) [34,35].

The expansion of the Palestinian economy has grown by (1.6%), in the last quarter of the year (2018), there was an increase of (2.3%) over previous periods, and the growth rate was estimated to double the rate compared to the last quarter of a year (2017), as domestic output increased in some sectors such as Manufacturing (2.2% of 1.6% in Q3); and Utilities (1.9% to 2.8%); Restaurants and Hotels (0.6% from 0.9%); the wholesale and retail trade sector (1.4% of 1.8%); real estate (2.1% of 2.5%). Influenced by the Palestinian economy significantly affected by government policies. However, recent efforts to reduce barriers to doing business in a readily accessible and easy for citizens and trade [28,29].

Besides, the process of mining and quarrying increased by (2.1%) (2.7% in Q3) and the Construction Activity and Reconstruction have decreased significantly by (0.7%) (Compared to -0.9% in Q3). On the other side, increased output for the Transport Sector, storage, and communication (3.3% of 2.8%); financial services and Insurance Services (3.6% of 3.0%); Agriculture and Forestry (3.4% of 2.9%). Looking at (2018) as a whole, the Palestinian Economy grew by (1.6%), slower than (2.2%) in (2017). (Trading Economics, 2019) [25].

The main and real source, which has a significant influence on the Economic Growth in

Palestine, is the (External Financial Resources) that supplemented the (GDP). These external resources consist partly of Foreign Direct Investment (FDI) and other Foreign Investment, transferring money to Palestine of the Palestinians working abroad [26].

These resources used to achieve a remarkable development record for Palestine in the past two decades [33].

Among the main features and their mixed effect are:

- Capital and other Financial Flows stimulate and encourage the economy and raise the rates of domestic spending and prices. Moreover, it strengthens the Financial Reserves stored with the State in its various forms of Foreign Exchange, etc.
- Financial Expenses affect the income of the additional profits resulting from Foreign Remittances, which spent on nontraded goods and services (such as Education, Health Care, Construction, and other services available in the State).
- The Workers Remittances (WR) abroad to Palestine, it is considered an increase in the private consumption of the family, in addition to that, it is also considered one of the most important factors affecting the movement of capital in the internal markets, and it raises the percentage of internal purchases and domestic consumption, enhances the GDP and reduces the unemployment rate due to the high rates of financial liquidity within the country.
- The rise in the expenditures, expenses or the real estate and buildings to raise the prices of such as land and immovable fixed properties that return net profits to their owners and help to form capital and expand investments and increasing the gains through it. This increases the earnings compared to the wages and salaries generally accepted within Palestine as a source of family income.

In the period for the current study (2007-2018) reviews the analysis shows that the Economic Growth (9%) in (GDP), it means that the Economic Growth in the country growing slowly and reaching this stage analytical (2007-2018) slowdown in Economic Growth due to political volatility in the country (Table 1).

The Palestinian economy benefited greatly from the huge investment by the Gulf States and some European Countries, which continued its investment until (2019) [25,33].

According to (UNCTAD), in the year (2018), the (FDI) stock amounted to the (USD 16219.3 million), and there is an apparent decrease compared with the (2017) year (USD 14616 million). (USD 262 million) of the total (FDI) flows represented (55.7%) and the country's (GDP). As for the project of linking and annexing the Dead Sea and the Red Sea is expected to start in (2018) but has been postponed until further notice, no agreement could be reached between Israel and Jordan on how to build a canal. However, Israeli opposition diminished and Government of Israel in previous time (2019), [36].

To support and encourage the International Capital Flows (ICF) and Foreign Direct Investment (FDI), Foreign Portfolio Investment (FPI), and Worker Remittances (WR), Grants (GR), flows of capital as a whole has the Government planned Palestinian projects are huge in Infrastructure (Water, Transport, Clusters Agriculture, National Industries, Information Technology, livestock) which covers internal expenditures and external debt State external donors and allocation of funds for sectors of production to raise the (GDP) (Fig. 1).

Through the Fig. 1 shows, it is clear that the Palestinian Economy's dependence in (2007) on Worker Remittances (WR) and Foreign Aid is (65%) of (GDP).

As the growth rate during this period (2007-2018) reached (-2.4%). This is due to the shrinking of Foreign Aid and the scarcity of Foreign Investment Flows, as the figure shows in (2018).

Workers Remittances (WR) from abroad constitute to have a significant impact on Economic Growth, by increasing rates of (GDP).

## 5. EMPIRICAL RESULTS & DISCUSSION

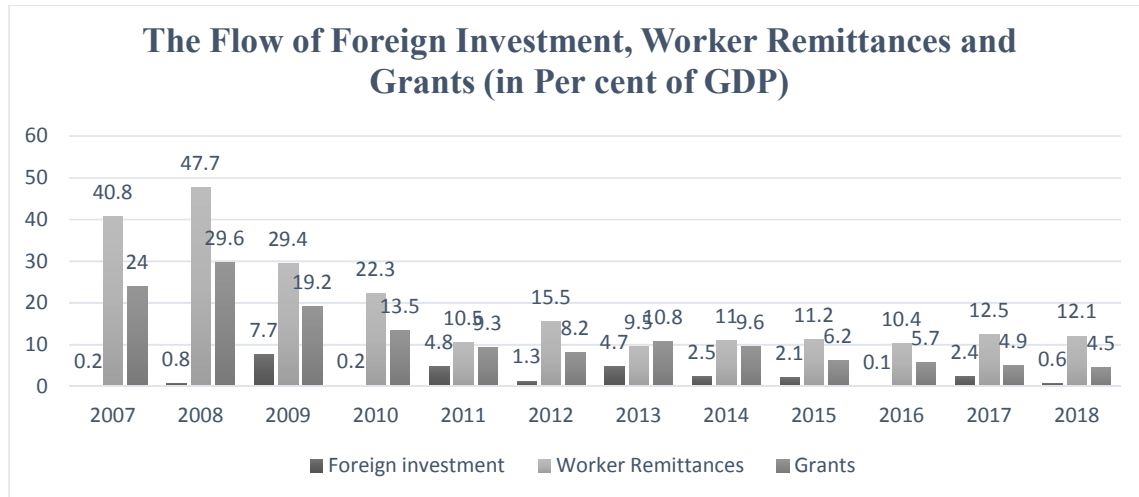
### 5.1 First Hypothesis

**Ho1:** There is no statistical indication and impact of Foreign Direct Investment on Economic Growth at ( $\alpha \leq 0.05$ ) level in Palestine.

**Table 1. International capital flows into Palestine for the period (2007-2018)  
USD. Million**

Year	ICF	FDI	FPI	WR	GR
2007	5506	19	00	2246.8	1322
2008	6673	51	00	3189.5	1978.1
2009	7268	300	77.5	2140.9	1401.8
2010	8913	179	-2.9	1991.0	1210.3
2011	10465	238	-0.7	1104.8	977.5
2012	11279	62	25.8	1750.5	932.1
2013	12476	189	83.6	1188.5	135.8
2014	12716	159	-2.9	1405.3	1230.4
2015	12673	104	54.5	1421.4	796.8
2016	13426	296	-242.6	1408.6	766.3
2017	14498	203	27.8	1818.6	720.4
2018	14616	262	47.1	1774.4	664.8

Abbreviations: (PMA) Palestine Monetary Authority & (PCBS) Palestinian Central Bureau Statistics  
 Source: Authors' compilation based on data of Palestine Monetary Authority (PMA) & Palestinian Central Bureau Statistics (PCBS), Annual Statistical Bulletin, (Various Issues)/ (UNCTAD)



**Fig. 1. The flow of foreign investment, worker remittances and grants in Palestine (in percent of GDP), for the period (2007-2018)**

Source: Authors' computation using data from Palestine Monetary Authority (PMA) & Palestinian Central Bureau Statistics (PCBS), Annual Statistical Bulletin, (Various Issues)/ (UNCTAD)

This test in the study used to ensure the lack of interference between the four variables that represent the constant independent variables before hypothesis-testing research.

The permissible degree of acceptance with independent variable elements that were less than (1), the Variance Inflation Factor (VIF) that was more than (0.01), the (VIF) was less than (10) [37].

Which confirm the findings that the independent variable does not include other interference with

the other elements and indicate that the search form is good and becomes the study.

Every deviation from the values in the table below ( $\pm 1.00$ ), the distribution of variables means, approximated the normal distribution usual.

Table 3 shows the value (F) and the effect of Foreign Direct Investment (FDI) on the (GDP) in Palestine, which has been indicated (12.355) and its statistical significance (0.003) considered less than ( $\alpha < 0.05$ ).



This represents conclusive evidence and confirms the rejection of the hypothesis that:

There is no statistical significance and impact of Foreign Direct Investment on Economic Growth at ( $\alpha \leq 0.05$ ) level in Palestine.

While it states the real value of (R), which is estimated at (0.934), which means that there is a positive relationship between Foreign Direct Investment (FDI) and Economic Growth, while the value (R-square) of the first hypothesis is estimated at (0.624), and this confirms that the Foreign Direct Investment (FDI) is estimated at (62%) from the observed variance of Economic Growth in Palestine.

Based on the two values (Beta) and (T) mentioned in Table 3, we found that the value of Foreign Direct Investment (FDI) (Beta = 14.726, T = 3.214) as its importance and impact is from the value of (T) less than (0.05) ( $\alpha \leq 0.05$ ) and has an impact on Economic Growth in Palestine.

## 5.2 Second Hypothesis

**Ho2:** There is no statistical indication and impact of Foreign Portfolio Investment on Economic Growth at the level of ( $\alpha \leq 0.05$ ) in Palestine.

Table 4 shows the real value of (F) and the direct impact of Foreign Portfolio Investment (FPI) on (GDP), which was indicated (9.957) and statistical significance (0.007) considered a value less than ( $\alpha \leq 0.05$ ).

This represents conclusive evidence and confirms the rejection of the hypothesis that:

There is no statistical significance and impact of Foreign Portfolio Investment on Economic Growth at ( $\alpha \leq 0.05$ ) level in Palestine.

While it states the real value of (R), which is estimated at (0.007), which means that there is a positive relationship between Foreign Portfolio Investment (FPI) and Economic Growth, while the value (R-square) of the second hypothesis is estimated at (0.486), and this confirms that the Foreign Portfolio Investment (FPI) is estimated at (48%) from the observed variance of Economic Growth in Palestine.

Based on the two values (Beta) and (T) mentioned in Table 4, we found that the value of

Foreign Portfolio Investment (FPI) (Beta = 13.425, T = 3.917) as its importance and impact is from the value of (T) less than (0.05) ( $\alpha \leq 0.05$ ) and has an impact on Economic Growth in Palestine.

## 5.3 Third Hypothesis

**Ho3:** There is no statistical indication and impact of Worker Remittances on Economic Growth at the level of ( $\alpha \leq 0.05$ ) in Palestine.

Table 5 shows the value of (F) and the effect of Worker Remittances (WR) on (GDP), indicated (4.242) and its importance, which estimated at (0.021) considered less than ( $\alpha \leq 0.05$ ).

This represents conclusive evidence and confirms the rejection of the hypothesis that:

There is no statistical significance and impact of Worker Remittances on Economic Growth at ( $\alpha \leq 0.05$ ) level in Palestine.

While it states the real value of (R), which is estimated at (0.402), which means that there is a positive relationship between Worker Remittances (WR) and Economic Growth, while the value (R-square) of the third hypothesis is estimated at (0.426), and this confirms that the Worker Remittances (WR) is estimated at (42%) from the observed variance of Economic Growth in Palestine.

Based on the two values (Beta) and (T) mentioned in Table 5, we found that the value of Worker Remittances (WR) (Beta = 2.353, T = 2.2002) as its importance and impact is from the value of (T) less than (0.05) ( $\alpha \leq 0.05$ ) and has an impact on Economic Growth in Palestine.

## 5.4 Fourth Hypothesis

**Ho4:** There is no statistical indication and impact of Grants on Economic Growth at the level of ( $\alpha \leq 0.05$ ) in Palestine.

Table 6 shows the true value of (F), which shows the effect of Grants (GR) on (GDP) with significance estimated at (3.572), and its significance is equal to (0.031) considered less than ( $\alpha \leq 0.05$ ).

**Table 2. Deviation, variance inflation factor (VIF), and possibility for study variables**

Variables	Deviation	Variance inflation factor (VIF)	Possibility
FDI	-0.755	1.454	0.624
FPI	-0.446	1.584	0.644
WR	-0.48	1.673	0.753
GR	-0.066	1.456	0.824

**Table 3. Analysis and testing the reliability of the first hypothesis**

(Constant)	Beta	T	Sig
FDI	14.726	3.214	0.003
R	0.934		
R-square	0.624		
F	12.355		
Sig	0.003		

**Table 4. Analysis and testing the reliability of the second hypothesis**

(Constant)	Beta	T	Sig
FPI	13.425	3.917	0.007
R	0.707		
R-square	0.486		
F	9.957		
Sig	0.007		

**Table 5. Analysis and testing the reliability of the third hypothesis**

(Constant)	Beta	T	Sig
WR	2.353	2.002	0.021
R	0.402		
R-square	0.426		
F	4.242		
Sig	0.021		

**Table 6. Analysis and testing the reliability of the fourth hypothesis**

(Constant)	Beta	T	Sig
GR	6.053	2.131	0.031
R	0.344		
R-square	0.39		
F	3.572		
Sig	0.031		

This represents conclusive evidence and confirms the rejection of the hypothesis that:

There is no statistical significance and impact of Grants on Economic Growth at ( $\alpha \leq 0.05$ ) level in Palestine.

While it states the real value of (R), which is estimated at (0.344), which means that there is a positive relationship between Grants (GR) and Economic Growth, while the value (R-square) of the fourth hypothesis is estimated at (0.39), and this confirms that the Grants (GR) is estimated at (39%) from the observed variance of Economic Growth in Palestine.

Based on the two values (Beta) and (T) mentioned in Table (6), we found that the value of Grants (GR) (Beta = 6.053, T = 2.131) as its importance and impact is from the value of (T) less than (0.05) ( $\alpha \leq 0.05$ ) and has an impact on Economic Growth in Palestine.

## 6. CONCLUSIONS AND IMPLICATIONS OF STATE POLICIES

International Capital Flows (ICF) has a positive impact on the Palestinian Economic Growth. Besides, International Capital Flows (ICF) and other Financial Inflows positively enhance

Palestinian Economic Performance. Moreover, Foreign Direct Investment (FDI) and Foreign Portfolio Investment (FPI), Workers Remittances (WR) and Grants (GR) have a significant impact on Economic Growth, and stimulating and the Palestinian Economic Development in the Long-Run and increasing the rates of (GDP). Besides, Capital and Financial Flows, also have a significant and positive impact on Palestinian Economic Growth [38].

This research paper aimed to investigate and examine the impact of International Capital Flows (ICF) and the other Financial Flows of the State on Economic Growth in Palestine.

Besides, this study sought in some depth to search for an accurate detailed explanation of the direct and positive impact of International Capital Flows (ICF) in all its forms and trends, such as Foreign Direct Investment (FDI), Foreign Portfolio Investment (FPI), Workers Remittances (WR), Grants (GR) and brotherly Financial Aid. Besides, this study showed the impact of these capital flows that we mentioned. On the Palestinian economic growth and the impact of sustainable economic development in the country from another side (2007-2018) [39,40].

The study used time series data and scientific methodological hypotheses, which helped clarify the importance and impact of International Capital Flows (ICF) and other Financial Flows that mentioned during the current study. These findings confirm that researchers its conclusion that there is a relationship between variables relationship are influenced by each other, as showed by the analysis of the research this study provides evidence to support the (GDP) growth in Palestine [41,42]. The impact of all these variables found positive such as (FDI, FPI, WR, and GR).

In the period for the current study reviews the analysis shows that the Economic Growth (9%) in (GDP), which means that the Economic Growth going slow in the State, and reaching this stage analytical (2007-2018) slowdown in Economic Growth due to political volatility in the country (Under Israeli Occupation), focused Foreign Aid from Donor Countries on the salaries of Government employees, Foreign Investment in Palestine [43].

According to data analysis, we found that the Foreign Direct Investment (FDI) has presented a positive impact on the Palestinian Economy

Table 3. The (R-value) (0.934) which means that there is a positive relationship between Foreign Direct Investment (FDI) and Economic Growth, the (R-Square) is the premise help (0.624), which means that Foreign Portfolio Investment (FPI) forming ratio (62%) of the variation in Palestinian Economic Growth.

The analysis of this study clarifies a positive impact of Investments Portfolio and Foreign Currencies on Economic Growth in Palestine, illustrated Table 4. The (R-value) (0.707) this means that there is a positive and good relationship between Portfolio Investment and Foreign Currencies on Palestinian Economic Growth, (R-Square) means the hypothesis of (0.486) Aid, and this means and indicates that Foreign Portfolio Investment (FPI) and Foreign Currencies are clear and explained (48%) of the variance in the Economic Growth.

Palestine is one of the Middle East countries that enjoys an unstable political and economic situation, due to the Israeli Occupation on its lands, which limits the restrictions of various Economic Activities, both internal and external. However, the Palestinian National Government (The Palestinian Authority) is still in a constant attempt to ease the rules and restrictions. The strict and reducing of those regulations related to Financial Inflows to bring a new Foreign Investors and to encourage Foreign Direct Investment (FDI) in Palestine [44,45].

The analysis of the study also emphasizes the good influence of Remittances on the Palestinian Economic Growth illustrated Table 5. The (R-value) is (0.402) this means that there is a positive strong and good relationship between Remittances of Workers and Economic Growth and Development in Palestine, the (R-Square) confirms the hypothesis help (0.426) and means those Workers Remittances to financial help (42%) and very clear from the contrast that described in Palestinian Economic Growth. To control Financial Transactions in Palestine used to build new institutions or real estate investments to raise the level of luxury of the beneficiary or the consumer instead of investing in the industrial sector of Agriculture.

However, the importance and impact of Financial Grants (GDP) growth in Palestine has been positive and strong Table 6. The (R-value) (0.344) this means that there is a positive and significant relationship between Financial Flows and Economic Growth, the (R- Square) for this

hypothesis is equal and estimated by (0.39), this explained that Grants account estimated by (39%) of the variation in Palestinian Growth of Economic.

The Palestinian Economy has grown rapidly and exponentially from (2009-2018) as the Palestinian Government supported the Economic Reform with Social and Political Development [46,47].

## 7. RECOMMENDATIONS OF THE STUDY

The economic and financial instability in the country leads to great political fluctuations and problems. For example, Palestine is witnessing fluctuations and political problems that have led to economic and financial instability, which has hindered the growth process and economic prosperity in the State. Besides, the conflict and his impact in the Middle East region which includes slowing the rate of (GDP) growth, the public sector suffers from a problem of salary governance and spending more than other sectors, and the political problems, this is definitely harming the Economic Growth and the (GDP) of the State, leads to increased rates of Unemployment, low foreign income.

By the end of the current study, we can summarize and offer some recommendations for the Decision-Makers, the Economic and Financial Policies of Palestine:

- Urging to attract the International Capital Inflows (ICF) and other Financial Flows to bring Foreign Direct Investment (FDI) into Palestine, benefit from them greatly, and get the positive side effects of other Financial Capital Flows.
- Besides, the Palestinian Government needs to be based on improving public facilities, rules and components of the Infrastructure and mitigate the strict rules, regulations, and knowledge and to facilitate an enabling environment suitable for attracting more Foreign Investment and encourage foreign investors to bring their money, investments into Palestine.
- The Decision-Makers and the Palestinian Government should have to design the interest rates, taxes and other implications on investors carefully to attract the International Capital Flows (ICF) and other Financial Flows into large formal Financial Outfits; it should not write to put those policies only but must be considered the nominal interest rate reflects

some economic inflationary pressures on the economy of the State.

- The Government and Policymakers should also search strongly about the recommendations and guidance, which can be useful for policies of the State, which regulated the economic sector, also to continue its efforts aimed at achieving Macro-Stability and economic in the region, given the importance of Development and progress in Palestine.
- Besides, Decision-Makers and internal policies in Palestine must advise diversified industrial economy instead of the economy based on the services only and to spread the awareness campaigns Development in this regard to achieve better results, widen the scope of National Industries, and increase export levels for the flourishing of the Palestinian Economy.

## NOVELTY OF THE STUDY

The novelty of this study, compared with other previous studies, lies in the fact that it has reached unique results that are useful for decision-makers, which be applied on the practical level and the ground of reality and will benefit the Palestinian Economic Growth process.

Moreover, this study considered an important study for the Future studies because it reached to useful findings and recommendations that can help the other authors to present new studies which studying the same problem. This study showed its novelty by revealing the real impact of International Capital Flow (ICF) on Economic Growth in Palestine, through four constant variables such as Foreign Direct Investment (FDI), Foreign Portfolio Investment (FPI), Workers Remittances (WR) and Grants (GR), and there was a process of data analysis on this basis, the results available to us in the discussion section. The results show that there is a positive impact to the International Capital Flows (ICF) on Economic Growth in Palestine.

Besides, in light of the findings and recommendations that reached in this study, and their accuracy and importance, compared to previous studies and their findings and recommendations, the authors of this study based on the findings and recommendations, the Decision-Makers of the Government can use these recommendations that have made for the sake of developing the country's economic sector and making adjustments and improvements to the Foreign Direct Investment (FDI) in the

country and other investments policy, such as Foreign Portfolio Investment (FPI) and especially International Capital Flows (ICF), which plays the most important role and the main factor in increasing the country's Economic Growth rates, reducing the Unemployment rate in it, improving the population's living situation and increasing the per capita share of (GDP) in the State.

#### DATA AVAILABILITY STATEMENT

The data and materials that support the findings of this study are available from the corresponding author upon request. Datasets derived from public resources and made available with the authors. Data analyzed in this study were a reanalysis of existing data, which are openly available at locations cited in the references section.

#### SUPPORTING INFORMATION

No additional supporting information is available for this paper.

#### COMPETING INTERESTS

Authors have declared that no competing interests exist.

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