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Impact of Foreign Direct Investment on Economic Growth in Palestine: An Econometric Study of The Period (1994-2013)

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Abstract
The main Objective of the study is to find out the impact of Foreign Direct Investment (FDI) on Economic Growth in Palestine during the period of 1994 -2013, the study also attempts to assess the effects of domestic working labour force(WL), gross domestic capital formation (GDCF), and foreign trade (FTR) on economic growth.To examine the empirical relationship between (FDI) and economic growth the study adopted a standarized Cobb- Douglas production function by using the annual official data of the Palestinian Central Bureau of Statistics (PCBS), and applying the Ordinary least Square method (OLS) . The empirical results of the model applied indicated that there is a positive relationship between the (FDI) and economic growth in which the elasticity of (FDI) is 0.66%,and the other elasticities of the study model is 2.04% for (WL), 1.23% for (GDCF) and 0.13% for (FTR) .R^2 = 94% , F = 58.93 and DW = 1.19. The study suggested several recommendations that can boost the level of economic growth in Palestine.
Kew words: Economic Growth, Foreign Direct Investment (FDI), Domestic Working Labour Force (WL) Gross Domestic Capital Formation (GDCF), Foreign Trade (FTR).

1. Introduction

Since its establishment the Palestinian National Authority (PNA) has recognized the economical need for foreign capital in order to fill the investment gab caused by the lack of domestic savings. The Palestinian economy is considered as a developing one by many means , it suffers from low per capita income, high unemployment rate, low productivity of man power, deep deficit of the balance of payments, and small domestic market size. In addition to that, it experiences a unique state of political, economical and social instability due to the Israeli occupation of Palestine and the subsequent rules of the economy. By giving such characteristics of the economy, the (PNA) has admitted the vital role of the (FDI) in enhancing economic growth, lowering unemployment rate, and bringing in new technologies which might boost the skill of labour force and applying new production tools which can lead to modern ways of utilization of economic resources, and reach a greater level of production. Therefore, the (PNA) has legislated the Palestinian law of investment in 1994 and amended it in 1998, such law is considered as a tool of motivating both domestic and foreign investment through easing the state regulations with regard to investment and granting tax conditions to investors. This on going supportive policy by the (PNA) has led to a substantial growth of the inflow of (FDI) to the Palestinian territory, the level of (FDI) has progressed from 180 million US dollar in 1994 to reach 2685 million US dollar in 2013. The (FDI) has been concentrated in the financial sector, supplying services to other production sectors of the economy. It is not clear whether such inflow of (FDI) has contributed to the growth level of real gross domestic product or not , the present study can be considered as an attempt to locate such effect.

1.1 The Problem of The Study

The economy of Palestine like other developing economies suffers from lack of domestic savings and therefore, Foreign Direct Investment (FDI) considered as an alternative to fill the domestic savings gab by supplying the needed capital which can boost the growth level of real domestic product (RGDP). Experience from other developing nations tells that (FDI) can help the economy in creating more jobs, and bringing in new production techniques that might lead to more exports of goods and services, and supplying the economy with the needed foreign exchange, and optimal utilization of domestic economic resources. The empirical studies which have analyzed the impact of (FDI) in developing countries brought a contradictory view, several studies had reached a positive effect of (FDI) on economic growth, while many others reached a negative effect of (FDI) on economic growth. The problem of the present study is set to bring an empirical analysis to the relationship between (FDI) and economic growth in Palestine during the time period of 1994 - 2013.

1.2 Importance of The Study

The importance of the present study can be seen as it considered the first empirical trial to study the effects of Foreign Direct Investment (FDI) on economic growth in Palestine. Various studies worldwide had tried to explore various aspects of (FDI) and its effects on economic growth, this study has been expanded to include other variables such as domestic working labor force, gross domestic capital formation and foreign trade along with the inflow of (FDI) to Palestine . The results of the study will therefore go to enrich the empirical literature in this field of (FDI), and hopefully benefit the policy makers in Palestine by providing more information in making appropriate policies to encourage inflow of (FDI), in the Palestinian territories, and hence add to the growth level of (GDP).

1.3 Objective of The Study

The main Objective is to find out the impact of Foreign Direct Investment (FDI) on Economic Growth represented by RGDP in Palestine . Other objectives are: (a) to assess the effects of foreign trade on economic growth (b) to assess the effect of domestic working labour force on economic growth (c) to assess the effect of domestic capital formation on economic growth and (d) to suggest the needed recommendations in the light of the potential results.

1.4 Hypotheses of The Study

Four Null hypotheses are proposed for the study.

1- H0 (Null) Foreign Direct Investment does not have significant effect on Real Gross Domestic Product (RGDP) of Palestine.

2- H0 (Null) Foreign trade (exports & imports) does not have significant effect on Real Gross Domestic Product (RGDP) of Palestine.

3- H0 (Null) domestic working labour force does not have significant effect on Real Gross Domestic Product (RGDP) of Palestine.

4- H0 (Null) domestic capital formation does not have significant effect on Real Gross Domestic Product (RGDP) of Palestine.

2. Relationship Between (FDI) and Economic Growth: Theoretical Background

Foreign Direct Investment (FDI) has been defined by the IMF as "an investment made to acquire lasting interest in enterprises operating outside of the economy of the investor". The theoretical foundation of (FDI) tells us that (FDI) is typically seen as a way of filling the gab between available domestic savings, foreign exchange revenue by the government, skills and the planned level of resources necessary to achieve development targets. (Todaro ,1977). Harrod–Domar, growth model which was developed by Harrod 1948 and Domar 1957 was considered one of the most popular theories of theoretical foundation of (FDI).

The Model posits that investment is pivotal in the process of economic growth. The belief is based on the fact that investment creates income and accelerates the productive capacity of any economy by increasing Capital Stock. The model states that so long as investment increases, real income and output will increase. The Harrod-Domar Model emphasizes the need for new investments in form of additional capital stock which (FDI) readily supplies. According to the model, there is a direct relationship between a country's savings rate(s) and its rate of output growth (g).

Other theories are what (Saqib et al ,2013) called 'modernization and dependency theories'. Modernization theory says that since economic growth requires capital investment, (FDI) will serve as the engine of economic growth. Modernization theory highlights that it is knowledge and technological transfers of capital that are scare in developing countries. It is argued by modernization theory that (FDI) plays a dual role by contributing to capital accumulation and by increasing total factor productivity.

The Dependency theory in the opposite direction argues that if a nation depends on foreign direct investment, its economic growth would face a negative impact. The theory opines that (FDI) creates monopolies in the industrial sector which results in under-utilization of domestic resources. The corollary is that (FDI) produces an economy that is dominated by foreigners and the economy does not as a matter of fact, experience organic growth. Depending on the economic theory, Foreign Direct Investment (FDI) has been considered as needed objective by the developing countries world wide, it provides the needed capital in order to achieve economic growth and development. That is why a widespread belief among policy makers has contributed much to the leading role of (FDI) in developing countries. The flow of (FDI) among countries has enhanced growth and job creation, production technology, and contributed to economic growth (Antwi et al ,2013). In order to reach such results most developing countries have adopted various structural change and tried to ease restrictions on (FDI). They have stabilized their macro economic policy, privatized state owned enterprises, applied economic and financial reforms, political reforms, foreign exchange liberalization and granting tax incentives.

Economists also observe that (FDI) within a long time brings to the host countries many externalities which include transfer of general knowledge, specific technologies, introduction of modern management techniques. (Libsey,1999). The available economic literature has defined three channels in which (FDI) can influence economic growth, " the linkages between (FDI) and foreign trade flows, the spill over and other externalities in relation to the country's business sector, and the direct impact on structural factors in the host economy". (Libsey,1999,pp 16). Other economists like (Wai-Mun et al,2008) had added that, in addition to creating more jobs and generating exports, (FDI) has also contributed to the development of technical capabilities of the locals through the process of technological transfers. The same view has been expressed by Osunubi and Amaghionyeodiwe, according to them the benefits of (FDI) include" transfer of technology higher productivity, higher incomes, more revenue for the government through taxes, enhancement of balance of payments ability, employment generation, diversification of the industrial base and modernization and expansion related industries". (Osunubi and Amaghionyeodiwe ,2010,pp 124).

3. Review of Selected Literature

Foreign direct investment (FDI) and foreign trade had gained the attention of researchers and scholars world wide, the relationship between (FDI) and economic growth had been conducted with reference to both developed and developing countries. But in case of Palestine there are no exclusive studies in which we can refer to, and because of such absence of domestic economic literature we will refer to several studies that had analyzed the relationship between (FDI) and economic growth in different parts of the world.

(Al-Roashdha,2010) has examined the effect of (FDI) on economic growth in Jordan during the period (1980-2008), in which the findings were not promising as the results show no positive effect of (FDI) and trade liberalization on the economic growth rate in term of cause effect, but in term of economic growth function the result was different and the study proved the direct positive relationship between (FDI) and trade liberalization and economic growth**.** In the same line (Aathari,2009) has indicated in his study the driving role of Foreign Direct Investment on various sectors of the Jordanian economy in which (FDI) has appositive impact on the development of industrial sector as well as trade sector.

(Hmedat el al.,2011) studied the impact of (FDI) and trade liberalization on economic growth in Jordan, the empirical findings of the study reveal that (FDI) has a positive impact on industrial production volume with elasticity of 0.06 but it is insignificant, and the impact of trade liberalization (TL) on industrial production is positive, with elasticity of 0.4. However, (FDI) became significant with elasticity of 0.122 after omitting (K) from the model. The study also found that industrial production and (TL) attract (FDI), whereas (FDI) does not enhance industrial production or (TL), and there is no relationship between (TL) and industrial production volume.

(Mahdi,2009), has conducted a theoretical explanation of the role of (FDI) in achieving economic growth in the developing countries with reference to multi- national corporations. The study concluded that the (FDI) has a vital impact on the economic growth in the developing countries as this type of investment concentrates on the leading industries such as food, electronic, and auto industries, and therefore, developing countries must follow the required policies in order to maximize the positive impact of (FDI).

(Alshara,2006), in his contribution tried to study the role of (FDI) in the movement of Arab industrialization, the study revealed that the trend of the Arab industrialization indicates that the (FDI) has associated with the objectives of seeking new foreign markets and natural resources in the developing countries.

(Borensztein et al.,1998) tested the effect of (FDI) on economic growth in a cross-country regression framework, utilizing data on (FDI) flows from industrial countries to 69 developing countries over two decades. The results of the study suggest that (FDI) is an important vehicle for the transfer of technology, contributing relatively more to growth than domestic investment. However, the higher productivity of (FDI) holds only when the host country has a minimum threshold stock of human capital. Thus, (FDI) contributes to economic growth only when a sufficient absorptive capability of the advanced technologies is available in the host economy.

In Nigeria (Emmanuel,2007) studied the effects of (FDI) on economic growth, this study examined the impact of (FDI) on selected macro economic variables such as GDP, inflation and Exchange Rate. It used Ordinary Least Square method (OLS) to examine the relationship between the dependent variable(FDI) and the independent variables (GDP), Inflation and Exchange Rate. The study indicates that GDP, inflation and Exchange Rate are affected to the extent of 46.5% by (FDI). (FDI) does not make the GDP to grow, increases inflation and has a negative effect on exchange rate.

(Fortanier ,2007) has taken different angle in analyzing the relationship between economic growth and (FDI) in which he tried to answer whether the investor's country of origin play a role or not?. The study analyzed the differences in the growth consequences of (FDI) from various countries of origin, using a dataset on bilateral investment stocks of six major outward investor countries in 71 host countries for the period of 1989-2002. Panel data analysis confirms that the growth consequences of (FDI) differ by country of origin, and that these country of origin effects also vary depending on the characteristics of the host country.

(Alfaro et al. 2006) brought a wide range of analyses with regard to the effect of (FDI) on economic growth by exploring the effects of financial markets on linkages. The study concludes that, although there is a widespread belief among policymakers that (FDI) generates positive productivity externalities for host countries, the empirical evidence fails to confirm this belief. In the particular case of developing countries, both the micro and macro empirical literature consistently finds either no effect of (FDI) on host countries firms productivity and/or aggregate growth or negative effects. The theoretical models of (FDI), on the other hand, imply that (FDI) is beneficial for the host country's development. The study models show that an increase in (FDI) leads to higher growth rates in financially developed countries compared to those observed in financially poorly-developed ones. Moreover, the calibration section highlights the importance of local conditions (absorptive capacities) for the effect of (FDI) on economic growth. Larger growth effects found when goods produced by domestic firms and MNEs are substitutes rather than complements. Policymakers should be cautious when implementing policies aimed at attracting (FDI) that is complementary to local production. The results highlight the critical role of human capital in allowing growth benefits from (FDI) to materialize.

(Lyrudi, at el. 2004) studied (FDI) and economic growth in transition economies, the study examined the relationship of (FDI) and economic growth for selected transition economies. The evidence from the statistical analysis suggests that foreign direct investment ((FDI)) does not have any significant relationship with economic growth for transition countries. This result is in accordance with the findings of (Carkovic and Levine, 2002). The study suggests further research areas which could examine possible causality effects between (FDI) and the host country's growth, such as the effects of (FDI) on the level of human capital, the adoption and implementation of new technologies. Also one might examine whether the growth effects of (FDI) depend on the level of education of the host country, the levels of economic and financial development of the host country and its trade openness.

(Albajori, Abed Kald, 2008) examined the role of (FDI) in achieving economic growth in Egypt , the study highlights the role (FDI) in reflected economic growth increase, creation of employment opportunities, technology transfer, and increase competitive strength. The econometric test of the relationship between economic growth and (FDI), using the curriculum standard, found that foreign direct investment has a positive significant effect on economic growth in Egypt, and the study highlighted the importance of attention to the element of human capital and increase export process, and seeked to attract more inflows of (FDI) to Egypt, and removed all the obstacles that lie a head.

(Husein & Kadem ,2010) tried to Measure the impact of foreign indirect investment on some macroeconomic variables in developing countries, taking India as a case study, the study reveals that India has been witnessed a financial liberalization in 1991, adopting various economic reform policies such as, floating exchange rate regime, lifting off trade restrictions, address the imbalance in the balance of payments and expansion of privatization processes. All this has helped in attracting more foreign investment, including portfolio investment, which rose as a proportion of total foreign investment from (3%) in 1992 to (85.9%) in 1994, the study showed a positive relationship between indirect foreign investment and many economic variables in India, such as gross domestic product, money supply, savings and the level of prices and consumption.

(AL blbol& Emran,2003) studied the relationship between (FDI), financial development and economic growth in the Arab countries during the period of 1975-1999. The study concludes that the positive impact of (FDI) on economic growth depends on several factors related to the host country, the financial development stands to be the most important one. Such financial development will need structural change and liberalization of the foreign sector as well as in order to cultivate the positive impact of (FDI) on economic growth.

(Mun et al.2008) studied the relationship between (FDI) and economic growth in Malaysia, the empirical results of the study showed that (FDI) has been an important source of economic growth for Malaysia by bringing in capital, technology and management knowledge needed for economic growth. The study used time series data for the period of 1970-2005. By applying (OLS) regression study concludes that there is sufficient evidence to show that there are significant relationship between economic growth and (FDI) inflows in Malaysia, the impact of (FDI) on (RGDP) was calculated as 0.046% and that on (RGNI) was 0.044%.

4. Trends and Patterns of FDI and Economic Growth in Palestine

Table(1) presents the trends and patterns of the variables included by the study, it is clearly evident that the (GDP) in Palestine has grown for the past two decade, it has increased from over 3 billion us $ in 1994 to reach more than 6.9 billion us $ in 2013, such increasing path was not totally smooth, it was subject to an ups and downs patterns which was mainly due to political instability that caused by the on going political conflict between Palestinians and Israelis in the region and, therefore, the (GDP) has a negative growth during the period of (1999 – 2001). As far as the inflow of (FDI) is concerned, the Palestinian economy starts to experience such kind of investment sense the establishment of the Palestinian National Authority in 1994. The data presented in table (1) indicates a substantial growth of the inflow of (FDI) into the Palestinian territories, such investment has been concentrated in the financial sector as the official data tells us, however, the volume of (FDI) has grown from 180 million US $ in 1994 to reach more than 2.8 billion US $ in 2013, this substantial developments in the inflow of (FDI) was a result of several policy motivation in one hand, and due to the provisions of the running peace process on the another. Although there was some fluctuations among the years especially during the period which featured by the political instability, even though the (FDI) was increased over the years. Given the trends and patterns of economic growth in Palestine other growth factors such as the domestic working labour force(WL), gross domestic capital formation (GDCF), and foreign trade (FTR) have all grown and developed over the years. The data indicate that the number of the working labour force in the domestic economy has encouraged from over 321 thousands to reach more than 795 thousand in 2013, this rise in the working labour force indicate the growth of the economy in a broad term, thus the increasing capacity of the economy in employing more labour force indicates a given growth level and thus there is a relationship between the domestic working labour force(WL) and economic growth. Likewise, the domestic investment level which is measured by gross domestic capital formation (GDCF) has developed during the study period from 943.3 million US $ in 1994 to reach 1675.3 million US $ in 2013. The fourth variable of the study represented by the sum of exports and imports of goods and services show the degree of economic openness as the volume of foreign trade has grown from 1.8 billion US $ in 1994 to reach around 5.5 billion US $ in 2013, such growth of the Palestinian foreign trade was not one way path , it was characterized with ups and downs as a result of the economic and political environment that is prevailing in the region. By giving the developments and growth of both the GDP and the other referred variables , it is interested to examine the cause effect of FDI and foreign trade (FTR) along other factors of growth on the real growth of the economy.

Table(1): GDP, FDI, GDCF, WL, and FTR (1994-2013)
(million $ at fixed prices)

YEAR	GDP	FDI	GDCF	WL(000)	FTR
1994	3038.4	180	943.3	321.2	1,832.50
1995	3212.4	214	955.5	338.11	2,394.80
1996	3292.8	244	1037.9	355.25	2,531.46
1997	3744	301	1173.4	378.35	2,563.08
1998	4197.7	433.5	1368.6	454.56	2,913.36
1999	4534.9	458.6	1857.4	474.22	3,058.70
2000	4146.7	728.3	1386.7	600	3,705.43
2001	3810.8	1000.3	992.3	505	3,799.51
2002	3301.4	1115	841.7	477	2,763.81
2003	3800.5	876.9	1063	564	2,461.75
2004	4198.4	667.9	1022.3	578	1,999.41
2005	4559.5	416.8	1265.7	603	2,397.97
2006	4322.3	880	1347.2	636	3,002.25
2007	4554.1	1109	1122.9	690	3,367.79
2008	4878.3	1343.8	1060.5	667	4,077.04
2009	5239.3	1586.1	1137.3	718	4,423.49
2010	5754.3	1642	1443.2	745	4,822.41
2011	6323	2328.2	1321.3	768	5,429.93
2012	6797.3	2625	1321.3	774.9	5,684.70
2013	6924.8	2865	1675.3	795.3	5,451.80

Source: *Palestinian Central Bureau of Statistics* , Various Bulletins

5. The Study Model

Depending on Cobb – Douglas production function researcher has developed an econometric model to reach the goal of the study, such model (Cobb – Douglas) has considered among the best which studied the relation between production and the factors of production which include factors of labour and capital as presented in the following equation;

$$Q = F(L, K) \ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots(1)$$

In which (Q) is the production level, (L), is the labour factor, and (K) is the capital factor. In order to fulfill the objective of the study the level of Real Gross Domestic Product (RGDP) has been applied instead of (Q), number of the working labour force in the domestic economy (WL) also applied instead of (L) to represent the labour factor, and Gross Domestic Capital Formation (GDCF) has been used in place of (K), as a result the production function will be as the following equation;

$$RGDP = F(WL, GDPF) \ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots(2)$$

And as the study seeks to estimate the impact of Foreign Direct Investment (FDI) on the growth level of the (RGDP) , the (FDI) has been introduced to the model as the third factor of the production function as in equation (3);

$$RGDP = F(WL, GDPF, FDI) \ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots(3)$$

And finally the foreign trade level of both exports and imports of goods and services has been introduced to represent the effect of foreign trade liberalization (FTR) on the growth level of (RGDP) as in equation (4);

$$RGDP = F(WL, GDPF, FDI, FTR) \ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots(4)$$

Translating equation (4) into an econometric form, it will be as;

$$RGDP_t = b_0 + b_1 WL_t + b_2 GDCF_t + b_3 FDI_t + b_4 FTR_t + U_i \ldots\ldots\ldots\ldots\ldots\ldots(5)$$

Where; b_0, b_1 , b_2 , b_3 and b_4 represent the coefficients of the dependant variables which will be estimated, U_i, represent the stochastic error term .

6. Analysis of The Empirical Results

The purpose of the empirical investigation is to estimate the effects of (FDI) on economic growth in Palestine along with other explanatory variables, namely the working labour force in the domestic economy (WL), the Gross Domestic Capital Formation (GDCF), and the foreign trade of goods and services (FTR). The study employed the Ordinary Least Square (OLS) techniques in which several statistical tests were conducted, SPSS is used to regress real (GDP) against the mentioned explanatory variables. The main results of the statistical tests are given in table (2).

Table (2) Estimated Statistical Results, Real (GDP) as Dependant Variable

VARIBLES	B	Std.Error	T	Sig	N
CONSTANT	724.5	501.7	1.45	0.17	20
WL	2.04	0.956	2.13*	0.049	20
GDCF	1.23	0.341	3.61*	0.003	20
FDI	0.66	0.284	2.31*	0.035	20
FTR	0.13	0.173	0.76	0.46	20
F	58.93**			0.000	20
R^2 = 0.94 $\overline{R}^2$ = 0.92 R= 0.97					
D.W= 1.91 di = 0.90 du = 1.83 $4\text{-}d_u$ = 2.17					

** significant at 5% ** significant at 1%*

The main regression results indicate that all the included independent variables by the model indicate a positive overall effect on the growth level of real (GDP) in Palestine. The estimated coefficients of the tested variables (elaticities) of the model are stated in the following equation;

$$RGDP_t = 724.5 + 2.04 WL_t + 1.23 GDCF_t + 0.656 FDI_t + 0.13 FTR_t \ldots\ldots\ldots\ldots(5)$$

As revealed be equation (5) the empirical results shown a successful performance of the model, it yields both correct signs and statistical significance of the Beta at 5% level. These results can be explained as follows;

(1) The size of the working labour force in the domestic economy (WL) which represent the first factor of economic growth has a clear positive effect on the growth of real (GDP), The estimated Beta as indicated by the equation (5) is (2.04), which means the elasticity of the (WL) with regard to (RGDP) is 2.04%, this imply that an increase of the (WL) by 1% will lead to an increase of 2.04% in the real growth level of (GDP). Such result reveals the leading role of the human capital in generating economic growth in Palestine and policies that aim to raise the productive level of the (WL) will be a demanded target as far as economic growth is concerned. The (T) test also shows a statistical significant at 5% level as the calculated value of (T) marked (2.13) which it is greater than the critical value, such result support the leading role of the working labour force in achieving economic growth. This result mean that we refuse the null hypothesis with regard to the effect of domestic working labour force and take the alternative hypothesis which hold a statistical significant effect of domestic working labour force on Real Gross Domestic Product (RGDP).

(2) In case of (GDCF) the estimated results also indicate a positive impact of the (GDCF) on economic growth as the Beta of this explainery variable was (1.23) which means a rise of 1% in the (GDCF) will lead to (1.23%) rise in the real growth of (GDP). Such result reveal the capability of the domestic investment and capital formation in achieving economic growth. The empirical results show a statistical significant of the (GDCF) at 1% as far as the (T) test is concerned as the calculated (T) value was (3.16) which is clearly greater than the critical value. This results indicate the rejection of the (H0) hypothesis and consider the (H1) which prove a positive statistical relationship between domestic capital formation and Real Gross Domestic Product (RGDP) .

(3) As far as the (FDI) is concerned the results indicate a positive relationship with the growth level of (GDP), the elasticity of this variable reached (0.66) which means an increase in the volume of (FDI) by 1% will result in a (0.66%) increase in the real (GDP). This result in turn justify the supporting policy of the Palestinian Authority regarding the inflow of (FDI) into the domestic economy, the (T) test also shows a statistical significant at 1% level as the (T) value reached (2.31) mark which it is greater than the critical value. Thus, we reject the (H0) hypothesis and take the (H1) one which means the Foreign Direct Investment (FDI) have significant effect on Real Gross Domestic Product (RGDP) .

(4) The last explanatory variable which included by the model represent the volume of foreign trade (Exports & Imports) (FTR), the estimated results of the model indicate a positive and direct effect of (FTR) on economic growth, the Beta of this variable which estimated by the model is (0.13) which means the impact of exports and imports of goods and services will result in a (0.13%) rise as a result of 1% rise in the (FTR), the impact of this variable appear to be the lowest among the other included variable and has no statistical significant as its calculated (T) value is less than the critical one. The (T) value clearly indicate that the null hypothesis (H0) will prevail in case of the relationship between foreign trade and economic growth and therefore, Foreign trade (exports & imports) does not have significant effect on Real Gross Domestic Product (RGDP).

This result can be justified as the volume of Palestinian imports is much greater than the volume of exports, therefore, the impact of (FTR) appears to be the minimal.

(5) The empirical results of the model which are shown in table (2) indicate a lower value of the standard error, which will reveal the good performance of the regression technique and add more confidence in the empirical results of the model.

(6) In term of (F) value the empirical results show a high value of (F) which exceeded (58) mark , this indicate the good performance of the model and holds a statistical significant at 1%.

(7) In term of R^2 the results indicate a good performance of the model as the $R^2 = 0.94$ which means the four included variables have expressed 94% of the variance in the real (GDP) , this statistical results is also supported by the adjusted R^2 which also equal to 92% level and R = 0.97. these statistical results reveal the successful performance of the regression and indicate the empirical importance of the included variables in achieving economic growth in the Palestinian economy, therefore, it can be stated clearly that economic growth mainly occur due to the working labour force in the domestic economy, the gross capital formation, foreign direct investment, and the foreign trade. In other words, other excluded factors are responsible only for 6% of the variance in real growth level.

(8) The empirical results included in table (1) indicate that the model is free from autocorrelation as the D.W value equals (1.91) which is greater than the upper value of (du) and less than the critical value of (4-du), (DW= 1.91 > du 0.1.83 < 4- du 2.17). This means the DW value lies in the conclusive region which means the autocorrelation does not exist.

7. Conclusion and Recommendations

As this study aimed to analyze the impact of foreign direct investment on economic growth in Palestine along with other factors such as, the size of domestic working labour force, the real gross domestic capital formation, real domestic exports and imports of goods and services. As it is well known, the growth level of the Palestinian economy has been always subjected to the on going political conflict in the region, but economically speaking the study model has discovered a number of empirical results which can be stated as follows;

(1) The impact of the size of domestic working labour force(WL) on real growth is estimated as 2.04% which indicate a direct and valuable role of labour force in generating real (GDP) in Palestine.
(2) The impact of the real gross domestic capital formation (GDCF) on real growth is estimated as 1.23% which reveal the productive role of the domestic investment in generating real (GDP) in Palestine.
(3) The impact of foreign direct investment (FDI) on real growth is estimated as 0.66% which indicate a direct and valuable role of (FDI) in generating real (GDP) in Palestine.
(4) The impact of foreign trade of goods and services has the minimal impact as the estimated result show only 0.13% growth resulting from the foreign trade activities.

In the light of the empirical results which have been reached, the researcher suggests the following recommendations;

(a) Economic policy in Palestine should be directed more effectively in order to promote economic growth with regard to the main factors of growth namely (WL), (GDCF), (FDI), and (FTR).
(b) Much policy focus needed to maximize the growth resulting from the domestic investment through easing the regulation of investment and adopting supporting rules to motivate the application of new production technology.
(c) Skills of labour force have to be boosted through the adoption of training programmes and employment motivation by the business sectors.
(d) Foreign direct investment needs to be motivated and directed to touch more economic sectors in order to maximize its impact on economic growth and allow it to bring in new technologies and management.
(e) Exports of goods and services must have more policy focus in order to catch the increasing level of imports.

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