



# Financial Capital Inflows, Manufacturing Exports and Economic Growth in Palestine: A Threshold Regression Analysis

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## **Authors' contributions**

*This work was carried out in collaboration between both authors. Author NB conceptualization, data collation, formal analysis, methodology, investigation, methodology, visualization, writing – original draft, resources, supervision, writing – review & editing. Author MA conceptualization, methodology, resources, supervision, writing – review & editing. Both authors read and approved the final manuscript.*

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## **ABSTRACT**

**Aims:** The study examined the Optimal Level of the Financial Capital Inflows and Manufacturing Exports, Economic Growth in Palestine. Annual data from the (2000-2018) to Foreign Direct Investment (FDI), Foreign Portfolio Investment (FPI), cross-border borrowing from the World Bank (Components Of Financial Capital Inflows) Financial Sector Development (FSD) real GDP (RGDP) and Manufacturing Exports (MEX) were no different from other Production Sources, Palestinian Monetary Authority (PMA) and Ministry of National Economy (MONE), Ministry of Finance and Planning (MOFP), Palestinian Central Bureau of Statistics (PCBS), Statistical Bulletin while data on Gross Capital Formation (GCF) and Human Capital (HC) was the source of the World Bank also curvature.

**Study Design:** Cross-Sectional Survey Research (Qualitative & Quantitative).

**Place and Duration of the Study:** Various Governmental Organizations in Palestine, between the periods (2000-2018).

**Methodology:** Quantitative and Qualitative specification model, the equations used to examine the Optimal Level, impact and the relationship of Financial Capital Inflows and Manufacturing Exports on Palestinian Economic Growth, Threshold Regression Analysis was used to detect and verify the Optimal Level of Financial Capital Inflows by analyzing the data that have been collected from the Electronic Sources which available on the official websites of Governmental Organizations for the period (2000-2018). The methodology of the study revealed the relationship of the Optimal Level of Financial Capital Inflows with Manufacturing Exports on Economic Growth in Palestine. Data collection process and data analysis techniques employed to achieve the current study objective.

**Results:** The study found that the optimization results showed that the Financial Capital Inflows of (CINF) Threshold value (21.77%) with a coefficient of (7.74) per year is the Optimal Level of Financial Capital Inflows in Palestine the Threshold Point Manufacturing Exports to any Financial Capital Inflows (CINF) of the Threshold value of Manufacturing Exports in Palestine. The study concludes that the Optimal Level for Financial Capital Inflows to Economic Growth is (21.77%); any Threshold Level above the sustainable level of Economic Growth will be adversely affected in Palestine.

**Conclusion:** Findings of the study found that the Flow of Financial Capital Threshold exists for the Manufacture of Exports, and therefore recommends that excessive Financial Capital Inflows should be avoided in the country so that it does not make the conduct of Monetary Policy difficult, while the need of Financial Capital Inflows must be monitored well and directed to sectors (such as Industry, Agriculture, Mining and Quarrying) that have the absorptive capacity for them.

**Keywords:** Financial capital inflows; manufacturing exports; economic growth; foreign direct investment; foreign portfolio investment; monetary policy; optimal; threshold.

**JEL Classifications:** E44, F21, G17, G31, O16.

## 1. INTRODUCTION

The Inflows of Financial Capital are one of the main sources through which one can increase the Capital within the country and the adequacy of the Domestic Capital for Investment purposes within the country. Besides, these Financial Flows are already of the most important elements of Foreign Direct Investment (FDI) and Foreign Portfolio Investment (FPI), Foreign Exchange, Loans, Credits and Foreign Exchange (Borrowing Cross-Border), etc.

Financial Capital Inflows of the most important resources that the country needs and lacks to all Developing Countries at present [1], and also, the country's scarce resources to more efficient Sectors of the Economy, causing (GDP) Growth, as mentioned in the literature: [2,3,4].

To drive Growth in the Economy of the country as it is known, the Capital is one of the most important factors of Economic Growth, it provides a lot of money to invest, as it also increases competition in the host country, such as National Institutions and local businesses to become more productive by adopting more efficient Technologies and Investment in Human/Physical Capital [5,6].

The (IMF) is related to the Foreign Direct Investment (FDI) made to acquire a lasting interest in an enterprise (at least 10% of voting stock) as a support and in the informal economy, the Economy of the investor who aims to be an effective voice in the management of projects large, medium and small [7,8].

Similarly, (FPI) is based on the acquisition of Financial Assets by investing through the population, individuals, corporations and institutions in a single state in the stock market or another, or directly in assets or indirectly through Financial Markets [9].

Foreign Direct Investment (FDI) is generally a transfer of resources such as Capital, technology and managerial expertise and foreign filing the public situation [8].

That the need for Foreign Capital to complement domestic resources that affect Economic Growth has been used as a catalyst for Economic Development and because they are an essential element in the process of Economic Growth. In this century in Palestine, in the period between (2000-2018), and came from Capital Inflows in the form of Foreign Aid for Development and Humanitarian relief during wars fought by Palestinians with the Israeli Occupation [10].

They also studied the option of Cox, (2013) there are various studies of the relationship between the Manufacturing Sector to Economic Growth Chigbu et al, [9], Okafor et al. Adegboye et (AL) in [11]. These previous studies have ignored the important role of Manufacturing Exports can play an important role in the relationship between financial Flows and Capital Inflows and Economic Growth [12], Adofu et al., 2015; [13].

Some studies have shown that Palestine is one of the most beneficiary countries of Capital Flows in Asia because of what they may get into the wars and the problems of Political and Financial Aid come from outside Europe, the Gulf Countries, the International Monetary Fund, and the World Bank also [14,15].

We have investigated and examined some of these studies include the effect of just one component of Financial Capital Inflows on Economic Growth [16,17], Umoh et al. [18,19].

These studies have also been conducted on Financial Capital Inflows, Exports and Economic Growth in Malaysia. In India [20], and South Africa [21], Tanzania (Richard, 2013), Bangladesh [22] in the United States [23].

According to [24], (60%) of Financial Flows and Inflows of Capital in the Middle East and Asia also (17%) of total Capital Inflows go to Palestine as what is described in some of the statistics are considered to Palestine in the first rank among the states of the Middle East that receive Financial Assistance from abroad, the influx of Capital in Asia too, the Economic Outlook in Asia that the state of Palestine recorded a large proportion of Capital Outflows to total (\$1.4) billions of (FDI in 2013) [9].

Besides, the Manufacturing Sector Export plays a catalytic role in modern Economic Growth and the benefits of the dynamic and often critical for Economic Progress in the country's Economic Recovery. The Manufacturing Sector is particularly important in the Export Industry, reaching an increase in the share of (GDP) within the State [25,26].

There is a particular interest and in the Manufacturing Exports, in this study, came the arrests stem that this sector is a potential engine for the Economy segment in the country also came in the Economic Growth, Modernization and Industrialization of the creator for jobs that require the skills and characteristics of and describe the positive effects multiply [27,28].

The Manufacturing Sector in Palestine has evolved and covers a wide range of large and engages in Economic Activities such as the Production of Natural Materials and Food, Beverages and Tobacco Textile, Clothing, Footwear and Paper Products, Chemical and Pharmaceutical, Metal Products, Plastic Products, Rubber Products, Basic Metals, Iron and Steel, others came to the Industry that sub-sector [29].

Thus, the link or relationship between Financial Capital Inflows and Manufacturing Exports should not contain the fact that the expansion of Exports is all we can do to grow the Economy and Development, the factory under the rule of the Palestinian National Authority, which in turn enhances the Productivity or (GDP) of the country, especially if any country has the right of access to new Technologies and Self-Development and application of management practices by Foreign Direct Investment (FDI), etc.

The different impact on other elements of Financial Capital Inflows on Economic Growth was not seen. Did not specify what constitutes a flow of excessive or Illicit Flows and to Export or Economic Growth, in research literary summed up some facts and facts on this subject, especially in Palestine. Moreover, it has been revealed in some studies of the relationship between Capital Inflows and Economic Growth [30,31].

We can mention that the Palestinian Economy was one of the largest beneficiaries of Capital Flows from the rest of the Middle East; Palestine enjoyed an increase in Capital Inflows in the past decade especially (Palestinian Monetary Authority, Ministry of National Economy, Ministry of Finance and Planning, Palestinian Central Bureau of Statistics, 2018) [32,33].

Otherwise, those Capital Inflows, especially Foreign Direct Investment (FDI) is not perceived as an enhancer of the Manufacturing Sector in Palestine, because the value-added Manufacturing output does not encourage that philosophy after the experience of the real through inclusive Economic Growth, despite the large amounts of domestic and foreign imported resources [34,10].

The result may be the result of the devaluation of what constitutes Financial Capital Inflows. Therefore, the role of Capital is very effective and touching and still, the Financial Flows involved in

the promotion of Manufacturing Exports compared to Growth controversial [35].

Most of these studies are the study of processes of export of non-oil Exports and total Exports are made, without focusing on National Industrialization and Export; because component Manufacturing is a key factor in Economic Growth. Against this background, the main objective of this study is to find the point or the level of Capital Inflows to Manufacturing and Export Industries, Local and National out of the country and its role in Economic Growth in Palestine by using the so-called Threshold Regression Analysis [36,37].

As for the year (2020) achieved the Entrepreneur of the Palestinian global delivery and for our Palestinian people in the diaspora to be proud, a businessman of Palestinian is born in Beirut, after his family was forced to Lebanon and registered in Canada which nationality is the owner of the company "Electra" manufacturer which enables energy engineers of the Manufacturing Policy of "sanctified" in three years, which work as self-enjoying the benefits make it suitable universally (Jihad Mohammed, 2020) [29,33].

According to the newspaper "New Life", shows the Palestinian businessman Jihad Mohammed, owner of the company "Electra" to the idea of Manufacturing a car back to the young Palestinians and some Lebanese, the civilians in Lebanon in addition to engineers, Palestinians, Lebanese and foreigners from several countries, indicating that the idea of Manufacturing out of Beirut and its roots in Jerusalem and the first car will arrive in Italy, considering that the main company there. He said that the company plans to open branches in all the States that want the consumption policy of "sanctified" [38].

That is right folks, the Electra Quds E.E. is becoming more and more appealing, desirable, and frankly more attainable. For the unbelievable price of (\$70,000) (AED 255,000), you can own a hyperactive looking all-electric machine, as revealed to us by Electra [39].

That is cheaper than most used petrol-guzzling supercars available in the market! That is priced well within the new German sedan car segment. When we were thinking of how much it would initially cost, we were thinking at least double, even triple, it is going price [40].

Finally, such National Industries and Manufacturing Exports Promote Economic Growth the National and Local Levels have a great role to Financial Flows from and to outside the home this helps to reduce the level of Unemployment in Palestine and supports the Palestinian National Economy for the Long-Term.

## 1.1 Literature Review

In the past decade, has emerged many studies on the relationship shared between Financial Capital Inflows and the Manufacturing Exports and Economic Growth.

Several studies were used annual data derived from the Bulletin of Statistics, the Palestinian Monetary Authority (PMA) and the Ministry of Finance and planning too (MOFP). To da Yamamoto causality to determine the relationship between Foreign Capital Inflow and Economic Growth. Foreign Capital Flows were through Foreign Direct Investment (FDI), External Assistance and large Loans from the World Bank and (IMF) as well, while Economic Growth was a (GDP). The result revealed that there is bidirectional causality running from (GDP to FDI) as well as (FDI to GDP) but unidirectional causality from Foreign Portfolio Investment (GDP to FPI) as well as (FPI to GDP) [41,42].

Moreover, the common factors of the causal link between all components of the Inflow of Foreign Capital to that the increase in Foreign Capital is one of the reasons (GDP) increased positively. They recommended that the Government develop Financial Policies and Programs to Promote Foreign Capital Flows because it will help speed Growth in the Economy [43,44].

Besides, conducted online (2015) experimental study of the impact of Financial Capital Inflows on Economic Growth in Palestine. Moreover, Dickey-Fuller enhanced Root Test was used to verify the constant properties of the variables. A unique long-term balance has been established between Economic Growth; net Flows of Foreign Direct Investment (FDI), trade openness, Government spending and the exchange rate in Palestine [45,46].

The rest was also adopted repeatedly to identify Short-Term dynamics and Long-Term parameters of Financial Capital Inflows. Residues and the cumulative amount (CUSUM) of squares remain at about (5%). The study shows that export promotion and diversification in other useful areas will help the Economy in terms of improving real (GDP) [47].

Moreover, the Financial Inflows considered one of the most important pillars of Comprehensive Economic Development, as it plays an important role in the Local Economies, considering that the Money Flowing from abroad works to bridge the gap between Investment and savings, as the Financial Inflows from abroad guarantee reducing Unemployment rates and help to improve Economic Balances, especially Commercial Balance [48].

Lost told Dickey-Fuller Unit Root Test was running to provide sleep data, while the Johansen Test for co-integration to assess the Long-Term equilibrium relationship between the variables. Causation has tested using Granger causation and the (OLS) method has been used to estimate the model and hypothesis. The findings reveal that Financial Capital Inflows have a significant impact on the Economic Growth of those countries [49].

The study recommended that an enabling environment must be created in Developing Countries to encourage further flows of Foreign Direct Investment (FDI), Workers Remittances and the Remittance Industry [44].

He investigated the empirical relationship between Economic Growth and (FDI) in Palestine (2000-2018). The results indicate a positive causal relationship between the growth rate and (FDI) (Umoh et al, 2012).

His investigation of causality between (FDI), (FPI) cross-border borrowing from banks, and Economic Growth. The study found that there are reasons unidirectional from (FDI) to Economic Growth and from Economic Growth to the proposal across the border [50].

The coefficient of Foreign Direct Investment (FDI) as a proportion of (GDP) impact of a positive statistically significant but the coefficients of private Investment as a percentage of (GDP) via borrowing limited as a percentage of (GDP) was positive and not statistically significant [51].

Besides, there is a positive relationship between the exchange rate and Manufacturing Production in Palestine. Recommended studies that doubled the Government's efforts to attract Foreign Direct Investment (FDI) to ensure the protection of investor confidence and providing the Investment environment appropriate and adequate [52].

Should be reduced interest rate to encourage more; the Foreign Direct Investment (FDI) that

came would stimulate Economic Growth in Palestine [53].

He studied and examined the relationship between Foreign Direct Investment (FDI) and the performance of the Manufacturing Exports Sector, in May (2000-2018) [54].

Therefore, after clarification of these results allows the government to play for an environment that attracts Foreign Direct Investment (FDI) and high, in addition, Economic Growth Sustainable to attract permits the proposal is limited between the banks [55].

Studied the effects of dynamic External Flows of Capital in the Palestinian Economy using the (VECM) model empirically shows the dynamic relationship between Economic Growth and Foreign Direct Investment (FDI). Using data quarterly from (2000-2017), the results show that the classification of Foreign Capital Inflows in direct and Portfolio great importance in terms of their impact on Economic Growth in Palestine [11].

Studied the effect of Financial Capital Inflows on Economic Growth in Developing Economies; such as the question of Palestine, and other countries of East Asia and some African Countries from (1986-2012). Besides, this is the type of to ascertain whether Foreign Capital Inflows are huge in Developing; Economies are transmitted to Economic Growth [56].

From (2000-2013) where the use of (OLS) for the relationship between the Manufacturing Exports and its components and Economic Growth, and Exchange Rate and interest rate didn't help in (RGDP) and inflation also contributed positively to (RGDP) but the natural conditions that the inflation rate is indicative of the fact that inflation in the Economy is not working properly (Adofu et al, 2015) [57].

The effect and impact of Foreign Direct Investment (FDI) and Foreign Portfolio Investment (FPI) and Financial Inflows on Economic Growth to ascertain the best path using annual data and time series of (2000-2018) [57].

The (OLS) and Granger causality procedures used so, and displays the result that both Foreign Direct Investment (FDI) and Ivorian people no impact positive significant on Economic Growth in the country through partial bonding

transactions Foreign show that (FPI) is the best contributor based on the result, the Government should pursue policies to encourage Foreign Direct Investment (FDI) in privacy [58].

He examined the impact of (FDI) on the Manufacturing Exports during (2000-2010). Used this study the Linear Regression Model Classical and discovered that during the period under review, (FDI) negative impact on the Manufacturing Exports [59].

He investigated the relationship between Foreign Financial Capital Inflows and Economic Growth for the period (2000-2018) [31].

He examined the effect of (FDI) on the Manufacturing Exports. The model revealed a positive relationship between (FDI) and each variable; Manufacturing Output, Exchange Rate and Interest Rate. Besides, (FDI) has a positive relationship with the Manufacturing Exports [60].

Though and came that he found a paper Foreign Direct Investment (FDI) negatively affects the output of the Manufacturing Exports in Palestine and can be reversed if the country receives increasing flows of Foreign Direct Investment (FDI) in the vital sectors that support the needed inputs [61].

The natural raw material need of local industries the study recommended that the government adopt a Competition Policy to ensure the safety of markets needed to attract targeted foreign investors to Palestine [62].

Tooltip the message of the citizens using the autoregressive and distribution of late modern Developments and to determine the relationship between (FDI) and Manufacturing value-added, it was discovered that Long-Term in Foreign Direct Investment (FDI) harmed the sub-sector. The study concludes that exchange rate fluctuations are not conducive to Economic Activities in the Manufacturing Exports [14].

Besides, He discovered that the performance of the Manufacturing Exports Sector is influenced by factors such as high cost and came to Foreign Exchange to buy natural raw material types and machines required for Production, Availability of Capital, Technology, Graduation, Transfer and General Technical Control of Foreign [37,43].

He reported a positive relationship between (FDI) and the Manufacturing Exports Sector (product),

but [59], (2013) because of Egypt's new role, the (FDI) negative impact on the output of the Manufacturing Exports Sector, value-added to the Manufacturing Exports, respectively [60].

Financial Flows and sustainable Development of the Regional Economy and National Levels are the strategic goals declared State, which is the name of the forum the goals of the Governments of the successful economies bustling home inspection [63].

Among these attitudes, the study of phenomena and processes of the Social-Economic Regional importance of this problem, therefore, must develop research tools, management and product control as functions of the real. As reported by Gorelova in some of her researches they can use the tools on (Cognitive Methodology), which helps to create solutions to this problem and find new recommendations that can be followed to avoid the problems of Illegal Financial Inflows [64].

Therefore, studies indicate that there should be increased Government expenditure and sound management of the Manufacturing Exports to ensure stable Growth in the Economy of Palestine [29].

Financial flows and distribution of Financial Capital play a very important role in the speed of Economic Growth in the country in addition to that the mechanism of the Flow of Capital also stimulate the National Industry, Manufacturing and basic services, distribution, also as it flows, Capital Formation role and positive role in raising the country's (GDP) this leads to an increase of the Government Budget and raising the efficiency of Fiscal Policy and the Education Budget in modern conditions of the current, and through the imposition of peers on Foreign Direct Investment (FDI) in the country, which constitutes a Financial Return, the profitability for the investor. The tax on such Foreign Investment under the name of car tax prevailing on Foreign Investment imposed by the state or the Government [65 (a, b)].

The effects of the movement of Capital and Financial Flows on Economic Growth and the status of the Regional Economy in the State through the use of the methodology of modelling knowledge (Cognitive Modeling) to see the effect of the movement of Financial Capital, and this study followed the methodology of modelling on the show revealed the effectiveness of the

factors that affect Economic Growth which the factors that positively affect it is the movement of Financial Capital and Financial Flows, and Financial Flows within the country are very important for Economic Recovery. The previous study developed recommendations and proposals for state Decision-Makers and Fiscal Policies on Financial Flows, Capital movements and their impact on the country's Economic Growth [66].

Manufacturing Exports, Financial Inflows and Capital movement played a key role in the country's (GDP) expansion. One of the most important factors in accelerating the Economic Growth of Developing Countries and Economic Recovery is the flow of Capital into the inside. Capital Inflows and the movement of capital into the country helps to strengthen the Local Economy and to increase Industry and Manufacturing Exports and works on reducing Unemployment and increasing the (GDP) of the country increase the rate of exports and reduce imports, through the Establishment of Factories, Institutions, Productivity, and doubling the rate of Export companies and factories to abroad increased Financial Flows from the outside to the inside of the State [67 (a, b, c)].

Financial Capital Inflows Palestinian noticeable effect on the exports of the Manufacturing Industry in Palestine, play an important role in the country's (GDP), Exports and Manufacturing Palestinian important part in the Economic Growth of the country, in addition to that the Manufacturing Sector in the past five years has achieved a good percentage in the increase rate of (GDP) of the Palestinian Economy and have a positive impact on investors within the State. Besides, the famous philosophy in specific Industries such as Light Industry, Agricultural Production, Livestock, and ranked first for Palestinian Exports to the outside [68,38,62].

The negative results may be an influential factor heavily on the Manufacturing Exports is also affected by factors such as high cost and came to Foreign Exchange to buy natural raw material types and machines required for Production, and the availability of Financial Capital, in addition to Technological Backwardness, lack of technical and sound management of goods and Foreign Domination and outside [33,38,61].

### 1.2 Objective of the Study

The overall objective of this study is to reveal the relationship between Financial Capital Inflows

and Manufacturing Exports and their impact on Growth and Economic Development in Palestine for the period (2000-2018) through an Analysis of the Threshold Regression [15].

## 2. METHODOLOGY OF THE STUDY

### 2.1 Model Specification

$$y_t = S + B_1 fdi_t + B_2 fpi_t + B_3 cbb_t + agcf_t + nm exp_t + whc_t + yfsd_t + m_t \quad (\text{Model 1})$$

Where ( $y_t$ ) is Economic Growth measured by ( $rgdp$ ,  $fdi_t$ ) is Foreign Direct Investment (FDI), ( $fpi_t$ ) is Foreign Private Investment, ( $cbb_t$ ) is cross border borrowing, ( $gcf_t$ ) is a gross Capital formation, is ( $m exp_t$ ) Manufacturing Exports, ( $hc_t$ ) is human capital, ( $fsd_t$ ) is Financial Sector Development and ( $\mu$ ) is the white noise stochastic or random error term that is Independently Identically Distributed (IID) with zero (0) mean and constant variance, ( $t$ ) is time trend.

Apriority expectation,  $B_1, B_2, > 0; B_3 < 0; S > 0; n > 0; y > 0; Y > 0$

Therefore, to determine the minimum level of Financial Capital Inflows on Manufacturing Exports and Economic Growth, the study used the technique of minimum curvature. Any so-called Threshold Regression was popularized by Hansen [69], a sample-split model in an Econometric Framework that separates the individual observations into categories according to the value of the variable and appreciated by minimizing the sum of squared errors. (Model 1) is modified to reflect the Regression technique of the Threshold.

$$y_t = n + S_1 cinf + S_2 D_1 (cinf - K) + S_3 Z_{it} + u_t \quad (\text{Model 2})$$

$$m exp_t = n + a_1 cinf + a_2 D_t (cinf - K) + a_3 Z_{it} + ut \quad (\text{Model 3})$$

Where ( $y_t$ ) represents Economic Growth, ( $cinf$ ) represents Capital Inflows; ( $K$ ) is the optimal level of Capital Inflows (Threshold Level of Capital Inflows).

( $Z_{it}$ ) denotes a vector of control variables (GCF, HC, and FSD) and ( $ut$ ) is the error term, ( $\delta$ ) is the regime intercept.

The effect of Financial Capital Inflows on Growth will be ( $S_1$ ) for low level and ( $S_2$ ) if the opposite is the high case.

The Dummy variable's value varies as follows:

$$D_t = 1 \text{ when } \text{cinf} > K$$

$$D_t = 0 \text{ when } \text{cinf} \leq K$$

(D) Which is a dummy variable that equals one when Capital Inflows is beyond the Threshold level required and zero (0) if otherwise?

The parameter (K) (Threshold Level of Capital Inflows) has a property that the relationship between Capital Inflows and Economic Growth that takes into account ( $\alpha_1$ ) which represents low Capital Inflows, and ( $\alpha_1 + \alpha_2$ ) represent high Capital Inflows.

The optimal value of (K) is obtained by comparing the computed value of (F) statistic with the critical value. This helps us to establish a statistically significant Threshold value of Capital Inflows using real Gross Domestic Product (GDP) (Economic Growth) as the dependent variable.

## 2.2 Measurement of Variables and Sources of Data

To find the point or the level of Financial Capital Inflows become excessive in the Export and Economic Growth, this study used annual secondary data from (2000-2018) on (FDI), (FPI) through borrowing is limited from the World Bank (Components of Capital Inflows and Financial Sector Development (FSD), real (GDP) (RGDP).

The Exports of the Manufacturing in Palestine, Capital (K) variable that is the index to capture the role that equity plays a role in the process of Economic Growth (it measured Gross Capital Formation (GCF) as a percentage of GDP) [29].

Its source was various issues of the Palestinian Monetary Authority (PMA) & Palestinian Ministry of Finance and Planning (MOFP), Palestinian Ministry of National Economy (MONE), also Palestinian Central Bureau of Statistics (PCBS) as a while data on Gross Capital Formation, and Human Capital (HC) were sourced from World Bank, World Development Indicator (WDI) database [32].

During the analyzed period, the volume of Money Flow into Palestine was subject to large volatile dynamics, the characteristics of which were the following time ranges:

- The period (2000-2005) was marked by security chaos and Political Instability (the

Intifada), which negatively affected the flow of funds to Palestine.

- The period (2006-2008) was characterized by a relative increase in the Flow of Funds to Palestine by (9.17), from (2.68) billion dollars in (2006 to 6.49 billion dollars in 2008). The main reason for the increase in Inflows during this period was due to the poor security situation in Palestine and the collapse of the Hamas Government in the West Bank.
- The period (2009-2011) was characterized by a relative decrease in the Flow of Funds to Palestine by (-0.69), from (\$4.47) billion in (2009 to \$2.76 billion in 2011), the reason for the decrease in the Flow of Funds to Palestine was the withholding of Funds Flowing from Israel.
- The period (2012-2018) was characterized by relative stability in Money transfers from abroad to Palestine and Growth in Money Flows into Palestine due to Political Stability in this period.

## 3. RESULTS AND DISCUSSION

### 3.1 Unit Root Test

This study has been used Tests of "Dickey-Fuller" enhanced (ADF) Tests and Phillips Perron (PP) (Tables 1 & 2) to verify the characteristics of the Root Unit, the variables included in the report model.

The results of (ADF) and (PP) Tests in Tables 1 & 2 that (LNFPI, LNCBB, the GCF) was fixed at the level of zero (0), while (LNRGDP, LNFDI, LNMEXP, LNHC, FSD) was stationary in the first difference I (1).

### 3.2 The Sustainable Level of Financial Capital Inflows for Manufacturing Exports and Economic Growth in Palestine: Threshold Regression Analysis

The task of determining the level of accuracy of the Financial Capital Inflows that have effects on Economic Growth involves the estimation of a Threshold Level of Capital Inflows then begins a positive or negative impact on Economic Growth in Palestine [29,38].

The optimal Threshold is the level or point at which there is a breakpoint. Estimate the Regression Model in Equations (2 & 3) are a



summary of the Threshold results of the variables examined and in tables (3, 4, 5) and tables (6, 7, 8) respectively.

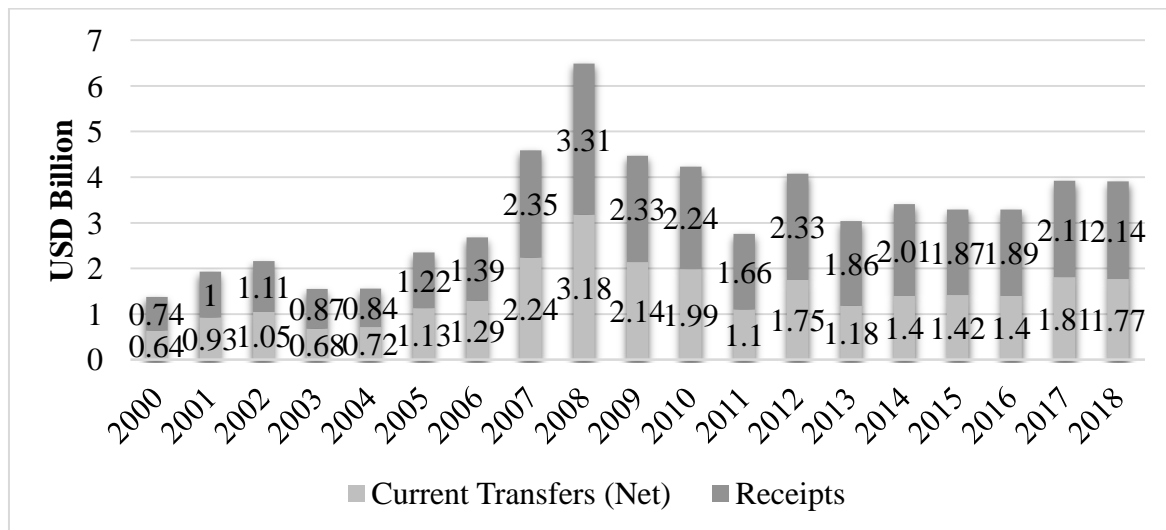
Tables (3, 4, 5) calculated the Threshold of the test specification with the (BAI-Perron) (Journal of econometrics, 2003) critical values according to the (BAI-Perron) to critical with the Threshold Test of the three systems by (5%) of the significance level.

Since the F-statistics is greater than critical values, and therefore, we can conclude that the calculated value F-statistic (12.5) greater than the critical value of (8.3) and (5%) of the significance level.

This helps to establish a statistically significant Threshold value (21.7%) for Capital Inflows using Economic Growth (RGDP) as a dependent variable.

Hence, the optimal point of this fund is for Economic Growth in Palestine, there are three systems developed in the Threshold. The three systems are statistically significant at (5%).

Using the Threshold point established by the first regime, the Threshold level of (CINF) by (21.77%), it means that this level of (CINF) is the break-even level (CINF) above which (CINF) harms Economic Growth in Palestine.



**Fig. 1. Financial Inflows and Capital Flows into Palestine**

Source: Palestine Monetary Authority (PMA)/Palestinian Central Bureau of Statistics (PCBS), Palestinian Ministry of Finance and Planning (MoFP), Palestinian Ministry of National Economy (MoNE)

**Table 1. Augmented Dickey-Fuller (ADF) Unit Root Test**

Variable	Level	1st Difference	Order of integration
LNRGDP	0.0563	-5.4492**	I(1)
LNFDI	-3.3243***	-9.5947*	I(1)
LNFPPI	-4.4214*	-9.6648	I(0)
LNCBB	-9.3433*	-7.9894	I(0)
GCF	-7.3246**	-9.0889	I(0)
LNMEXP	-6.1306	-9.8497**	I(1)
LNHC	0.6116	-7.9579**	I(1)
FSD	-0.9088	-7.5789*	I(1)
CINF	-5.0489**	-9.0989	I(0)

Note: \* \*\* \*\*\* denotes 1, 5 and 10% levels of significance respectively; The Mackinnon critical values for the (ADF) Tests with constant for 1, 5, and 10% levels of significance are -5.987642, -4.986042, and -4.819816, respectively;

Source: Author's Compilation using E views 21

**Table 2. Phillips Perron (PP) Unit Root Test**

Variable	Level	1st Difference	Order of integration
LNRGDP	1.2143	-6.0645	I(1)
LNFDI	-4.9808***	-9.7089*	I(1)
LNFPPI	-9.7063*	-29.7895	I(0)
LNCBB	-7.8932**	-38.9679	I(0)
GCF	-6.8479*	-6.9783	I(0)
LNMEXP	-2.5168	-9.7279**	I(1)
LNHC	-0.8679	-9.8368**	I(1)
FSD	-0.9805	-7.6549	I(1)
CINF	-5.0894**	-11.3916	I(0)

Note: \* \*\* \*\*\* denotes 1, 5 and 10% levels of significance respectively; The Mackinnon critical values for the PP tests with constant for 1, 5, and 10% levels of significance are -5.987642, -4.986042, and -4.819816, respectively;

Source: Author's Compilation using E views 21

**Table 3. CINF Threshold Point Estimate for RGDP**

Variable	Coefficient	Std. Error	t-statistic	Prob.
CINF < 21.777---16 obs				
C	7.74	0.036	101.59	0.00
21.<= CINF < 22.5339---15 obs				
C	8.66	0.069	103.36	0.00
22.5339 <= CINF---5 obs				
C	7.50	0.112	53.30	0.00

Dependent Variable; LNRGDP; Threshold variable: CINF; Threshold values used; 21.777;

Source: Author's compilation, using E views 21

**Table 4. Threshold Specification Summary**

Threshold Variable	CINF
Estimated number of Thresholds	2
Method	Bai-Perron of L+1 vs. L sequentially determined thresholds
Maximum number of Thresholds	5
Threshold data values	21.77, 22.53
Adjacent data values	21.23, 22.50
Threshold values used	21.77, 22.53

Source: Author's compilation, using E views 21

**Table 5. Current Threshold Calculations**

Threshold Test	F-statistic	Scaled F-a statistic	Critical values**
0 vs. 1*	7.430023	7.430023	6.56
1 vs. 2*	14.54541	14.54541	8.17
2 vs. 3	5.144321	5.144321	9.18

Sequential F-statistic determined Thresholds: 2;\*Significant at the 0.05 level;

Source: Author's compilation, using E views 21

**Table 6. CINF Threshold Point Estimate for MEXP**

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	5.322531	0.555550	10.35041	0.0000

Dependent variable: LNMEXP; Threshold variable: CINF; No Thresholds selected;

Source: Author's compilation, using E views 21

**Table 7. Threshold Specification Summary**

Threshold Variable	CINF
Estimated number of Thresholds	0
Method	Bai-Perron
Maximum number of Thresholds	5

Source: Author's compilation, using E views 21

**Table 8. F-Statistic Determined Thresholds: Zero (0)**

Threshold Test	F-statistic	Scaled F-statistic	Critical values**
0 vs. 1	2.056974	2.056974	6.56

Source: Author's compilation, using E views 21

Therefore, the result demonstrated that the (CINF) Threshold value (25.55%) with a coefficient of (9.94) annually is the optimum point CINF Palestine based on the data that stretches from (2000-2018) since (CINF) rates higher than this calculated level of the Threshold of the negative impact on Economic Growth in Palestine. At the same time, concerning institutions below the level of Threshold as stated in the first system, the institutions do not impede Economic Growth in Palestine and the effects.

This is (CINF) levels less than the optimal level, the effect is minimal but as (CINF) passes the Threshold as reported in the second regime, the effect becomes strongly significant and negative on Economic Growth in Palestine (Tables 3, 4, 5 for further details).

Moreover, (Tables 6, 7, 8) Threshold points (CINF and MEX) in Palestine. For the relationship between (CINF), Manufacturing Exports, the result indicate that (CINF) Threshold value of the Exports in Palestine.

Besides, the sequential F-statistic determined Threshold is zero (0) and does not show any signs at the (5%) level since the F-statistic (2.056) is less than the critical level (6.46).

#### 4. CONCLUSIONS AND POLICY RECOMMENDATIONS OF THE STUDY

This study concludes that the optimal point of the process of Financial Capital Inflows for Economic Growth, which is (21.77%) and any Threshold level above this sustainable level, will affect Economic Growth negatively in Palestine.

Besides, the Flow of Capital no Threshold exists arrange Industry Exports, thus, advisable to avoid excessive Financial Capital Inflows in the country or within the country is healthy, should

be avoided also continuous, so that does not make the conduct of Monetary Policy within the country very difficult, while the need for Financial Capital Inflows must be monitored very well and must be routed to all sectors in various fields (such as Manufacturing Exports, Agriculture, Mining and Quarries, etc.) that have an absorptive capacity for them.

The ability to Economic Development and to stimulate the National Industry & Manufacturing, the rate of transaction Growth increasing the (GDP) of the country and reduce the Unemployment rate by creating new jobs and vacancies constantly and dramatically, the exploitation day's general (IT) expertise existing within the State.

Hence, we can achieve good Economic Growth and noticeable through the future and increase the recovery of the aged and Financial Support in Developing Countries and Emerging Economies and improve living conditions therein.

In conclusion, we can summarize that as follows, influenced by the Manufacturing Exports on Economic Growth is a positive and increasing rate of (GDP). This means that has an important role in the Economic Development and Growth in the Long-Term for the reason that the philosophy of art is trending wealth of agricultural, animal and depends on them heavily, in one of the most important sources of the Palestinian Domestic Economy.

Finally, from our point of view, we can consider the Manufacturing Exports as an important factor in the Economic Activity of the country, and an encouraging incentive for the Palestinian National Economy, as there is a large Financial Return on these Transformative Exports abroad, and stimulates Financial Flow Processes, raising levels of Local Production and increasing total

output the Local Economy, which has a positive impact on Palestinian Economic Growth.

## **5. LIMITATIONS OF THE STUDY AND SUGGESTIONS FOR FUTURE STUDIES**

This study presents some limitations, at first peer role, one of the most important limitations that apply to this study is that it is considered one of the exceptional studies that studied the status of Financial Capital Inflows and other Financial Flows in Palestine showed the relationship and direct impact of these Flows and their relationship to Palestinian Manufacturing Exports, this is has been shown the impact of that as a whole on Palestinian Economic Growth, as its results apply to the Palestinian Economic Environment is more important, and these results are highly relevant to the Palestinian Economic Situation and its Manufacturing Sector.

Besides, the other limitations imposed on this study is that the data analysis process took a part of the data and excluded another part for certain reasons about the authors.

Moreover, the data for the period described in the study were analyzed, and the last two years (2019-2020) were excluded for reasons of the authors and they were not disclosed.

This study was conducted by the authors specifically to study the Palestinian Economic Situation and its effect on Financial Capital Inflows within the country.

The results of this study are concerned with their application to the current Palestinian Economic Situation, and it is not allowed to apply these results to another Economic Situation in another country.

Besides, this study allows researchers concerned with the topic of the study and its problem to conduct future studies related to the topic and problem of the current study. Moreover, this study can be used as a basic and main reference for future studies.

## **DISCLAIMER**

The data used for this study are commonly and predominantly used data in our area of research and country. There is no conflict of interest between the authors and producers of the data

because we do not intend to use these data as an avenue for any litigation but the advancement of knowledge. The study was not funded by the producing company rather it was funded by the personal efforts of the authors.

## **NOVELTY OF THE STUDY**

The novelty of this study was the examine the optimal level of the Financial Capital Inflows and the statement of the relationship of these Financial Inflows with the Manufacturing Exports and their Impact on Economic Growth in Palestine by using the Methodology of Threshold Regression Analysis, as explained in the results and discussion section of this study, by deducing percentages and describing the quality for this relationship and the production of new scientific knowledge to solve this problem.

Besides, this study allows researchers in this field to use the conclusions and recommendations to conduct other studies to reach results, conclusions and recommendations that may be better and of high value.

Therefore, this study is considered valuable and useful results, conclusions and recommendations that will help in conducting useful future studies on this topic.

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## **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 reference section.

## COMPETING INTERESTS

Authors have declared that no competing interests exist.

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