The Impact of Foreign Direct Investment, Domestic Investment and Imports on Palestinian Economic Growth

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Abstract

Foreign direct investment (FDI) as well as domestic investment and imports are frequently considered as important factors of economic growth in developing countries such as Palestine. This research paper aims to measure and analyze the impact of these factors on Palestinian’s economic growth, based on the time series during the period 1995–2014. This has been done through the analysis of the existing causality between FDI, imports and domestic investment on one hand and economic growth on the other hand. Least square method has been adopted to assess these factors on total domestic production of Palestine. The results indicated that FDI has negative impact on Palestinian’s economic growth, in contrast to the impact of domestic investment and imports which was investigated to be positive.

Keywords: foreign direct investment (FDI), domestic investment, imports, economic growth, Palestine

1. Introduction

All aspects of our life nowadays are characterized by openness and globalization of activities, not in the measures of size and distance, but by the measures of ease of different activities internationalization, to achieve the desired objectives from any place in the world. The economy is just like any other areas affect and affected by the impact of globalization and openness, and nowadays the most important thing that affect economy is openness. The effect of openness in economy occur through liberalization of trade in goods and services and the free movement of factors of production such as capital by FDI.

FDI are considered to be a significant driver for advancing the economic development of emerging economies of developing countries as well as for developed economies. The inflow of FDI resulting from the developments in host country investment environment and the expanding of multinational enterprises has important effects on economic growth. The host country experts involved in attracting investment try to adopt the investment infrastructure, related rules and regulations for facilitating foreign investment conditions exposed to industry and service organizations to attract FDI. The FDI inflows have been observed under several facets that relate to the impact of FDI on host countries, where the correlation between FDI and economic growth has several advantages. Many researchers shed the light of compound benefits of FDI on the host economy and at the same time profiting the multinational companies (Alfaro et al., 2004; Chowdhury & Mavrotas, 2006; Omran & Bolbol, 2003; Estrin & Meyer, 2004; Kostevc et al., 2007; Sadni-Jallab, 2008). Several researchers through their studies confirmed the positive impact of FDI on economic growth (Neuhaus, 2006; Alfaro, 2003; Buckley et al., 2002; Carkovic & Levine, 2002; Adams, 2009). FDI are regarded as a combination of capital inflows, technology transfers and knowledge. FDI are as significant for developing economies as these economies need sufficient reserves as well as knowledge, technology and capital to fuel economic growth (Bevan & Estrin, 2000). FDI advances economic growth by i) capital accumulation where achieving savings and investment progression, more inputs being fed into the production process and the availability of a broader range of intermediate goods ii) technology transfer as the new technology is adopted in the host country, skilful and knowledge-enabled human capital, improvement labour qualification and access to external markets where these advantages are driven by multinational companies (Buckley et al., 2002; Carkovic & Levine, 2002; Noorbakhsh et al., 2001; Sadik & Bolbol, 2001; Miyamoto, 2003; Maitah et al., 2014).
From the establishment of Palestinian Authority (PA) in 1994 as a subsequent of Oslo agreement in 1993, PA recognized the important need to prepare the related environment for attracting domestic and foreign investment as a necessity economical need for accumulation of foreign capital in order to overcome the lack of domestic reserves. Palestinian economy as a developing one suffers from many drawbacks such as low per capita income, low productivity, and large deficit of the balance of payments, high level of unemployment rate, unskilled employees, and limited market size and instability of social, political and economical situation driven by the consequences of Israeli occupation. So as to try to overcome these limitations PA recognized the importance of FDI in advancing economic growth by depressing unemployment rate, boosting knowledge of quality and productivity and inquiring new technologies for enhancing domestic labor power skills and increase productivity by moderately utilizing the economic resources. In order to attract investment PA legally confirmed and legislated the investment law in 1994 and modified it in 1998, the investment law contains regulations that attracts domestic and foreign investment such as easing the legal formation of businesses and surrendering tax convictions. Although there was a progress of the inflow of (FDI) to the Palestinian territories from 214 million US dollar in 1995 to 2685 million US dollar in 2013 concentrated in financial sector and supplying services, we need to investigate whether this progress has positive impact on Palestinian economic growth or not. This study comes from this implication to recognize this impact.

1.1 Problem Statement

Palestine’s economy has grown in the last two decades, after the Oslo agreement in 1993, enabled by the creation and development of financial market, trained human capital and accumulated capital, however many growth embedding factors arose in Palestinian economy such as political and economy instability. So, in order to advance economic growth, the drivers for economic growth factors must be enabled and improved such as FDI and economic investment. The problem here is that Palestinian investment environment is not at the satisfactory level in terms of advanced financial markets, knowledge absorptive human capital and facilitating legislation rules and regulations, which are needed to advance the benefit from investment. Our study emerged from this point of view, where we need to investigate the effect of FDI, imports and domestic investment on Palestinian economic growth. The results will be the basis for further research to investigate the enabling drivers underpinning FDI, imports and domestic investment factors, which are needed to advance Palestinian economic growth.

1.2 Importance of the Problem

As consequences of the vital role FDI and domestic investment are playing in economic growth enhancement, government and non-government institutions and enterprises have to adopt the best practices and prepare the needed environment to benefit as an economy from these investments. This study aims to investigate the impact of FDI, domestic investment and imports on economic growth, by using related collected figures and analyzing them depending on Cobb-Douglas (Zellner et al., 1966) production function using ordinary least squares method. Our contribution resulted in determining the positive or negative impact of these factors on economic growth and according to these results we can clarify the impact of these factors and set recommendations to adopt their drivers for the benefit of the economy.

2. Literature Review

FDI can be considered as a set of capital, technology, management, and entrepreneurship that enables an enterprise to work and deliver goods and services in a foreign market (Farrell, 2008). We can consider the foreign investment as direct one if ownership or control equal or exceeds 10% of voting stocks belonging to domestic enterprise or the corresponding importance in an independent business (Griffin & Pustay, 2007).

Two main theoretical perspectives have been used to explain the impact of FDI on host countries’ economies. These are the modernization and dependency theories. Modernization theories are based on the neoclassical and endogenous growth theories, which suggest that FDI could promote economic growth in developing countries. The modernization perspective is based on a fundamental principle in economics that economic growth requires capital investment. From the perspective of the new growth theories, the transfer of technology through FDI in developing countries is especially important because most developing countries lack the necessary infrastructure in terms of an educated population, liberalized markets, economic and social stability that are needed for innovation to promote growth (Calvo & Sanchez-Robles, 2002; Kumar & Pradhan, 2002) note that, apart from technology and capital, FDI usually flows as a bundle of resources, including organizational and managerial skills, marketing know-how, and market access through the marketing networks of multinational enterprises (MNEs). As a result, FDI plays a twofold function by contributing to capital accumulation and by increasing total factor productivity (Nath, 2005).
The modernization and dependency theories are two major theories that have emerged to clarify a superior understanding of the factors that drive the impact of FDI on host countries’ economies. Modernization theories are derived from the endogenous growth and neoclassical theories, which illustrate that FDI could stimulate economic growth in developing countries. Modernization theories state that capital accumulation and investment promote economic growth and this causality is a fundamental principle in economics. In developing countries, the spillover of technology from FDI is essential for economic growth as the developing countries lack the needed productive infrastructure in terms of knowledgeable and skillful human capital, free markets, social and economic stability that drive innovation and creativity to increase productivity and advance growth (Benacek et al., 2000; Calvo & Sanchez-Robles, 2002). In addition to inflow of technology and capital, FDI stimulates flow of a set of resources containing knowledgeable skills in management, organization, and marketing, and enable access to marketing channels available to multinational enterprises (Holtbrügge & Kreppel, 2012; Lipsey, 2004).

In the other hand, dependency theories debate that foreign investment is anticipated to have a negative impact on economic growth and income distribution. The foreign investment generates a monopoly industrial structure that result in underutilization of productive forces (Santos, 1970; Bornschier & Chase-Dunn, 1985). The point here is that foreigners will control the domestic economy and would not lead to original development as the multiplier effect that causes demand in one area to generate demand in another area of a country is weak and consequently slowing growth in the developing countries (Amin, 1974).

Various studies have emerged to clarify a superior understanding of the impact of FDI, imports, domestic investment and others on economic growth (Athukorala, 2003; Batten & Vo, 2009; Har et al., 2008). Many studies illustrated the positive impact of FDI on economic growth (Borensztein et al., 1998; Nair-Reichert & Weinhold, 2001). Many researchers found that FDI-growth has positive impact on economic growth by advancing capital accumulation (Alguacil et al., 2008; Bosworth & Collins, 1999). In the other hand several studies found that foreign inflows do not have a strong impact on economic growth (Akinlo, 2004; Herzer et al., 2008; Carkovic & Levine, 2005; Bengoa & Sanchez-Robles, 2003). In their study stated that for FDI to be positive there must be a satisfactory level of economic stability, opened capital markets and human capital within the country, as a result of analyzed data collected from 18 Latin countries for the period 1970-1999. In their study, Anwara and Nguyen (2010) categorize several factors that relate between FDI and economic growth. Some of these factors include human capital, macroeconomic stability, trade, level of financial development and public investment. Shahbaz and Rehman (2010) determined several factors affecting economic growth such as foreign direct investment. They clarified that FDI, financial development, trade openness, public investment and inflation positively impact economic growth. Neuhause (2006), indicated that there are three ways that can be adopted to advance the impact of FDI on technology transformation, capital stocks improvement and consequently create economic growth: (a) direct transmission using Greenfield Investments, (b) indirect transmission by ownership Participation, and (c) second round transmission by Technology diffusion.

The study of Marouan Alaya (2004) aimed at the study of foreign direct investment on economic growth in Tunisia during the period 1973-2000, which concluded that the weakness associated with the used technology in FDI led to the deficiency of Tunisia benefit from foreign direct investment flows as well as their concentration in the traditional industrial sectors that do not require High technology, such as the textile sector. In their study Mishal and Abulaila (2007), investigated the impact of FDI and imports on the economic growth of Jordan as a dependent variable covering the period (1976-2003). The illustrated results found that there were a positive relationship between FDI and imports on economic growth. Esther and Folorunso (2011) have tested the effect of FDI on economic growth in Nigeria. They found that there is a positive relationship between FDI and economic growth. They also found that the level of the positive relationship between FDI and economic growth is limited by human capital. The study of Falki (2009) used Ordinary Least Square method to investigate the impact of FDI, domestic capital, foreign capital and labor force on Pakistan GDP, covering the period from 1980–2006. The study found that FDI has a negative correlation with GDP.

In what follows, Section 3 discusses the method of the study. In section 4, we illustrate the study results and discussion. In section 5, we conclude our research.

3. Method

In this study we adopt the production function of Cobb-Douglas as a study model to measure is the impact of FDI on economic growth in Palestine during the period (1995-2014). The production function estimated using capital, labor and imports as production factors, we distinguished between domestic and foreign investment as independent factors, where the latter is measured by foreign direct investment. Because the model included
imports as a production factor, will use total gross production (GP) that equals GDP plus imports.

\[ GP = f(Inv, FDI, Imp, L, \varepsilon) \]  

(1)

GP: total production which equals total domestic production plus imports.

Inv: domestic investment.

FDI: foreign direct investment.

L: labour measured by total number of employees.

Imp: imports of products and services.

\( \varepsilon \): error.

\[ GP = a_0 Inv^{a_1} FDI^{a_2} Imp^{a_3} L^{a_4} e^\varepsilon \]  

(2)

Where \( a_1 + a_2 + a_3 + a_4 = 1 \)

By dividing the equation number 2 by L, we obtain:

\[ \frac{GP}{L} = a_0 Inv^{a_1} FDI^{a_2} Imp^{a_3} L^{a_4-1} e^\varepsilon \]  

(3)

We can rewrite the equation number 3 as follows:

\[ \frac{GP}{L} = a_0 Inv^{a_1} FDI^{a_2} Imp^{a_3} L^{a_4-1-a_2-a_3} e^\varepsilon \]  

(4)

We can rearrange the equation as follows:

\[ \frac{GP}{L} = a_0 \left( \frac{Inv}{L} \right)^{a_1} \left( \frac{FDI}{L} \right)^{a_2} \left( \frac{Imp}{L} \right)^{a_3} \mu \]  

(5)

This model helps to avoid the problem of heterogeneity of variance, which means that the heterogeneity existence cause the change of variance as views change. Which leads to inefficient results that do not help in taking right decisions regarding hypotheses testing. This model also helps to avoid the problem of multiple linear correlation, where its presence means that there is a correlation between the used variables in interpretation of the dependent variable.

4. Results and Discussion

In this section we try to assess and test the model equations, and analyze the results to stand on the accepting or rejecting of the research hypothesis. We estimated the above described model using Minitab v.15 statistics program.

4.1 The Impact of FDI, Domestic Investment and Imports on Economic Growth

The research results were estimated according to data program results as follows:

The basic model was transformed to the linear mode using logarithmic transformation (Table 1), where it was estimated using ordinary least squares method during the period from 1995 to 2014. The equation that represent the impact of FDI and imports on economic growth in Palestine was as follows:

\[ \log\left( \frac{GP}{L} \right) = 1.58 + 0.159 \log\left( \frac{Inv}{L} \right) - 0.0409 \log\left( \frac{FDI}{L} \right) + 0.586 \log\left( \frac{Imp}{L} \right) \]  

(6)

\[ R - squared (R^2) = 91.5\% \quad adjustedR^2 = 89.8\% \]

It is clear from the estimated equation number (6) according to table (2) and in reference to t-test that the significance of constant coefficient was proven where it was greater than the tabular value of t-test =1.746. Also P-value was 0.000 for the constant which is less than significance level (5%). FDI coefficient is insignificant as the value of calculated t is less than tabular value and the P-value is 0.181 which is more than significance level of 5%. The imports coefficient is significant as the value of calculated t = 8.39 more than the tabular value, and the P-value is 0.000 less than significance level of 5%. The domestic investment coefficient is significant where the calculated t-value =2.53 greater than tabular t-value and P-value equals 0.023 less than significance level of 5%.
Table 1. Total gross production, domestic investment, FDI, and imports in logarithmic format

| Year | LOG(GP/L) | LOG(LINV/L) | LOG(FDI/L) | LOG(IMP/L) |
|------|-----------|-------------|------------|------------|
| 1995 | 4.298418  | 3.56027494  | 2.910458   | 3.8845468  |
| 1996 | 4.290559  | 3.55226252  | 2.9234968  | 3.9142433  |
| 1997 | 4.309566  | 3.59232483  | 3.0014452  | 3.898561   |
| 1998 | 4.377623  | 3.65626959  | 3.1569822  | 3.9981593  |
| 1999 | 4.347202  | 3.77614505  | 3.1686737  | 3.8843285  |
| 2000 | 4.260813  | 3.61178282  | 3.321106   | 3.7780759  |
| 2001 | 4.177431  | 3.44763973  | 3.451127   | 3.6315836  |
| 2002 | 4.13022   | 3.34766553  | 3.4697831  | 3.6778454  |
| 2003 | 4.172501  | 3.40848517  | 3.324902   | 3.757295   |
| 2004 | 4.196222  | 3.36909692  | 3.18423    | 3.785638   |
| 2005 | 4.210229  | 3.44815424  | 2.9657512  | 3.786532   |
| 2006 | 4.230868  | 3.47912455  | 3.2941751  | 3.8661003  |
| 2007 | 4.234872  | 3.3810242   | 3.3756147  | 3.8705327  |
| 2008 | 4.257176  | 3.35433783  | 3.4571618  | 3.8852243  |
| 2009 | 4.253567  | 3.34575767  | 3.4902132  | 3.8874146  |
| 2010 | 4.263046  | 3.43505065  | 3.4910973  | 3.8731999  |
| 2011 | 4.141678  | 3.46797788  | 3.2356402  | 3.7400541  |
| 2012 | 4.164574  | 3.48015575  | 3.5298836  | 3.7660849  |
| 2013 | 4.181823  | 3.48881233  | 3.5565936  | 3.7953883  |
| 2014 | 4.168182  | 3.49342323  | 3.5842536  | 3.8452354  |

Source: Various PCBs bulletins

Table 2. Impact of FDI, domestic investment and imports on total gross production

| Predictor | Coef  | SE Coef | T     | P     |
|-----------|-------|---------|-------|-------|
| Constant  | 1.5785| 0.2793  | 5.65  | 0.000 |
| LOG(FDI/L)| -0.04088| 0.02916| -1.40 | 0.181 |
| LOG(LINV/L)| 0.15862| 0.06264| 2.53  | 0.023 |
| LOG(IMP/L)| 0.58631| 0.06990| 8.39  | 0.000 |

Source: researchers using Minitab v.15

By reference to the values of the estimated equation coefficients, the negative impact of foreign direct investment is evident, where the results show that the elasticity of FDI (-0.0409) is negative as a 1% increase in FDI results in 0.0409 decrease in total gross production. In the other hand, there is a positive impact of imports, where the results show that the elasticity of imports (0.586) is positive as a 1% increase in imports results in 0.586 increase in total gross production. In addition, there is a positive impact of domestic investment, where the results show that the elasticity of domestic investment (0.159) is positive as a 1% increase in domestic investment results in 0.159 increase in total gross production.

As we resulted FDI are negatively correlated with economic growth as the coefficient is not significant. The results are accommodated with the study findings for Carkovic and Levine’s (2002) who quarrel that after governing for country-specific factors, FDI does not positively impact economic growth. The absence of positive impact of FDI may be owed to the short level of the improvement of financial markets and FDI is not concentrated in productive investment. In addition to that, the absorptive capacity of human capital has not touched the desirable threshold to efficiently utilize the transferred technology, accumulate knowledge, and gain
needed skills that are accompanying with FDI. Domestic investment and imports, though, is positive and significantly correlated with economic growth noticing that the positive impact of imports is greater than that of domestic investment.

The adjusted R square has reached the value of 89.8%, which means that the independent explanatory variables explain this percentage which has been occurred by the dependent variable (total gross production), the remaining 11.2% resulted from other factors, including the random error. The measurement results through the duration (1995-2014) as shown in table 3 clarified the model significance as the assembled model coefficients are significance, where F-calculated was greater than tabular F (3.34) and P-value (0.000) less than significance level (5%).

Table 3. ANOVA variance analysis for impact of FDI and imports on total production

| Source       | DF | SS      | MS       | F       | P      |
|--------------|----|---------|----------|---------|--------|
| Regression   | 3  | 0.074167| 0.024722 | 35.34   | 0.000  |
| Residual Error| 15 | 0.010493| 0.000700 |         |        |
| Total        | 18 | 0.084660|          |         |        |

Source: researchers using Minitab v.15

From the results of residuals probability distribution using Kolmogorov-Smirnov test, the residuals follow a normal distribution, where the probability value P-value= 1.5 % as it is greater than significance level, which led us to accept the null hypothesis that says the residuals follows the normal distribution as shown in figure 1.

![Figure 1. Probability distribution of residuals](image)

The test of Durbin Watson showed the existence of independence between the residuals where there is no self-correlation between them, as from the results D.W=1.745 between 2 and the maximum tabular value d_w=1.69. The model is free of self-autocorrelation problem between random residuals, as clarified in the following figure (figure 2) which shows the trend and behavior of random residuals to determine the type of autocorrelation between the residues:
As we clarify from the figure above, which shows the direction and behavior of random residuals, there is no existence of positive or negative serial correlations.

The analysis results showed that the prevalence and distribution of residuals takes random shape on both sides of the line, which represents the zero as it is the line that separates the positive and negative residuals. There is no possibility to track a specific form for these residuals as they are not increasing, decreasing or located on one side so we clarify the instability of the variance, as shown in figure 3.

4.2 The Impact of FDI on Economic Growth

In what follows we will measure the impact of FDI on economic growth as a separate FDI factor using simple linear model. The estimated equation for the period 1995-2014 is as follows:

\[
\log\left(\frac{GP}{L}\right) = 4.75 - 0.157 \log\left(\frac{FDI}{L}\right)
\]

R-Squared = 23.8%

| Predictor | Coef | SE Coef | T   | P   |
|-----------|------|---------|-----|-----|
| Constant  | 4.7515 | 0.2240  | 21.21 | 0.000 |
| LOG(FDI/L)| -0.15693 | 0.06816 | -2.30 | 0.034 |
As clarified from the estimated equation number (6) according to table 4, and in reference to t-test the significance of constant and FDI coefficients is proved as the values of t for both of them are greater than tabular t value which is equal to 1.76 with degree of freedom 2-18. The P-value for both constant and FDI are less than significance level (5%). The significance for the model as a whole is clarified as the total as the calculated F is greater than the tabular one (F = 4.49). Also the value of R-square is 23.8% which means that FDI explains 23.8% of the changes that occur in the dependent variable (GP), while the rest percent 76.2% refers to the other variables including the random error.

In reference to coefficients values, the negative impact FDI is evident, where the results show that FDI elasticity is −0.157%, which means that any increase of FDI by 1% leads to decrease in GP by 0.157 where it is a negative and proportional impact and this is proved also from Pearson factor (0.51) which shows an existence of negative medium relationship between the two variables (FDI and GP).

4.3 The Impact of Domestic Investment on Economic Growth

The estimated equation for the impact of domestic investment on economic growth as a separate domestic investment factor using simple linear model, during the period 1995-2014 is as follows:

\[
\log\left( \frac{GP}{L} \right) = 2.68 + 0.444 \log\left( \frac{DINV}{L} \right)
\]

\( R^2 = 51.8\% \)

Table 5. Impact of Domestic Investment on GP

| Predictor      | Coef | SE Coef | T     | P     |
|----------------|------|---------|-------|-------|
| Constant       | 2.6816 | 0.3624  | 7.40  | 0.000 |
| LOG(LINV/L)    | 0.4444 | 0.1040  | 4.27  | 0.001 |

As clarified from the estimated equation number (7) according to table 5, and in reference to t-test the significance of constant and domestic investment coefficients is proved as the values of t (7.4, 4.27) for both of them are greater than tabular t value which is equal to 1.76 with degree of freedom 2-18. The P-value for both constant and FDI are less than significance level (5%). The significance for the model as a whole is clarified as the total as the calculated F (18.27) is greater than the tabular one (F = 4.49). Also the value of R-square is 51.8% which means that domestic investment explains 51.8% of the changes that occur in the dependent variable (GP), while the rest percent 48.2% refers to the other variables including the random error.

In reference to coefficients values, the positive impact domestic investment is evident, where the results show that domestic investment elasticity is 0.444, which means that any increase of domestic investment by 1% leads to increase in GP by 0.444 where it is a positive and proportional impact and this is proved also from Pearson factor (0.51) which shows an existence of positive medium relationship between the two variables (domestic investment and GP).

4.4 The Impact of Imports on Economic Growth

The estimated equation for the impact of imports on economic growth as a separate imports factor using simple linear model, during the period 1995-2014 is as follows:

\[
\log\left( \frac{GP}{L} \right) = 1.54 + 0.707 \log\left( \frac{IMP}{L} \right)
\]

\( R^2 = 82.9\% \)

Table 6. Impact of Imports Investment on GP

| Predictor      | Coef | SE Coef | T     | P     |
|----------------|------|---------|-------|-------|
| Constant       | 1.5362 | 0.2970  | 5.17  | 0.000 |
| LOG(IMP/L)     | 0.70733 | 0.07796 | 9.07  | 0.000 |
As clarified from the estimated equation number (8) according to table 6, and in reference to t-test the significance of constant and imports coefficients is proved as the values of t (5.17, 9.07) for both of them are greater than tabular t value which is equal to 1.76 with degree of freedom 2-18. The P-value for both constant and FDI are less than significance level (5%). The significance for the model as a whole is clarified as the total as the calculated F (82.33) is greater than the tabular one (F= 4.49). Also the value of R-square is 51.8% which means that domestic investment explains 82.9% of the changes that occur in the dependent variable (GP), while the rest percent 17.1% refers to the other variables including the random error.

In reference to coefficients values, the positive impact domestic investment is evident, where the results show that domestic investment elasticity is 0.707, which means that any increase of domestic investment by 1% leads to increase in GP by 0.707 where it is a positive and proportional impact and this is proved also from Pearson factor (0.51) which shows an existence of positive medium relationship between the two variables (domestic investment and GP). As we note the positive impact of imports is more than that of domestic investment.

5. Conclusion

The analysis of the study results concerning the impact of foreign direct investment, imports and domestic investment on economic growth, came in the form of multi-regression model, where we have reached unexpected result that there is negative impact of foreign direct investment on economic growth and this may be referred to the lack of development of financial market and mainly the FDI is not concentrated in productive industries. In the other hand, there is a positive impact of imports and domestic investment on economic growth and this result is compatible with economic theory. Also we studied the effect of FDI factor on economic growth separated from other factors, which came in the form of a simple regression model, and we have reached the same previous results.

As the impact of FDI on economic growth is negative, we must investigate the factors that causes this negative relation and try to accommodate these factors to positively benefit from FDI and consequently increase the size of FDI through providing the necessary infrastructure for investment and development of financial markets and banking, increasing the research and development expenses advance the development of creative abilities in various areas, learning from the experiences of developing countries in attracting FDI, continuing working in political and security stability specially in our case in Palestine as it faces tremendous challenges in these two issues.

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