Arab American University

Faculty of Graduate Studies

Department of Administrative and Financial Sciences

Ph.D. Program in International Political Economy

Evaluating the Effectiveness of External Funding on Economic Development in Conflict-Torn Environments: The Palestinian Experience

Mohammad Aref Mohammad Ibrahim

202113081

Dissertation Committee:

Prof. Dr. Sami Miaari

Prof. Dr. Hamid Ali

Dr. Rabeh Morrar

This Dissertation Was Submitted in Partial Fulfilment of the Requirements for the Doctor of Philosophy (Ph.D.) Degree in International Political Economy

Palestine, August/2025

Arab American University

Faculty of Graduate Studies

Department of Administrative and Financial Sciences

Ph.D. Program in International Political Economy

Dissertation Approval

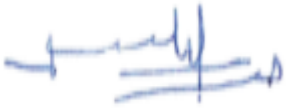
Evaluating the Effectiveness of External Funding on Economic Development in Conflict-Torn Environments: The Palestinian Experience

Mohammad Aref Mohammad Ibrahim

202113081

This dissertation was defended successfully on 2 August 2025 and approved by:

Dissertation Committee Members:

Name	Title	Signature
1. Prof. Dr. Sami Miaari	Main Supervisor	
2. Prof. Dr. Hamid Ali	Member of Dissertation Committee	
3. Dr. Rabeh Morrar	Member of Dissertation Committee	

Palestine, August/2025

Declaration

I declare that, except where explicit reference is made to the contribution of others, this dissertation is substantially my own work and has not been submitted for any other degree at the Arab American University or any other institution.

Student Name: Mohammad Aref Mohammad Ibrahim

Student ID: 202113081

Signature: 

Date of Submitting the Final Version of the Thesis: 7.9.2025

Dedication

To my beloved parents,
Whose support and sacrifices have been the guiding light throughout my journey.

To my wife and children,
Thank you for your patience, love, and unwavering encouragement during the years of study.

To my friends and colleagues,
Who offered constant support and motivation at every step.

And to the people of Palestine,
A symbol of resilience and hope, who deserves every effort for a better future.

Mohammad Aref Mohammad Ibrahim

Acknowledgments

This dissertation would not have been possible without the support, guidance, and encouragement of many individuals and institutions.

I am deeply grateful to my Main supervisor, Professor Dr. Sami Miaari, for his exceptional mentorship, rigorous academic guidance, and continuous support throughout every stage of this research. His insight and commitment were instrumental to the completion of this work.

I also sincerely thank Professor Dr. Hamid Ali, the first supervisory committee member, and Dr. Rabeh Morrar, the second supervisor, for their valuable feedback, encouragement, and academic input.

I also appreciate Dr. Belal Fallah, the external examiner, for his thorough review and constructive evaluation of this dissertation.

I want to thank the Arab American University, specifically the Faculty of Graduate Studies and the Department of Administrative and Financial Sciences, for providing the institutional and academic support that made this research possible.

I am also thankful to all faculty members of the Ph.D. Program in International Political Economy for their guidance, teaching, and academic support throughout my doctoral studies.

To all of you, I extend my sincere appreciation.

Evaluating the Effectiveness of External Funding on Economic Development in Conflict-Torn Environments: The Palestinian Experience

Mohammad Aref Mohammad Ibrahim

Dissertation Committee: Prof. Sami Miaari, Prof. Hamid Ali, Dr. Rabeh Morrar

Abstract

This dissertation examines the influence of external financial flows on economic development in conflict-affected environments, with a focus on the Palestinian economy from 2000 to 2023. The study aims to assess how foreign aid, foreign direct investment (FDI), compensation of employees (mainly Palestinian workers in Israel), and private transfers influence key development indicators—namely, real GDP per capita, unemployment, and poverty—under conditions of political instability and institutional fragility.

The research was conducted in Palestine, using quarterly macroeconomic data covering Q1 2000 to Q3 2023. The study population encompasses the entire Palestinian economy. At the same time, the analytical sample includes time-series data obtained from official sources such as the Palestinian Central Bureau of Statistics (PCBS), the Palestine Monetary Authority (PMA), the World Bank, and the OECD.

The study employs a quantitative econometric approach, applying the Autoregressive Distributed Lag (ARDL) bounds testing methodology to examine both the short- and long-run relationships among variables. The ARDL model was chosen due to its robustness, small sample sizes, and mixed order of integration. Data analysis was performed using EViews software. Key diagnostic tests were applied to ensure model reliability, including tests for heteroscedasticity, serial correlation, normality, and stability (CUSUM and CUSUMSQ).

The results show that foreign aid significantly boosts GDP per capita and reduces unemployment in both the short and long run, but has no discernible impact on poverty. FDI likewise lowers unemployment yet fails to raise GDP per capita or alleviate poverty. Labor compensation from Israel yields long-term benefits in GDP growth and poverty reduction, but it also risks discouraging domestic job creation. Private remittances provide modest short-term poverty relief and a slight increase in GDP per capita, yet they are correlated with higher short-term unemployment and lack lasting developmental effects. Conflict intensity depresses GDP per capita growth over the long run and reduces poverty in the short run, without significantly altering unemployment rates or long-term poverty trends.

Policy recommendations include redirecting aid and foreign direct investment (FDI) toward high-employment, resilient sectors (e.g., decentralized infrastructure, green energy, small and medium-sized enterprises); transforming remittances into long-term capital through diaspora bonds and matched savings; strengthening institutional capacity and governance; and integrating conflict sensitivity into economic planning.

Keywords: External Fund flows, Economic development, Conflict-affected economies, ARDL model, Palestinian economy

Table of Contents

List of Tables

List of Figures

List of Appendices

List of Definitions of Abbreviations

Abbreviations	Title
ARDL	Autoregressive Distributed Lag
CUSUM	Cumulative Sum of Recursive Residuals
CUSUMSQ	Cumulative Sum of Squares of Recursive Residuals
COE	Compensation of Employees
EViews	Econometric Views (Statistical Software)
FDI	Foreign Direct Investment
FGA	Foreign Grants and Aid
GDP	Gross Domestic Product
GMM	Generalized Method of Moments
IMF	International Monetary Fund
ILO	International Labour Organization
IIP	International Investment Position
MENA	Middle East and North Africa
MOF	Ministry of Finance
OLS	Ordinary Least Squares
OECD	Organisation for Economic Co-operation and Development
OCHA	United Nations Office for the Coordination of Humanitarian Affairs
PCBS	Palestinian Central Bureau of Statistics
PMA	Palestine Monetary Authority
PTA	Private Transfers from Abroad
UNCTAD	United Nations Conference on Trade and Development
WB	World Bank

Chapter One: Study Background and Problem

1.1 Introduction:

Economic development is the most important goal that countries seek to achieve, as indicated by the indicators by which development is measured. Interest in economic development emerged during World War II, when this issue became a central focus of discussions in global economic thought, whether at the national or international level (Baldwin, 2021). Developed countries are interested in economic development so society can achieve full employment in the long run without inflation or deflation. However, for developing countries, the development goal is to increase growth rates in real national income, reduce unemployment and poverty, and enhance individual well-being through improvements in health, education, and social standards (Todaro & Smith, 2020).

Furthermore, many developing countries, except for oil-producing countries, typically require higher domestic savings rates, which constrain their ability to invest in economic development (Karim & Abu, 2016). This issue, discussed extensively in development literature since Rostow's stages of growth theory (Rostow, 1960), is attributed to low per capita income, limited capital resources, widespread poverty, and persistent trade deficits (Levy, 1988; Papanek, 1973; Griffin, 1970). Due to these limitations, many countries rely on external Funding sources, such as foreign aid, loans, and remittances, to fill their savings-investment gap (Chenery & Strout, 1966; Burnside & Dollar, 2000). Consequently, external funding has garnered significant attention in development economics, as it provides a vital alternative to meet the investment needs that domestic resources alone cannot satisfy.

Thus, economic development is considered extremely important for all societies to grow and prosper, whether these societies are advanced or developing. Economic development is necessary to help countries achieve economic independence and escape economic dependency (Arikat, 1997). Additionally, economic development enhances the standard of living for community members by increasing their income and providing them with job opportunities, which in turn positively impacts their health and educational levels (Quraishi, 2007). Additionally, economic development helps bridge the social and economic gap between social classes and achieve social and political stability (Aliemat, 2015).

Similarly, economic development is a central objective in Palestine, given its importance in improving living standards and reducing poverty. However, achieving this goal presents significant challenges due to the political and economic constraints imposed by the Israeli occupation, which controls critical aspects of the Palestinian economy and restricts access to both financial and natural resources (Khalidi et al., 2022).

The same challenges were documented in other conflict-driven, resource-constrained countries. In Iraq and Afghanistan, for instance, ongoing political instability and infrastructure challenges impede the sustainability of development. Consequently, these countries have been noted to rely heavily on foreign funding to supplement the resource deficiencies within their borders (Mingiri et al., 2016). Sub-Saharan African countries experiencing civil conflict and economic turmoil often fail to attract sustainable investment and instead rely on foreign aid to maintain essential services (Adusei, 2020). Like these countries, Palestine's dependence on external funding is a manifestation of broader development challenges faced by conflict-affected countries in their pursuit of economic resilience under conditions of limited sovereignty and resource scarcity.

Following the signing of the Oslo Accords in 1993, an international conference was held in Washington to address the financial stability of the newly established Palestinian National Authority (PA). During that period, essential objectives were to be achieved. These included providing financial support for economic development in the occupied West Bank and the Gaza Strip, promoting stability in the Middle East, and implementing liberalized markets (Turner & Shweiki, 2015). Additionally, efforts were made to uphold democratic institutions and safeguard human rights, and according to data compiled by the Organization for Economic Cooperation and Development, financial assistance provided to Palestinians exceeded $40 billion from 1994 to 2020 (Shaban, 2022).

While foreign aid and grants have traditionally formed the backbone of external funding in Palestine, other significant funding sources, including foreign direct investment (FDI), private sector transfers from abroad, and worker remittances, are also significant in economic development (Badwan & Atta, 2020). Traditionally, foreign aid and grants have aimed to address the direct fiscal gaps that the PNA faces in achieving social and economic stability (AMAN, 2020). However, many studies emphasize that this aid is often politicized,

as donor funds are often linked to specific policies or reforms. The contribution of grants has been central, yet controversial, as they primarily serve the interests of donor countries, which decisively influence policy orientations with a greater emphasis on short-term alleviation rather than actual and sustainable development (Wildeman & Tartir, 2021).

Foreign Direct Investment (FDI) has also been credited with the potential to spur local industry, enhance infrastructure, and provide jobs (Blomström & Kokko, 1998; Borensztein et al., 1998). Despite all obstacles, including instability associated with political conflict and restrictions on movement imposed by Israeli policy, FDI remains one of the essential sources of capital, particularly in high-impact sectors such as telecommunications, finance, and renewable energy. It is essential to note that research proves that FDI is essential in bringing in high technologies and industrial development. Thus, it can contribute to Palestine's Gross Domestic Product (GDP) growth, alongside sectoral development (Hemyoud & Zougart, 2020). Nevertheless, this constrains FDI, affecting investor confidence and potentially deterring prospective investors from implementing long-term economic plans (Khalidi et al., 2022).

Another fundamental pillar in Palestine's economic context is private sector transfers from abroad, often via Palestinian expatriates and diaspora networks. This source is considered a stable and essential source of funds that contributes directly to household consumption and indirectly influences economic stability through the reduction in poverty levels (Gelb et al., 2021). This type of remittance provided many Palestinian households with a crucial source of income, notably when political or economic conditions deteriorated significantly (Eltalla, 2019). Remittances stabilize local demand, facilitate small business enterprises, and serve as a safety net by mitigating shocks. In this respect, remittances from other conflict-prone regions compensate for the instability of family income and consumption, which in turn supports the efficiency of the general economy during crisis periods (Labdi, 2018).

Moreover, another source of external funds is worker remittances, particularly from Palestinians working in Israel (compensation of Employees in Israel), representing a considerable source of external income for Palestinian households and the economy, primarily by stimulating private consumption and investment (Saad, 2015). These wages,

often transferred by Palestinians employed in various sectors within Israel, form a substantial portion of household income for numerous families in Palestine, supporting the local economy by enabling spending on essential goods and services and encouraging investment in housing, education, and local businesses, especially small and medium enterprises (Eltalla, 2019).

Unlike private sector transfers from Palestinian expatriates abroad, which tend to be more stable, compensation from workers in Israel is often subject to political and security fluctuations. Due to Israel's complex political landscape, these income flows are vulnerable to interruptions, particularly during periods of heightened tensions or security incidents (ILO, 2023). These can lead to sudden restrictions on employment permits or border closures, impacting the reliability of these funds as a stable source of income for Palestinian families (Habbas & Quzmar, 2022).

Nevertheless, these types of funding, especially grants and foreign aid, have had an essential role in shaping the Palestinian political, social, and economic life, especially since this aid is often linked to specific political positions set by donor countries and sets different conditions when granting this aid (Shadeed, 2020; Daoudi et al., 2008). In addition, the Israeli occupation and its arbitrary practices stand in the way of progress in many issues that affect the achievement of development (Haase, 2013). Instead, it is the most critical factor impeding development in Palestine. In addition to geographic fragmentation and movement restrictions, Israel imposes severe restrictions on Palestinian construction and development in Area C. Israel also controls international crossings with Jordan and Egypt, which enables the Israelis to fully control the Palestinian economy, thwart the development of projects and laws, and sever ties with the world (PCR, 2020; UNESCWA, 2022).

In this thesis, the effectiveness of this external funding through multiple sources (which includes grants and aid, foreign direct investment, workers' remittances, and private sector transfers from abroad) in achieving economic development in Palestine will be evaluated by examining the elements of economic development under study, which include the GDP per capita (Adusei, 2020; Aliemat, 2015), unemployment rate (Daoudi, 2023; Gaies & Nabi(2019), and poverty rate (Ekanayake et al.,2020; Abdih et al., 2012).

This study will also analyze the challenges faced by the Palestinian economy in obtaining funding sources, particularly the challenges related to the requirements and conditions imposed by donor countries for approving funding. The focus will also be on the most critical obstacles to economic development in Palestine, especially those related to the Israeli occupation, the restrictions and obstacles it imposes, and ways to address and overcome them.

This study falls into the field of development economics, with a particular focus on development issues in regions affected by conflict. In this context, the specific relevance to the Palestinian setting is that complex challenges are emerging from the continued restrictions placed on economic activity by the Israeli occupation. While the literature on funding in conflict zones is expanding, particularly in studies focused on the economic and social effects of such funding, a systematic comparison of various forms of external funding regarding their relative effectiveness for sustainable economic development remains a knowledge gap.

While many research works have addressed the issue of foreign aid, few empirical analyses evaluate multivariate funding types, such as worker remittances, private sector transfers, and FDI, against the backdrop of a natural resource-scarce, conflict-affected economy like Palestine. Thus, a wide-ranging assessment is required to bridge the empirical and theoretical gaps by analyzing how these varied funding sources interact with Palestinian economic development indicators.

1.2 The Research Importance:

The importance of this study lies in its address of a complex issue facing most developing countries, particularly those involved in conflicts, regarding the effectiveness of external funding in stimulating economic development in the context of political and security challenges arising from the conflict. Focusing on the Palestinian economy, the research examines the impact of various forms of funding, including aid and grants, worker remittances, private sector transfers from abroad, and foreign direct investment, on select economic development indicators.

Therefore, the study focuses on assessing the different effectiveness tendencies of such funding sources to stipulate the ideal types that would benefit economic resilience and

development in the long run. This paper thus presents a structured analysis, mainly considering unique challenges faced in conflict-prone environments, such as the effects of security fluctuations, donor conditions, and policy restrictions, contrary to most of the existing literature, which in most cases measures the impact of one or two sources of external funding on economic growth only in most cases and does not closely address the effects of these sources on economic development indicators.

Thus, the study quantifies the contribution of each funding source to economic development in Palestine by evaluating its impact on per capita GDP, unemployment rates, and poverty rates. Accordingly, this work aims to inform policy-makers, decision-makers, and development practitioners via a structured approach necessary to optimize resource allocation and develop targeted strategies to leverage efficiencies and maximize the effects of external financing.

Since this study will examine the impact of external funding on economic development in the context of armed conflict in Palestine, it also extends beyond general models typically applied in stable or non-conflict situations. Probably the most significant novelty of this research is the relationship between conflict, particularly the increase in casualties and injuries as an indicator of conflict intensity in the context of renewed hostilities, and the volume and efficiency of diverse external funding forms.

Within this scope, this paper aims to demonstrate precisely how increasing conflict affects the predictability, volume, and effectiveness of these funding resources by linking measures of conflict intensity to the inflow of each funding type. It has sought to fill the Critical vulnerability in the literature by providing necessary theoretical insights and empirical evidence on how different levels of conflict affect the role of external funding in economic resilience and development under conditions of persistent instability.

1.3 The Research Problem:

For several decades, developing and developed countries have discussed the relationship and impact of various types of external funding on economic development, in general, and economic growth, in particular. However, the empirical studies did not yield a general result, as no concrete consensus emerged, and the results were mixed (Alemu et al., 2015).

On the one hand, external funding to economies and societies in conflict can significantly drive economic stability and development. Studies have supported this, verifying that growth can be stimulated through external funds by investing in infrastructure development, improving social services, and creating jobs (Collier & Hoeffler, 2002; Kang & Meernik, 2005). Such funding bridges resource gaps, facilitates reconstruction, and builds resilience in the affected local economy (Addison et al., 2002).

On the other hand, some authors believe its impacts are conditional and can lead to mere dependency without giving rise to sustainable growth (Griffin, 1970; Papanek, 1973). Moreover, foreign aid during conflictive contexts faces particular challenges where political instability and conditions imposed by donors may constrain its developmental impact (Justino & Shemyakina, 2012; Saad, 2015).

Given the challenges and circumstances that the Palestinian economy is facing, including the Israeli occupation and its arbitrary measures and obstacles, in addition to the scarcity of financial and natural resources and the difficulty of accessing them, this research uses Palestine as a base for an illustrative case study on how various funding flows from abroad influence economic development.

The most critical problem identified by that study is that although Palestine received a significant increase in foreign grants and aid ($53 billion from 1994 to 2023), foreign direct investment ($45 billion from 1999 to 2023), and private sector transfers from abroad ($29 billion from 1995 to 2023), and compensation for workers in Israel ($35 billion from 1994 to 2023), however, the Palestinian territories continue to suffer from chronic and increasingly deepening economic difficulties. The issues manifest in low per capita GDP, high unemployment rates, and poverty rates (PMA & PCBS, 2024; OECD, 2024).

There is no doubt that these challenges are exacerbated as a result of the continuing Palestinian-Israeli conflict resulting from the Israeli occupation of the Palestinian territories, which imposes restrictions that limit the development of infrastructure and control the aspects of economic and commercial activities. Therefore, the effectiveness of external funding in promoting economic development in the Palestinian territories, a unique situation marked by significant challenges due to this conflict, remains unclear.

Specifically, it is uncertain how the types of external funding affect the economic development indicators under study. This uncertainty is exacerbated by the complex interplay between donor conditions, geopolitical influences, and restrictions imposed by the Israeli occupation. Therefore, the research problem can be summarized as follows: How does external funding influence economic development in conflict-torn environments, with a particular focus on the Palestinian experience?

Sub-Questions

- To what extent do foreign grants and aid impact the economic development of Palestine?
- What effect does foreign direct investment have on Palestine's economic development?
- How do the remittances made by workers affect economic development in Palestine? To what extent do private sector transfers from abroad contribute to the economic development of Palestine?
- To what extent is the Palestinian-Israeli conflict influencing the access to, utilization, and sustainability of external financing for economic development?

1.4 The Research Objectives:

- Analyzing and studying the role and impact that may result from external sources of funds, such as grants, aid, workers' remittances, private sector flow transfers from abroad, and direct foreign investment, in the development process in Palestine, together with their efficacy vis-à-vis actual development.
- It will seek to identify the causes and justifications for Palestine to rely on external funding sources or request funding from donor countries for the development process in Palestine.
- Knowing the developments that have taken place in the Palestinian economy since it received external funding from its various sources.
- This study tries to review in detail the volume of external funding received by Palestine from all sources and the direction of its development within the Palestinian economy.
- It identifies the Palestinian economy's challenges in pursuing external funding from various sources and those facing projects tackling key development issues.

- It also aims to obtain results and recommendations that serve decision-makers, policymakers, and workers in the development field. The most significant beneficiaries are financing sources that promote and seed economic development in Palestine.

1.5 Study hypotheses:

The research proposes that the findings indicate that external funding will have a significant impact on Palestine's economic development over the study period.

It gives rise to the following hypotheses:

- Foreign aid directly contributed to the economic development of Palestine over the study period.
- Foreign direct investment and economic development were directly related in Palestine over this study period.
- Accordingly, there can be a positive relationship between workers' remittances and economic growth across the study period in Palestine.
- There is a direct relation between Private Sector Transfers from Abroad and economic development in Palestine during the study period.
- The effectiveness of foreign funding in Palestine is significantly impacted by the level of conflict related to the Israeli occupation and political circumstances.

1.6 Study limitations

- **Geographical Boundaries:** It confines its scope to selecting the Palestinian territories as a case study on how external funds in Palestine can contribute to achieving economic development, encompassing both the West Bank and the Gaza Strip.
- **Availability and Quality of Data:** The sources of data used for this research come from government institutions: the Ministry of Finance, the Palestine Central Bureau of Statistics, and the Palestine Monetary Authority. Other international organizations include the International Monetary Fund (IMF), the World Bank (WB), the Organisation for Economic Co-operation and Development (OECD), and the International Labour Organization (ILO), as well as reports from the Palestinian government and various academic research studies. Completeness, consistency, and updates on external funding,

as well as economic indicators concerning Palestine, may never be complete, consistent, or up-to-date, given the ongoing conflicts and limited access to comprehensive data.

- **Time limits:** from the first quarter of 2000 to the third quarter of 2023. The external funding trends and impacts analysis could be more concretely focused on this period; it may not apply to periods outside this range.
- **Scope of External Funding Sources:** This would involve various types of external funding sources, including grants and aid, foreign direct investment, workers' remittances, and private sector transfers. The scope limitation will, in return, allow a more focused analysis of the study's most relevant external funding sources. At the same time, it may likely fail to include essential source categorizations, such as loans.
- **Economic development indicators:** The direct indicators of economic development, which would be estimated explicitly during the study, include average per capita GDP, unemployment rates, and poverty rates. This would enable a focused analysis of the impact of external funding on economic development; however, the broader aspects of social and economic development may not be fully understood.
- **Dynamic Nature of Conflict and Funding:** The nature of conflict and its funding is dynamic. This means that political, economic, and social conditions are continuously changing. Similarly, the patterns of external funding and their impacts might change continuously. This dynamism has implications for capturing the long-term trends and effects that might influence the relevance and applicability of the findings.

1.7 Research Methodology:

This study applies the Unbalanced Growth Theory (Hirschman, 1958) to examine the role of external funding in shaping economic development within a conflict-affected economy. The theory posits that economic progress does not occur uniformly across all sectors but instead follows a pattern of targeted investments in strategic areas. These concentrated investments act as catalysts, initiating structural changes that drive broader economic transformation.

In line with this theoretical perspective, the study carefully selects independent variables based on their potential to stimulate key economic sectors. This selection process aligns with the theory’s core principle, which emphasizes channeling resources into high-impact areas to

generate substantial economic shifts. External financial inflows, particularly foreign aid and foreign direct investment, are expected to boost productivity within prioritized sectors before their benefits extend to the broader economy.

Furthermore, the study acknowledges labor market disparities as a crucial aspect of imbalanced growth. Including worker compensation from Israel and private remittances reflects the theory's emphasis on uneven economic development, where financial gains initially benefit specific groups before gradually diffusing across the economy. By considering these sector-specific and labor-related dynamics, the study integrates the Unbalanced Growth Theory as a guiding framework for understanding the influence of external funding on economic development.

The study employs a quantitative approach, utilizing time-series econometric modeling to analyze the relationships between external funding and economic development in Palestine. With its econometric tools, the quantitative approach is the core methodology for measuring the relationships under study. Quarterly time series data from 2000 to 2023 will be utilized to examine the problem.

- The study's dependent variables, representing economic development, are (per capita GDP, Unemployment rate, and Poverty rate).
- The independent variables that represent external Funding are (Workers' Remittances, Grants and foreign aid, Foreign Direct Investments, and Private Sector Transfers from Abroad)
- The study uses the variable that represents the number of wounded and the number of martyrs as a control variable to represent the Palestinian context that comes within the Palestinian-Israeli conflict, which is one of the objectives of the study.
- The study's model was constructed to measure the impact of external funding on economic development in a conflict context. The time-series methodology first tested the stationarity of the variables to determine their order of integration. When the variables were found to be a mix of I(0) and I(1), the Auto Regressive Distributed Lag (ARDL) model was adopted. The ARDL approach was chosen because it was robust for small sample sizes and capable of handling variables with different orders of integration, making it suitable for the study's

dataset. The regression equations encompassed both short-term and long-term relationships to analyze external funding dynamics and economic development dynamics comprehensively.

The mathematical representation of the ARDL model used in the study is as follows:

$$Y_t = \propto + \sum_{i=1}^{\rho} \beta_i Y_{t-1} + \sum_{j=0}^{q} \gamma j \, X_{t-j} + \lambda Z_t + \varepsilon_t$$

Where:

- Y_t: The dependent variable (per capita GDP, unemployment, or poverty rate) is represented.
- X_{t-j}: Represents the independent variables (Grants and foreign aid, Foreign Direct Investments, Workers' Compensation in Israel, and Private Sector Transfers from Abroad).
- Z_t: Represents the control variables (number of wounded and martyrs, etc..).
- $\propto$ is the intercept term.
- $\beta_i \; and \; \gamma j$: Are the coefficients of the lagged dependent and independent variables, respectively.
- λ: Represents the coefficient for the control variable.
- ε_t is the error term.

- Statistical methods will encompass quantitative approaches and tests necessary for robust analysis. These include stationarity tests to determine the integration order of variables, lag selection criteria to identify the optimal lag length for the model, and tests for short-run and long-run relationships within the ARDL framework. Diagnostic tests will be conducted to ensure the model's reliability, addressing issues such as serial correlation, heteroscedasticity, and the normality of residuals. Eviews-14 will be the primary software tool for conducting these analyses and processing the data.
- Descriptive analysis will be used by default to provide an overview of the main variables, including their trends and developments over the study period. Tables, statistical data, and

illustrations will demonstrate the evolution of external funding sources and their interaction with political and economic events.

1.8 Definitions

The following are the operational and conceptual definitions.

1.8.1 Economic Development:

Economic Development, in general, can be defined as the process of comprehensive and continuous change, which is characterized by an increase in average real income, an improvement in the quality of income distribution in favor of the poor class, an improvement in the quality of life, and a change in the structure of production, as a result of this interconnectedness (Sachs, 2005).

Indicators used to assess economic development in this study include:

- **GDP per Capita:** It provides a way of gauging the level of standard economic well-being an individual has acquired by residing in a specific country. The average is calculated by dividing a country's total GDP — the total value of goods and services produced over a given period, usually one year — by that country's population. Typically, the GDP is expressed in a specific form of currency (OECD, 2023). Moreover, an increase in GDP per capita suggests improved purchasing power and a potential for increased savings and investment (Fariss et al., 2022).
- The researcher defines GDP per capita as the per capita share of real GDP, calculated by dividing the real GDP (adjusted for inflation) by the total population during a specific period. Data published by the Central Bureau of Statistics (PCBS) was used for this variable.
- **Unemployment rate:** This can be defined as a situation in which a part of the labor force is willing to work and looking for a job but cannot find employment. Janoski (1990).
- The researcher operationally defines the Unemployment Rate as the percentage of individuals (15 years and over) without work during the support period who were ready to work and searched for work during the four weeks preceding the support period.

- **Poverty** refers to the inability of individuals or households to secure a socially acceptable minimum standard of goods and services, even when employed. It includes those facing temporary hardships as well as those earning insufficient income. Poverty can also be intergenerational, affecting both individuals excluded from the labor market and those with employment. In this condition, people survive on low incomes—sometimes above official poverty lines—yet still fail to meet their basic needs in a meaningful way (Ravallion, 1992; Joseph Rowntree Foundation, 2012). The World Bank defines extreme poverty as the number of individuals living on less than $1.25 per day, and this threshold was raised to $1.90 per day in 2011 (Gweshengwe & Hassan, 2020).
- This study operationally defines the poverty rate using statistics published by the International Labor Organization (ILO), which defines it as a percentage of employed people living below US$2.15 per day. The poverty data for Palestine were obtained from the Palestinian Central Bureau of Statistics (PCBS) and the International Labor Organization (ILO). Since poverty data are available annually, they were converted into a quarterly series for the study period using the Denton method, aligning it with the unemployment series, which is available at a quarterly frequency.

1.8.2 External Funding

In this study, external funding Sources will be the following:

- **Foreign direct investment** reflects the objective of establishing a lasting interest by a resident enterprise in one economy (direct investor) or an enterprise resident in an economy other than that of the direct investor. The lasting interest implies a long-term relationship between the direct investor and the direct investment enterprise, as well as a substantial influence on the management of this enterprise. The latter is evidenced by the direct or indirect ownership of 10% or more of the voting power of an enterprise resident in one economy by an investor resident in another economy. OECD (2009).
- This study operationally defined foreign direct investment (FDI) as stated in the International Investment Position (IIP) data, specifically Section 91, which refers to the total foreign investment flowing into the Palestinian territories, as calculated by the Palestinian Central Bureau of Statistics.

- **Official Development Aid (ODA)** refers to government monetary support to promote a country's economic and social development. Loans and credits granted explicitly for military purposes are excluded from this. Bilateral aid refers to the provision of assistance either directly to the recipient or through an intermediary, typically a multilateral development organization such as the United Nations or the World Bank. The forms of help considered are grants, "soft" loans, and technical support. OECD (2016).
- This study operationally defines foreign grants and aid as grants obtained from donors and for specific types of aid (e.g., grants, loans, technical cooperation) based on actual disbursements. The data includes financial flows from all bilateral and multilateral donors and charitable foundations obtained from the OECD. Since the OECD provides ODA data annually, it was converted into a quarterly series using the Denton method. This transformation was achieved by aligning it with the quarterly data on grants and aid received by the Palestinian National Authority, which are available quarterly from the Palestinian Ministry of Finance.
- **Worker remittances:** These are the money workers residing abroad send to their country of origin. These workers may be migrants working in another country and remitting part of their income to their families or relatives back home. These transfers are part of workers' income earned abroad. They are often regular transfers sent to support families or cover their financial needs and are included in the current account in the balance of payments (IMF, 2009).
- This study operationally defines Worker remittances. This refers to compensation for workers in Israel and other countries, as reported in the Palestinian Balance of Payments, issued by the Palestinian Central Bureau of Statistics and the Palestinian Monetary Authority, specifically in item 15 of the sixth edition.
- **Private sector transfer:** They are non-governmental financial flows sent by private individuals or institutions residing abroad to entities or individuals in the home country. These transfers include funds from private companies, donations, grants, and other forms of financial support. These transfers are characterized by not being directly linked to income resulting from work, and they may be irregular, varying in the reasons and purposes for which they are sent. These transfers are included in the current transactions

account in the balance of payments and are distinguished from workers' compensation because they do not stem from income earned through work (IMF, 2009).

This study operationally defines Private sector transfers as Remittances from expatriates or current transfers, including those to the private sector, as obtained from item 23 in the sixth edition of the Palestinian Balance of Payments report, issued by the Palestinian Central Bureau of Statistics and the Palestinian Monetary Authority.

1.8.3 Conflict-Torn Environment:

- The conceptual definition of a conflict-torn environment stipulates that there would be prolonged political instability with violent conflict disruptions to the usual economic activities and development processes. Such environments are typically severely constrained in terms of economic growth and development due to ongoing conflict and associated conditions (Collier & Hoeffler, 2004).
- This study will operationally characterize a conflict-torn environment in terms of intensity, indicating the presence of ongoing conflict, such as violence, political unrest, and instability. One of the most direct ways to express the violence and intensity of a conflict is to count the number of casualties, including deaths and injuries, resulting from the conflict (Ezeoha & Ugwu, 2015). To wit, this gives a quantitative measure of the violence and intensity of conflict that can be measured by counting the number of Palestinians killed or injured through politically motivated incidents of violence. This study uses the number of Palestinians killed or injured for political motives per quarter, as in the studies of Fielding (2004), Collier & Hoeffler (2004), and Hegre & Sambanis (2006), since these data were retrieved every quarter from the Israeli human rights organization B'Tselem.

Chapter Two: Theoretical Framework and Previous Studies

This chapter presents a theoretical framework encompassing key aspects of economic development, including its concept, objectives, importance, and essential requirements for achieving sustainable growth. It then explores core development theories, followed by a detailed examination of the motivations that lead countries to pursue external funding. With a focus on addressing resource shortages, such as savings and trade gaps, the chapter discusses various forms of external funding, including grants, loans, foreign direct investment (FDI), and remittances.

Additionally, it reviews empirical studies on the impact of external funding on economic performance, poverty alleviation, and employment, with a particular focus on how these mechanisms operate in conflict-affected economies, such as Palestine. This analysis provides a comprehensive understanding of the strategic role of external funding in economic development within Palestine's unique political and economic context.

2.1 Economic Development

2.1.1 Economic Development Concept

Economic development concepts began to take shape after World War II, when developing countries needed to overcome the crises created by colonialism (Todaro & Smith, 2020). After gaining political independence, these countries began making special efforts to rid their economies of dependency and achieve economic growth at all levels. Adelman (2000). The essence of development at that time was the rapid growth of income, as development literature emphasizes the importance of growth (Meier & Stiglitz, 2001). The income index became widely used to express development because it measures a society's ability to increase production at rates exceeding population growth rates. The actual income growth rate is generally measured as an improvement in the standard of living (Baldwin, 1966).

Before delving into economic development, it is essential to distinguish between the concepts of economic growth and economic development. Sometimes, the terms "economic growth" and "economic development" are used interchangeably, even though their meanings differ. Economic growth refers to an increase in the production of goods and services within

a specific period. Overall economic growth is typically measured by gross national or gross domestic product, although alternative measures are sometimes employed (Henry, 1987). This means that economic growth focuses on the change in the average amount of goods and services that an individual obtains, without being concerned with the structure of the distribution of real income among individuals or the quality of goods and services they obtain. (Flaming, 1999).

In this regard, a rich country may subsidize a poor country by increasing its average real income for a year or two. However, this temporary increase is not considered economic growth, as it must result from the interaction of internal and external forces to ensure that growth continues for a relatively long period (Atiyah, 2000). Also, the increase in average income does not mean that every member of society has increased their income in absolute or relative terms. A small class of the rich may obtain all the increase in total income, while the large class of poor people is deprived. Despite this, the average income increases significantly (Qabqali, 2014).

Economic development entails transforming the state of society, rather than merely achieving output growth. In other words, economic development refers to the set of changes in a culture that aims to achieve rapid self-sustaining growth (Adelman, 2000). Nevertheless, It can be said that there is no single concept of economic development because, in contrast to the idea of economic growth, it involves a change in a group of variables, including a change in the structure of income distribution, a change in the quality of goods and services provided to individuals, a change in the structure of production, and the average quantity of goods and services accessible to each individual. Therefore, economic development simultaneously focuses on both quantitative and qualitative change (Sen, 1999; Cypher & Dietz, 2014; Haq, 1995; Todaro & Smith, 2020).

However, in general, development can be defined as the process of comprehensive and continuous change, which is characterized by an increase in average real income, an improvement in the quality of income distribution in favor of the poor class, an improvement in the quality of life, and a change in the structure of production, as a result of this interconnectedness (Sachs, 2005; Todaro & Smith, 2020).

This definition of development encompasses several key elements, the most significant of which is an improvement in income distribution in favor of the poor. In the 1950s and 1960s of the last century, it was observed that many developing countries experienced high economic growth rates; however, the relative share of income for the poor was decreasing. Continuously: There is a continuous increase in average income for an extended period, which means that development is a long-term process (Kuznets, 1966). Comprehensiveness is a comprehensive change that encompasses not only the economic aspect, but also the cultural, political, social, and moral aspects (Sen, 1999).

The economic development process also has goals that countries that implement development plans seek, especially since many developing countries today are afflicted by various problems, including chronic deficits in the balance of payments, lack of industrialization, rapid demographic growth rates, inadequate savings, and capital formation, low levels of living, institutional inadequacies, and specialized constraints (Sachs, 2005; Escobar, 2005).

2.1.2 Economic Development Objectives

Economic development aims to enhance the overall well-being of a nation's population by increasing national income, improving living standards, reducing income inequality, and promoting sustainable economic growth. However, defining specific objectives varies across countries due to their differing economic, political, and social contexts. Despite these differences, several key objectives are widely recognized as central to the development process.

One of the primary goals of economic development is to increase a nation's gross domestic product (GDP) or national income. This involves a rise in monetary income and an actual increase in real national income, which refers to the goods and services produced by economic resources over a specific period. The pressure to achieve higher national income becomes more pronounced with population growth, requiring more efficient utilization of material and technical resources (Attar, 2005; Thirlwall, 2011; Cypher & Dietz, 2014).

Another key objective is raising the standard of living. Economic development is closely linked to increasing the average per capita share of real income through structural transformations in production and the improvement of the quality of goods and services.

Beyond mere quantitative growth, development focuses on qualitative improvements, ensuring access to essential needs such as health and education while enhancing cultural and social well-being. The standard of living is often measured by consumption patterns, income distribution, and access to public services (Atiyah, 2000; Todaro & Smith, 2020; Sen, 1999).

Reducing income and wealth disparities is also a fundamental objective, as many developing countries experience stark inequalities. A small percentage of the population often controls a disproportionate share of wealth, resulting in adverse effects on the health, education, and overall quality of life for the majority of the population. Addressing this imbalance requires redistributive measures that enable broader access to economic opportunities, thereby fostering social cohesion and stability (Bakri, 1988).

Expanding the production base is crucial for sustainable growth, particularly in developing economies where agriculture remains a dominant sector. Therefore, it is necessary to expand the base of the production structure of the critical sectors from an economic and technical point of view and build transformational industries to provide the economy with the necessary needs in light of what developing countries suffer from the backwardness and obsolescence of the production base and the weak degree of interconnection between sectors and dependency on the outside (Aliemat, 2015; Hirschman, 1958; Thirlwall, 2011).

As such, the building of a strategy accomplishing the goals of these countries in light of such conditions is not possible unless there is a change in the structure and form of their economies, which refers to a modification in the relative composition of the national economy, given that the aim of economic development pertains to modifying the structural composition of the national economy to the benefit of the industrial and services sectors (Samaan et al., 2011; Chenery, 1979; Kuznets, 1966).

The Sustainable Development Goals (SDGs), established in the 2030 Agenda, provide a comprehensive framework for achieving these objectives: poverty eradication, hunger reduction, climate action, gender equality, and infrastructure development. These global targets reflect a shared commitment to a holistic and inclusive approach to economic development (Qeshta, 2023; Morrar et al., 2024).

Although additional objectives could be considered, the ones discussed here represent the most universally recognized priorities in economic development. Their selection is based on extensive literature and international development frameworks, making them the most relevant for evaluating progress in developing countries. Future research may explore further objectives depending on specific national priorities and evolving economic conditions.

2.1.3 Indicators of Economic Development:

Indicators of economic development help establish and evaluate development trends and success through economic planning and analysis. Still, both meaningfully highlight the developmental goal that a country typically achieves through its economy (Kuznets, 1955; Todaro & Smith, 2020). Such measures gauge economic growth in terms of income distribution and unemployment, which can be stated to represent the economic growth rate of a country or nation, given the speed and duration at which an economy sustains itself (Sen, 1999). Coupled with social development in terms of life expectancy, educational achievement, and access to medical care, there also exists. The equally essential indicators are governance and environmental sustainability, which provide a clear picture of the cumulative economic advancement and the quality of life that the population enjoys (Aliemat, 2015; Stiglitz et al., 2010; World Bank, 1987).

Thus, Indicators of economic development become essential for appraising the achievements and progress an economy makes (Klasen, 2018). This also encompasses detailed information on the general health and further growth possibilities of the economy concerned. Among such indicators, the Gross Domestic Product (GDP) index is regarded as the conventional measure of growth, and a higher index value indicates more development. Another important indicator is the per capita GDP, as it reflects the economy's output per person and, therefore, serves as an indicator of the average citizen's economic welfare (Meeding & Weinberg, 2001; Jones & Klenow, 2016; World Bank, 2020).

This study explicitly focuses on per capita GDP, unemployment rates, and poverty levels as the primary indicators of economic development in Palestine. These indicators were selected because they are relevant to capturing the economic realities of a conflict-affected economy. Given Palestine's unique economic structure, external financial dependencies, and persistent economic constraints imposed by political instability, these indicators offer a comprehensive measure of economic well-being.

Per capita GDP is a fundamental measure of economic output per person, reflecting productivity and income levels. Given Palestine's limited access to resources and trade restrictions, tracking per capita GDP offers insight into economic growth and living standards. As Todaro and Smith (2020) noted, gross per capita income is a crucial measure of economic well-being and an essential determinant of a nation's development trajectory.

The unemployment rate is another significant indicator, as Palestine has persistently high unemployment levels due to economic restrictions, limited industrial activity, and a constrained private sector (Nafziger, 2012). High unemployment rates signal structural economic deficiencies and a lack of job opportunities, which have long-term consequences for income stability and social cohesion. Addressing unemployment is central to economic development efforts, making it a key metric in evaluating progress.

Poverty levels are equally crucial in assessing economic development, particularly in Palestine, where a large proportion of the population relies on humanitarian assistance. Poverty indicators provide insight into income distribution and the extent to which economic policies address socio-economic disparities. A high poverty rate reflects economic distress, underdevelopment, and a lack of access to essential services (IMF, 2014; Bose, 2023). In conflict-affected regions like Palestine, poverty is exacerbated by restrictions on economic activity, making it imperative to track changes in poverty levels as an indicator of economic resilience.

This study focuses on these three indicators to present a comprehensive evaluation of economic development in Palestine. Integrating these indicators with theoretical frameworks and empirical evidence enables a more precise understanding of the effectiveness of economic policy and development trajectories. These variables provide a holistic view of economic conditions, making them the most relevant in capturing Palestine’s economic challenges and opportunities.

2.1.4 Theories of Economic Development:

Initially, economists focused on economic growth, but the theoretical foundation for economic development began to solidify after World War II. This shift divided economic theories into two main categories: the first focused on growth and stability in developed countries. In contrast, the second was when they explored the conditions necessary to achieve development in underdeveloped countries (Thorbecke, 2019).

Consequently, governments and economists in these countries became increasingly interested in the issue of economic development, leading to a concept that extends beyond traditional economics to include the economic, political, and cultural prerequisites essential for rapid institutional and structural transformation (Lewis, 1955; Myrdal, 1957; Sen, 1999).

A significant shift also emerged in economic research towards studying external funding, particularly international aid and loans, and its effect on economic development. Experts have different and contradictory opinions regarding the impact of foreign funding from various sources on the economies of developing countries. This difference was reinforced by the owners' views of the traditional and non-traditional schools (Burnside & Dollar, 2000; Easterly, 2003; Sachs, 2005).

2.1.4.1 Harrod-Domar Growth Model:

Harrod (1939) and Domar (1946) initiated their work in the mid-20th century, when, within the classical school, they were the first to test the effectiveness of external financing in developing countries by creating the first model (Easterly, 1999). They emphasized the role of physical capital accumulation in determining economic growth. Growth is driven by the country's level of savings and investment.

Hence, they concluded that external funding is vital in bridging the savings gap in developing countries, which is a primary obstacle to investment and development in these countries. This model is considered one of the most critical analyses in highlighting the vital role of foreign capital in economic growth (Lewis, 1954*;* Chenery & Strout, 1966*;* Thirlwall, 2011). Below, various theories that seek to analyze and explain phenomena related to economic development will be reviewed.

2.1.4.2 Big Push Theory

Rosenstein-Rodan (1943) developed a big push theory while studying Eastern European countries. He stated that developing countries need a substantial investment boost. According to Rodan, the big push is essential to economic development. It represents a minimum level of development effort that must be made before the economy can proceed to the stage of self-growth. The theory, inspired by the destruction caused by World War II, laid

the foundation for the Marshall Plan, which aimed to revive European economies (AL-Fahdawi & Al-Sheikh Radi, 2000).

Building on Rosenstein-Rodan's work, later contributions by scholars such as Murphy et al. (1989), Krugman (1991), Romer (1986), and Matsuyama (1992) expanded its scope, incorporating modern perspectives on coordination failures, market imperfections, and economic linkages.

However, the basic idea of this theory emphasizes that developing countries cannot eliminate their state of backwardness without making a big push or a series of such pushes, represented by making considerable investments to establish basic economic structures and establishing many integrated projects so that the economy can emerge from the throes of recession and reach a state of growth in various investment activities. The big push is a strategy aimed at removing bottlenecks, as investment in infrastructure projects serves other projects and lays the primary basis for developing productive activities (Al-Badrawi & Al-Azzawi, 1991; Khababa, 2014).

Rodan's analysis is based on the basic assumption that industrialization is the path to development, an indispensable necessity for all underdeveloped countries, and a means to absorb surplus labor, provided that industrialization begins strongly by employing a considerable amount of investment in industry. Building social capital, including roads, transportation, and workforce training, provided these vast projects are integrated (indivisible). This would create external economic savings by providing low-cost production services for establishing industrial projects. Many investments must also be directed to industries whose projects integrate to achieve horizontal and vertical interconnection. Establishing them simultaneously would result in external savings on both the demand and supply sides (Nurkse, 1953; Scitovsky, 1954; Quraishi, 2007).

While the theory emphasizes the importance of large-scale investments as a catalyst for economic development, critics argue that its heavy reliance on centralized planning and large-scale industrialization may overlook the unique social, cultural, and economic contexts of different regions (Easterly, 1999; Scott, 1998). They suggest that this approach risks marginalizing localized initiatives and grassroots efforts that could better address the specific needs of communities. Additionally, critics argue that gradual, decentralized development,

which emphasizes smaller-scale, context-sensitive investments, may be more effective in promoting sustainable growth (Sen, 1999; Sachs, 2005). This alternative approach enables greater flexibility, adaptability, and inclusivity, particularly in environments where large-scale industrial projects may be impractical or disruptive (Hirschman, 1958; Todaro & Smith, 2020).

2.1.4.3 Balanced Growth Theory

It is an extension of the big push theory. Nurkse (1953) focuses on solving the problem of the vicious cycle of poverty resulting from low-income levels and, thus, the narrow market size. This is achieved through broad investments in consumer and capital goods industries. This approach aligns with the balanced growth theory, highlighting the importance of coordinated development across multiple sectors (Chenery, 1961; Srinivasan, 1986). It also encompasses the balance between industry and agriculture, as well as between the domestic and external sectors, to ensure a balance between supply and demand. The broad front of investments is facilitated by the horizontal and vertical integration of industries, improved division of labor, technical skills, market size expansion, and the exploitation of economic and social infrastructure (Williamson & Panchamukhi, 1989; Arrow, 1988).

Nurkse also advises that local resources from the agricultural sector should be relied on to provide financial resources for investment programs. It also calls for absorbing the surplus labor force in building social investment facilities, which raises the agricultural sector's productivity (Johnston & Mellor, 1961). Nurkse believes it is necessary to impose agricultural taxes and shift the terms of trade to the disadvantage of farmers. Because the market is ineffective in underdeveloped countries, the state must play a role in planning and implementation (Lewis, 1954; Chenery & Srinivasan, 1988). Finally, the market can also be expanded through various factors, including increasing the money supply, utilizing advertising, eliminating trade restrictions, and expanding infrastructure (Todaro & Smith, 2020; Quraishi, 2007).

Critics of Nurkse's theory argue that while it emphasizes large-scale, coordinated investments to combat poverty, it neglects the crucial role of governance quality and institutional strength in ensuring sustainable growth (Hirschman, 1958; Streeten, 1959). The reliance on agricultural taxes risks diminishing productivity and deepening rural

poverty (Johnston & Mellor, 1961; Lewis, 1954). Furthermore, excessive state-led planning can hinder private-sector innovation, and the environmental consequences of rapid industrialization are overlooked (Myrdal, 1957; Prebisch, 1950). A more practical approach in resource-constrained contexts may involve unbalanced or sector-specific growth strategies (Hirschman, 1958; Chenery, 1961).

2.1.4.4 Growth Poles Theory

Perroux (1955) was the first to lay down the foundations of this theory, later adopted by Hirschman (1958) as a basis for the theory of unbalanced growth. The essence of this theory is the existence of one or more urban areas that enjoy certain economic, social, and geographical features, making them a hub. For development in other regions, it influences them in a way that encourages them to consistently move towards this city due to the presence of a leading industry that provides distinguished job opportunities for its residents and those of neighboring areas (Boudeville, 1966; Parr, 1999).

Building on this concept, Perroux argues that the development of that pole (the urban place) affects the development of the areas that fall within its sphere of influence, and this pole can directly or indirectly determine the relationships between economic and social activities and how they perform their functions (Richardson, 1978; Myrdal, 1957).

However, most cities of the Industrial Revolution and beyond adopted this theory of development, as those cities arose on the cusp of an industry (leading or generative) and possessed what is called “input” and “output” links, meaning that the outputs of one industry are transformed into the inputs of another industry. Thus, a group of industries is linked to that industry. Leading or generating becomes a factor that attracts labor, capital, and investments; thus, cities that depend on this industry are created. (Krugman, 1991; Scott & Storper, 2003; Khababa, 2014).

In critiquing the Growth Poles Theory, several limitations emerge despite its foundational contributions to regional development strategies. The theory assumes that development naturally diffuses from urban hubs to surrounding areas, yet this often fails, leaving regional inequalities unresolved (Myrdal, 1957). Its urban-centric approach risks marginalizing rural areas and creates economic vulnerability if the leading industry experiences downturns (Parr, 1999; Richardson, 1978). Furthermore, it overlooks the crucial

role of governance and institutional frameworks in achieving balanced and sustainable growth. Finally, the theory overlooks the environmental and social costs of concentrated development, raising significant concerns about its long-term applicability (Krugman, 1991; Scott & Storper, 2003).

2.1.4.5 Unbalanced Growth Theory

Hirschman (1958) crystallized the features of this theory after criticizing the theories of growth poles and balanced growth. This strategy focuses on the growth of a specific sector, and thus, through this sector, growth is transmitted to other sectors (Rostow,1960; Chenery & Taylor, 1968). He emphasized that the development plan implemented through the unbalanced growth strategy is the most effective way to achieve progress. This is because investment in leading strategic sectors is what drives new investments, and the development process requires imbalance at the beginning of its stages; where growth moves from the leading sectors to the subordinate sectors, this creates external economic savings that the rest of the sectors benefit from, and every new project would generate savings and advantages (profits for private organizers, social profits) from which every other new project would benefit and so on (Streeten, 1959; Hirschman, 1977; Kabidani, 2013).

According to this theory, developing countries also need a big push to finance the enormous investment program allocated to some industries, but not all of them, which happened in the United States or Japan, since no country can provide the necessary funding for all sectors (Murphy et al., 1989; Krugman, 1991). The national planner must direct investments to build social capital or to establish direct productive activities. One creates external savings, while the other benefits from them, and every development of the first encourages private investment. This action would create an economic imbalance, which is considered the driving force for growth. It occurs on two levels: either an imbalance between the social capital sector and the direct production sector or within the sector itself, requiring that the leading sector contain the most significant amount of forward and backward momentum (Streeten, 1959; Hirschman, 1977; Murphy, 1989; Quraishi, 2007).

This theory has faced several criticisms. Scholars argue that focusing on specific sectors while neglecting others can lead to economic and social imbalances, particularly in developing countries (Streeten, 1959). This approach may also exacerbate regional

disparities, widening the gap between advanced and lagging areas (Murphy et al., 1989). Moreover, reliance on investments in selected sectors without a comprehensive strategy could result in inflationary pressures due to increased demand without adequate supply in the short term (Krugman, 1991). Critics also point out that this strategy risks inefficient resource allocation and potential wastage, especially in resource-constrained developing economies (Streeten, 1972). These critiques emphasize the need for a more balanced and inclusive approach to development planning.

2.1.4.6 Stages Theory of Growth

Rostow (1960) introduced the Stages Theory of Growth, later publishing it in The Stages of Economic Growth. Building on Marx's ideas, this theory highlights the importance of achieving capitalism through economic investment and savings, which are essential for economic development (Ajamiya et al., 2007). According to Rostow, economic growth proceeds through five sequential stages:

- **Traditional Society:** Characterized by hierarchical social structures, limited productivity, education, and mobility. Most people work in agriculture.
- **Preconditions for Take-off:** A transitional phase requiring 10% of national income invested in foundational sectors like education, enabling labor to shift gradually from agriculture to other sectors.
- **Take-off:** Overcoming initial barriers, this stage sees investments exceeding 10-20% of national income, leading to rising individual incomes and the emergence of leading sectors.
- **Drive to Maturity:** Societies adopt modern technology to optimize resources, achieving sustained economic growth.
- **High Mass Consumption:** The focus shifts toward high consumption levels, decentralizing economic activities, and meeting growing consumer demands (Leithi, 2005; Jacobs, 2024).

Rostow considers these stages "universal" in nature, applicable to all societies transitioning from traditional to modern, from backward to forward, and from backwardness

to progress. One of the most crucial development strategies that propel society along its historical path is the mobilization of savings (both domestic and external) to create sufficient investments, thereby accelerating economic growth and technological development within the context of appropriate social, cultural, and political conditions for modernization. (Dang & Sui Pheng, 2015). However, Rostow believes that currently developed countries have passed the take-off stage towards sustainable growth, while currently underdeveloped countries are still at the traditional society or preconditions stage. They must follow a set of development rules to move towards self-sustainable growth (Nafziger, 2005; Coccia, 2019).

Rostow's stages theory of growth has been criticized for oversimplifying the economic development process and its linear progression model. Critics argue that the theory assumes all societies follow the same path to modernization, ignoring individual nations' unique historical, cultural, and political contexts (Nafziger, 2005). Additionally, the focus on investment and savings as primary growth drivers underestimates the importance of institutional development and governance, which are critical for sustainable progress (Dang & Sui Pheng, 2015). The model's assumption that underdeveloped countries must mimic the path of developed nations disregards alternative development trajectories that have been successful in some regions (Coccia, 2019).

Moreover, the theory fails to address global inequalities and systemic barriers that hinder the ability of developing countries to progress through these stages (Ajamiya et al., 2007). These critiques underscore the need for more nuanced and adaptable models that account for diverse pathways to economic development.

2.1.4.7 Dependence Theory

It is an economic and sociopolitical theory formulated around the mid-20th century by predominantly Latin American sociologists and economists, including Prebisch (1950), Frank (1966), and Cardoso and Faletto (1979). The theory relies on the assertion that developing countries are constrained by rigid economic and political institutions at the national and international levels, resulting in dependency on the developed world. The theory dominated the 1970s, following the growing disillusionment of developing countries as they

continued to make no progress with the development model that was unsuitable for their situation (Cardoso & Faletto, 1979).

Dependence theory relies on two principal models to describe this reality: the Neocolonial Dependency Model and the Misconception Model of Development. The Neocolonial Dependency Model posits that the global dominance of the capitalist system hinders the development of Third World countries, as it keeps them economically subordinated to the developed world. The model believes that development can only be achieved with the revolutionary reorganization of equality-based economic relations (Tansey & Hyman, 1994; Weller, 2012). The Misconception Model attributes Third World underdevelopment to the flawed policies of international institutions, such as the IMF and World Bank, and Western-trained economists who apply models that do not align with local needs and priorities (Friedmann & Wayne, 1977; Bukhari, 2017).

Dependency theory has been criticized for focusing excessively on external factors, with the tendency to ignore the domestic barriers that hinder development at the national level (Friedmann & Wayne, 1977). The critics argue that by focusing on global capitalist structures, the theory oversimplifies the complex interplay between domestic governance, institutional quality, and development outcomes (Tansey & Hyman, 1994).

Also, the suggestion of radical restructuring can be unrealistic, even counterproductive, as it may overlook the importance of incremental changes and the role of global economic integration (Weller, 2012). The theory has also been criticized for being deterministic, implying that underdevelopment is inevitable if the global economic structures remain unchanged (Kvangraven, 2023). Additionally, the Misconception Model's criticism of international institutions is non-actionable, as it offers no practical solution for aligning policies with the needs of the local population (Bukhari, 2017). These criticisms underscore the need for creating sophisticated frameworks that balance external factors with domestic dynamics.

Table 2.1: Key Economic Development Theories:
Concepts, Proponents, and Critiques

Theory	Proponent(s)	Core Idea	Criticism
Harrod-Domar Growth Model	Harrod (1939), Domar (1946)	Savings and investments drive economic growth; external funding bridges the savings gap.	Overemphasis on physical capital neglects institutional and governance factors.
Big Push Theory	Rosenstein-Rodan (1943), expanded by Murphy et al. (1989)	Large-scale investments in key sectors are essential for self-sustained growth.	Ignores local contexts; risks inefficiency and marginalization of smaller initiatives.
Balanced Growth Theory	Nurkse (1953), Chenery (1961)	Coordinated development across sectors to break the cycle of poverty.	Neglects governance and environmental concerns; reliance on state-led planning may stifle innovation.
Growth Poles Theory	Perroux (1955), Hirschman (1958)	Development concentrated in urban hubs radiates growth to surrounding areas.	Fails to address regional inequalities; vulnerable to downturns in leading industries.
Unbalanced Growth Theory	Hirschman (1958), Streeten (1959)	Focus on leading sectors to stimulate growth in other sectors.	This may exacerbate social and economic disparities, leading to inefficient resource allocation.
Stages Theory of Growth	Rostow (1960)	Economic growth progresses through five stages, emphasizing investment and modernization.	Oversimplifies development; assumes all societies follow the same path.
Dependency Theory	Prebisch (1950), Frank (1966), Cardoso & Faletto (1979)	Global capitalist structures perpetuate dependency and underdevelopment.	It focuses too much on external factors and lacks actionable internal solutions.

2.1.5 Evaluating Economic Development Theories: Unbalanced Growth Theory as the Most Suitable Framework for Palestine

This study applies the framework of the Unbalanced Growth Theory to analyze the impact of external financing on key economic development indicators for Palestine. Hirschman (1958) argues that concentrated investment in specific industries can trigger overall economic growth, particularly in low-income economies or those experiencing conflicts. Albania and Ethiopia are examples, with concentrated external financing being the primary driver of economic transformation. Between 2014 and 2018, Albania attracted foreign firms to strategic sectors, thereby accelerating diversification and economic growth (O'Brien et al., 2020).

Similarly, Ethiopia has emphasized foreign direct investment (FDI) in manufacturing and infrastructure, offering incentives for multinationals, which has led to increased employment and export growth (Abebe, 2019; Seyoum, Wu, & Yang, 2015). These examples reinforce the importance of channeling external finance into high-impact industries through foreign direct investment (FDI) or foreign aid, affirming Hirschman's belief that focused investments bring favorable spillover effects and encourage sustainable economic growth.

The Palestinian context is most suitable for this theory, with external funding channels—such as foreign grants, foreign direct investment (FDI), private sector transfers, and migrant worker remittances—predominating in Palestinian macroeconomic outcomes. For example, foreign grants have contributed a high proportion of Palestinian GDP, ranging from 18% to more than 18% of GDP annually from 2008 to 2020 (World Bank, 2021), which has had a significant impact on poverty and employment. Emphasis on unbalanced growth and strategic investments in multiplier zones effectively delineates economic growth in fragile contexts. Investments in multiplier trade, energy, and infrastructure zones contain most of the economic benefits of weak states (Calderón & Servén, 2010). Investments in multi-multiplier infrastructure zones financed by donor funds have boosted private sector productivity and economic growth in Palestine (World Bank, 2017; UNCTAD, 2017).

The theory applies complementarities of development to provide a broader theoretical framework. Rosenstein-Rodan's Big Push Theory (1943) suggests that only vast coordinated investments can be yielded from stagnation. Whilst this is supported by the experience of the post-war recovery of the likes of Europe with the Marshall Plan (Eichengreen & Uzan, 1992), it is less relevant if economies are decentralized or have been subject to disruption such as that of the Palestinian economy, for which no room exists for vast flows of finance due to instability (Le More, 2008). The Unbalanced Growth Theory is a more practically helpful framework whereby limited resources are invested in productive areas of activity.

Equally, Lewis's Balanced Growth Theory (1955) advocates for the simultaneous growth of industries. However, experience from developing economies shows that balanced growth is not achievable due to institutional and financial limitations (Rodrik, 2004). The success of South Korea's unbalanced approach in the 1960s and 1970s, where investments were concentrated in the manufacturing sector, triggered the takeoff of the manufacturing

industries, supporting the idea that this is also suitable (Amsden, 1989). With its constrained resources and structural impediments, the Palestinian economy is better tackled by concentrated investments across industries rather than balanced, distributed growth.

Relevant here is the Growth Poles Theory of Perroux (1955), which posits that clusters of industries drive regional economic growth. Experience shows that this can come at the cost of rural areas and regional inequalities if limited to specific cities (Parr, 1999). The Unbalanced Growth Theory averts this from happening by establishing sectoral linkages and inducing spillovers. Experience from the Palestinian context shows that foreign investment, driven by aid, in the core cities of Ramallah and Hebron has induced broader economic activity (World Bank, 2021). The Stages of Growth Theory, as proposed by Rostow (1960), assumes a sequential evolution of economies from traditional to modern. While this framework has been utilized to outline industrial revolutions within Western economies, its applicability is limited by the country's fractured and externally dependent economy (UNCTAD, 2019). The Unbalanced Growth Theory, on the contrary, outlines a non-sequenced movement of economic advancement appropriate to Palestine's unstable economic environment.

Dependency Theory, as proposed by Prebisch (1950), identifies structural imbalances in global economies and the associated risks of dependence on foreign capital. Excessive dependence on external funding and aid can lead to economic weaknesses, such as aid dependency syndrome (Knack, 2001). However, Palestinian research has indicated that good governance and institutional reform can make foreign aid contribute to driving development (Brynen, 2000). The Unbalanced Growth Theory integrates external dependence challenges with domestic institutions, providing a balanced perspective on economic development.

External funding sources have mutually reliant roles to fulfill in promoting economic progress. International grants, grants-in-aid, and the Big Push Theory have traditionally supported enormous-scale public sector employment, with nearly 116,000 Palestinian Authority payrolls yearly (AMAN, 2020). However, the Dependency Theory suggests prolonged dependence on grants can lead to stagnation unless structural reform is implemented (Brautigam & Knack, 2004).

As the Growth Poles Theory suggests, Foreign Direct Investment (FDI) can strengthen productive capacity and provide employment opportunities. Despite this, FDI inflows into Palestine remain low, primarily due to the country's instability and institutional barriers deterring investors (PMA, 2023). The Unbalanced Growth Theory posits that mobilizing Foreign Direct Investment (FDI) into high-impact industries, such as technology and renewable energy, can maximize economic returns by inducing innovations and creating sectoral linkages.

Worker remittances also contribute to poverty reduction and economic stabilization, particularly for countries affected by conflicts. They account for a significant percentage of the Palestinian GDP, with most of it being allocated to population consumption (Miniaoui & Ouni, 2020). According to the Unbalanced Growth Theory, investing these capital flows into high-impact activities, such as education, health, and small-scale business development, can yield long-term economic benefits by establishing sectoral connections and enhancing productivity. Evidence from developing economies suggests that remittances foster human capital development and entrepreneurial activities, thereby promoting targeted economic growth (Adams & Cuecuecha, 2013).

Therefore, the Unbalanced growth theory presents a robust framework for Palestinian external financing dynamics. Investing foreign capital strategically in high-impact sectors can utilize the maximum foreign resources, making Palestinian economic growth sustainable and protected from dependency risks. The world and regional experiences support the application of this framework, and thus, it can be a suitable model for policy-making and future economic strategy.

2.2 External Funding

2.2.1 Introduction

External financing is a vital stimulus for economic growth, particularly for economies that are heavily dependent on foreign trade and structurally constrained. This section examines the significance of external capital inflows, including foreign aid, foreign direct investment (FDI), worker remittances, and private-sector transfers. The causes of foreign dependency and the most significant economic imbalances that lead to such dependency are examined. Understanding such dynamics is crucial for accurately estimating the impact of

external financing on key macroeconomic variables, including GDP per capita, employment, and poverty. By incorporating these theoretical arguments into the econometric framework of this work, this section lays the groundwork for analyzing the efficiency of external financing for the Palestinian economy.

Developing countries often lack sufficient domestic savings, which limits their ability to finance the investments necessary for growth. Domestic savings, for the most part, fall short of even maintaining the current capital stock and population growth, let alone financing long-term growth. As such, these economies will seek foreign finance, even with the potential costs and political consequences. Historical experience shows that developed and developing economies relied on foreign finance in the early stages of development, when domestic resources could not fund large-scale investments (Hussein & Al-Hamoud, 2002).

Economic growth requires substantial capital investment in productive and service sectors, as well as infrastructure construction, to enhance investment attractiveness and maximize economic returns. Furthermore, critical factors such as employee training, education, and healthcare improvement also play a vital role in long-term growth. These factors necessitate substantial capital expenditures, underscoring the importance of external funds in bridging resource gaps and financing long-term growth (Qabqly & Ghadeer, 2023).

Therefore, funding economic growth remains one of the most pressing issues for developing countries. The issue has garnered significant attention from the economic community, policymakers, and international institutions since the end of World War II. However, the demand for foreign financing depends on the country's endowment of resources, its level of development, and the policies that facilitate growth. With its external restraints and limited capital accumulation, the Palestinian economy is a strong case for studying the role of external financing in a context of conflict (Nabulsi & Shraideh, 1997).

2.2.2 Definition of External Funding

External funding means that aspect of international economic relations related to the provision and transfer of capital internationally, as it is known that international relations take two main dimensions: one of which is the commodity side of the international economy, and the other is the monetary or financial side, which accompanies the flow of goods and

services between countries of the world, in addition to international capital flows for foreign investment purposes In its various forms (Sachs, 2005; Rodrik, 2011; Krugman et al., 2011).

Another definition of external funding is the transfer of capital from one country to another, as well as the financing of cash and in-kind capital provided by the public or private sector in response to a request submitted by the public or private sector. In a country with a foreign exchange deficit, to carry out economic projects that exceed the financing capacity of the private sector or even the national economy, most of this type of financing is granted in the form of loans bearing interest on a specific date. (Akyüz, & Cornford, 1999*;* Moyo, 2009).

Therefore, financing was not limited to obtaining financial sums only. It also involved bringing equipment and expertise to stabilize and invest the financial sums more effectively, aiming to achieve a higher return and greater benefit. Finance has two meanings. The real meaning is to provide the services and goods necessary to build production capacities and create new capital for development purposes. The monetary meaning is obtaining sufficient cash to provide tangible resources to create new capital (Sachs, 2005; Brealey et al., 2020).

Every country has an economic and development policy that it follows or works to achieve in order to achieve well-being for its people. This development policy requires setting its broad outlines, namely, planning development projects by the country’s financing needs and capabilities. No matter the projects' diversity, they need financing to grow and continue their journey. Funding is considered the blood flow to development projects. (Chang, 2003; Todaro & Smith, 2020).

2.2.3 Importance of External Funding

The significance of capital flows varies globally, depending on the perspectives of lending and borrowing countries, as well as the nature of the capital involved. The analysis of the importance of external funding is as follows: For countries receiving capital, which includes various forms of funding flows such as loans, grants, remittances, and foreign direct investment, the objectives are numerous. These nations aim to enhance economic and social development programs, raise living standards, address balance of payments deficits, and bridge the gap between necessary investments and available savings (Todaro & Smith, 2020;

Levine & Renelt, 1992). External borrowing can also support domestic consumption and sustain a stable quality of life (Prasad et al., 2007).

However, when a country's external resources are insufficient to finance consumer imports, reliance on foreign loans or grants becomes inevitable. Suppose imports surpass exports, creating a foreign exchange gap. In that case, this shortfall must be addressed by drawing on external reserves or borrowing, particularly if reserve levels cannot sustain further withdrawals (Rodrik & Subramanian, 2009; World Bank, 2019).

Foreign direct investment (FDI) also holds considerable importance for recipient countries, as it introduces advanced technology and high-level management expertise. Projects funded through FDI engage with international markets, boosting the production of exportable goods, job creation, and improving production quality (Alfaro et al., 2008; Borensztein et al., 1998; Zhang, 2001).

From the lenders' perspective, external funding often carries political objectives, particularly when it comes to financing from official bilateral and multilateral sources. Griffin and Enos (1970) highlight the influence of political factors in determining recipient countries and the scale of capital flows. Countries that extend official loans typically pursue goals such as offloading surplus commodities, increasing exports, and supporting national firms in transportation, brokerage, insurance, contracting, and consultancy services (Griffin & Enos, 1970).

Additionally, bilateral official loans typically stipulate that the funds be spent within the lending country, thereby allowing for economic and political benefits (Borensztein et al., 1998). These loans often come with conditions that restrict the borrowing country from freely utilizing the funds or selecting goods and services from global markets at the best prices. Donor countries may also use aid to boost their international image as champions against global poverty (Rodrik & Subramanian, 2009).

Beyond these strategic motives, loans enable donor countries to support specific sectors, such as agriculture, by exporting surplus commodities that would otherwise depress prices domestically. Thus, domestic producers benefit from selling excess products abroad (Al-Deeb, 2022).

2.2.4 Justifications for Resorting to External Funding

The dependence on foreign finance is a function of structural imbalances in resource availability, particularly for those economies with less domestic demand than production and capital accumulation (Ahmed et al., 2023; Chenery & Strout, 1966). These deficits compromise the economy's stability, leading to inflation pressures and suppressing GDP growth. Without sufficient domestic resources, countries turn to foreign financing to bridge the investment, trade, and public expenditure deficits (Gupta et al., 2003). Dependence is most critical for developing economies, with structural deficits encompassing fiscal, external, and internal resource gaps. Balancing these deficits with foreign finance is a primary strategy for inducing economic growth and macroeconomic stability (Bacha, 1990; Taylor, 1994; Easterly, 1999).

One of the most critical gaps that demand external financing is the investment-savings gap, also known as the internal resource gap. Advanced economies have high savings rates, which enable sustainable investment and economic growth (Loayza et al., 2000). In developing countries, however, high-income earners tend to channel their incomes into consumption rather than productive investment, reducing domestic savings and capital accumulation. The imbalance creates a savings deficit, which demands foreign finance inflows, such as foreign aid, FDI, and private sector transfers, for investment and economic growth (Ribaj & Mexhuani, 2021; David et al., 2020).

One of the most significant challenges is the external resource gap, characterized by a chronic trade imbalance. Developing economies export a limited basket of goods, and as a result, become heavily vulnerable to global prices and external economic shocks (Jonyo, 2021; Myint, 1958). Meanwhile, their reliance on imported raw materials and commodities also increases, further widening the trade deficit. With limited capacity to reduce dependency on imports, these economies increasingly resort to outside financing, such as foreign loans and capital inflows, for balance of payments stabilization (Cornia, 2020; Bourahli, 2020).

The connection among these gaps is adequately addressed by the Two-Gap Model, which bridges the domestic savings deficits with foreign exchange shortages (Chenery & Strout, 1966). When a country's imports exceed its exports, the resulting trade deficit reflects the savings-investment gap, and the country requires external financing to maintain economic

stability (Bacha, 1990; Taylor, 1994; Haddad, 1987). External financing is required through grants, Foreign Direct Investment (FDI), and worker remittances to finance vital imports and sustain domestic investment. Balancing these gaps, however, is challenging due to the volatility of global financial markets, limitations in economic policymaking, and structural constraints of developing economies (Ahmed et al., 2023).

The Three-Gap Model further develops this concept by introducing the fiscal gap, which occurs when the requirements of public expenditure and investment exceed the government's revenues (Mwega et al., 1994; Bacha, 1990). Budget deficits plague most developing countries due to inadequate tax systems and high public expenditures on critical infrastructure, education, and healthcare (Hanson & Tarp, 2000).

Foreign aid is crucial in closing this gap by financing the government's programs and encouraging private investment through improved infrastructure and economic incentives (Chenery & Strout, 1966; Taylor, 1994). Even if external finance does not directly finance budget deficits, it affects investment by generating economic stability and encouraging capital inflows.

This analysis applies these theoretical frameworks to the Palestinian economy, whose structural economic imbalances have been perpetuated by political constraints, limited access to resources, and foreign dependence. The domestic resource gap of Palestine is characterized by low domestic savings, a fragile private sector, and excessive dependence on foreign finance to finance public expenditure and investment. The external resource gap is also vast, with trade barriers, excessive import dependence, and limited export opportunities creating a chronic trade deficit. The fiscal gap is also a significant challenge, as the Palestinian public sector is plagued by recurring budget deficits, which are typically covered by foreign grants and aid.

By identifying these gaps in the Palestinian economic structure, this research presents an empirical analysis of the contribution of external finance to addressing these structural deficiencies. The econometric estimation examines the interaction between foreign aid, FDI, worker remittances, and private sector transfers, as well as macroeconomic variables such as GDP per capita, employment, and poverty. Examining these interactions is of primary importance for determining the contribution of external finance to sustainable economic

growth, rather than dependency on foreign capital. The section lays the groundwork for analyzing the long-term contribution of external financing to the Palestinian economy. It offers insights for maximizing its effectiveness in development.

2.2.5 Sources of External Funding

Developing countries have a massive domestic savings deficit that limits their ability to finance development-oriented investments. The deficit necessitates external sources, with foreign capital inflow playing a crucial role. The funds enable developing countries to finance development-oriented costs, counteract domestic resource deficits, and supply development project inputs. Ultimately, foreign capital becomes crucial in facilitating dramatic economic growth by bridging the gap between savings and investment (Prasad et al., 2007; Mwega et al., 1994).

In addition to domestic resources, developing countries rely on external sources to fund the foreign currency needed for importation. External funds have the additional benefit of ensuring easier availability of high-level technology through direct investment. Foreign capital is required because domestic savings cannot adequately fund the investment process due to a lack of foreign exchange. Thus, while domestic savings funds are part of the investment process, they cannot do so without external financial resources (Burnside & Dollar, 2000; Zitouni & Aishi, 2012; Easterly, 1999).

External funding, or foreign resources, takes various forms, the most significant of which are grants and aid, loans, foreign trade, remittances, and foreign direct investments (Ahmed et al., 2023). These funds may come from public or private sources. Public financing generally includes grants or concessional loans with low interest rates and extended repayment periods. For example, effectively allocated foreign aid has promoted poverty reduction and sustainable growth, especially when sound policies are established in the recipient country (Collier & Dollar, 2002; Rajan & Subramanian, 2008); in addition, the stability of external funding is equally vital, as research indicates that aid volatility can hinder growth, while stable foreign aid inflows positively impact economic development in developing nations (Lensink & Morrissey, 1999). The following sections will now present various types of external funding.

2.2.5.1 Grants and Development Aid:

Grants and development aid are the crucial sources of external Funding available for the economic development of countries. Anonymous local resources are often insufficient to meet the needs of developed investment plans. Development aid is a generic term referring to a group of nonrepayable resources outside the realm of external debt. It can be substantive in cash or in-kind, such as goods, services, or expertise. With such attributes, it would be termed concessional government support, generally combined with preferential interest rates or longer repayment terms (OECD, 2020; Riddell, 2007).

Moreover, one important definition in that area is from the Development Aid Committee of Organization (OECD), which defines Foreign Aid as those financial flows, technical assistance, and goods provided by official governments or their agencies to, or in favor of, developing countries whose fundamental aim is to foster economic development and well-being. Such aid shall be in the form of grants or even subsidized loans. However, at least 25% of a loan's value must be a grant. The aid includes political and humanitarian development programs, as well as debt forgiveness. However, it excludes grants or aid provided for non-developmental purposes, such as military or security aid, and direct foreign investment. (Ajami, 2011).

Grants represent a key type of international aid, defined as non-refundable resources that do not fall within the scope of external debt obligations of recipient countries. These grants support the development of economies without increasing their debt burdens (Goldin, 2018). Another form of assistance is soft loans, which are provided in cash or kind and have highly concessional terms compared to those prevailing in international capital markets. Often, they also have very long grace periods of up to 50 years and a correspondingly long repayment period, along with minimal or even no interest, making them most favorable to the recipient nation's perspective (IMF, 2004).

In general, there are two sources of international aid: bilateral government aid and multilateral collective aid. Bilateral aid, on the other hand, relies directly on the agreement and negotiations between donor and recipient governments in an official capacity. This aid aims to establish direct bilateral relations, and thus, it functions exceptionally well once the formal agreements have been signed (Othman, 2023). On the contrary, multilateral collective

aid is provided through international organizations such as the International Monetary Fund and the World Bank, as well as regional institutions like the African Development Bank, the European Development Fund, and the Asian Development Bank. The institution granting grants and soft loans to developing countries is an essential multilateral international financial assistance framework (Abdulaziz, 1998).

International aid also differs in nature, including cash, technical, and project-based aid. Cash aid is often given in the form of the donor country's currency, except that, in exceptional circumstances, it may be given in other currencies. Conversely, technical aid develops capacity through training labor, providing transportation facilities, and developing motor power. Project-specific aid is tied to the implementation of well-defined projects, and as such, it is easier for the donor countries to monitor its progress and ensure that money is put to good use. This aid includes infrastructure projects like building schools, roads, or electrical power stations. These aid forms address the recipient countries' developmental needs in the short and long run (OECD, 2020; Riddell, 2007; Mustafa, 2015; Goldin, 2018).

2.2.5.2 Foreign Direct Investment:

Foreign direct investment is defined as the establishment of new projects in the host country, the addition to the stock of machinery and equipment by foreign investors, or the purchase by foreign investors of local companies in the host country, often 10% or more of the company’s assets (Hess & Ross, 1997).

Also, The United Nations Conference on Trade and Development defines foreign direct investment as a type of international investment under which a resident of one country contributes to or owns a project in another country, provided that the percentage of ownership in shares or voting power is (10%) or more in order to have the ability to make actual decisions in the management of the organization (UNCTAD, 2000).

The flow of foreign direct investment represents the most essential component of external financing for development in developing countries. It has ranked first among the components of this financing during the past years. It is more important than financing through banks and official development aid (Hemyoud & Zougart, 2020).

Foreign Direct Investment (FDI) takes different forms, depending on the motives of the transnational investors. Resource-seeking investment is prevalent in developing countries, with the primary aim of exploiting natural resources, particularly raw materials. Firms in extractive industries like oil, gas, and mining are more likely to undertake this type of investment. The immediate impact of resource-seeking investment is the exploitation of natural resources to promote the export of primary products, while increasing imports of capital goods, production inputs, and consumables (Dunning, 1993; Alfaro, 2003).

In developing countries during the 1960s and 1970s, much of the market-seeking investment in the manufacturing sector was consistent with the import substitution policies. For some reason, such as import restrictions or high transportation costs, foreign companies engaged in this kind of investment to set up local operations instead of exporting their products. This form of investment thus promotes consumption, indirectly spurs trade, and enhances capital accumulation to support a greater growth rate, resulting in increased exportation and importation of inputs and goods by the investing country (Blomström & Kokko, 1998; Dunning, 2001; Al-Thalabi & Al-Thalabi, 2015).

Efficiency-seeking investment occurs when firms shift some activities to the host country to lower costs and raise profitability. Growing wage levels in the industrialized world have encouraged such investments in developing countries. Such investments lead to the diversification of exports, more significant imports of inputs used in production, and an intensification of production and consumption structures in the host country (Markusen & Venables, 1999; Nunnenkamp & Spatz, 2002).

Strategic asset-seeking investments aim to acquire research and development capabilities in developing or developed countries to enhance profitability and secure strategic assets. This type of investment promotes trade by increasing production and consumption activities, facilitating the export of skilled labor, and increasing the exports of services and equipment from the investor's home country (Mudambi & Navarra, 2002; Ito & Krueger, 2000).

2.2.5.3 Worker Remittances

The debate over the impact of remittance inflows on economic development (growth) remains philosophically and practically contentious. Numerous economists argue that

remittances have a positive impact on production growth and, more broadly, economic development. Remittances, particularly in nations with rudimentary banking institutions, serve as an alternative financial resource, mitigating households' credit constraints in the recipient countries. Households in recipient nations benefit from remittances by investing in human capital and children's education, as well as engaging in economic activities that would not have occurred otherwise (Calero et al., 2009; Elbadawy & Roushdy, 2010).

However, Remittances from workers abroad are the backbone of the economies of many developing countries and a vital source that fuels their economic systems. As remittances from workers abroad have recently increased at a record rate, they form the cornerstone of the sustainability of these countries' economic systems. It is part of a social safety net for the families receiving it, as it provides the necessary liquidity to manage personal living and life matters. Regarding the economic level of recipient countries, it helps move the economic cycle by providing additional cash flows and addressing essential matters for ensuring economic stability (Al-Momani & Al-Ghazo, 2022).

These transfers are effective in promoting financial development, as they increase both foreign and local currency deposits and individuals' demand for various financial services, which is a key factor in driving financial and economic growth. (ESCWA, 2006).

There are several definitions of remittances from workers abroad. They can be defined as money and goods that immigrants send to their families residing in their countries of origin (Adams & Cuecuecha, 2010). Yasmeen et al. (2011) define them as money in foreign currency or imports of consumer goods that Workers abroad send to their countries through formal or informal channels. Ali & Ashry (2018) define it as the income families receive from foreign economies, which arises from their members moving to other economies permanently or temporarily.

In this study, the IMF definition adopted is: According to the IMF's Balance of Payments and the report of International Investment Position Handbook (Sixth Edition), personal remittances are defined as current and capital transfers, whether in cash or kind, sent or received by resident households within a particular economy to or from non-resident households, irrespective of the transferor's income source or the relationship between the households (IMF,2009).

According to the Balance of Payments Manual, Sixth Edition by the International Monetary Fund (2009), worker remittances are classified into two main categories and three supplementary items. The first category, workers' compensation, includes expatriate workers' earnings in temporary employment lasting less than a year. This group encompasses border workers, residents employed by foreign entities, and seasonal workers. These earnings are recorded under the current account in the balance of payments. The second category, personal transfers by expatriates, covers current and capital transfers—cash or in-kind—between resident households in one economy and non-resident households. These transfers are not related to the source of income or the nature of the relationship between the parties making and receiving the transfer. Personal transfers fall under current transfers and can therefore appear in either the current or capital accounts, depending on the nature of the transfer. The current account records current remittances from abroad by workers, which are money sent home by migrants working in a foreign economy in which they reside. The capital account records capital transfers among households.

Aside from these two major categories, the IMF recommends the inclusion of supplementary items, adding them whenever pertinent, depending on the country's national economic context. These supplementary items include social contributions, pensions, social security payments, and other financial contributions related to health, housing, and education, which are credited to the primary income account within the current account. Other complementary components include current transfers to non-profit organizations, which are reflected under the secondary income account, and capital transfers to non-profit organizations, which are reflected under the capital account. These series components create an aggregate representation of remittances to give an appropriate impression of their fundamental importance for the balance of payments.

Worker remittances have played a critical role in sustaining the economies of recipient countries. It contributes to household income and poverty reduction by enabling families to access resources that can be used to meet basic needs, such as food, shelter, education, and healthcare. This reduces the levels of poverty in the recipient households. Remittances also enhance government revenues through increased consumption of locally produced and imported goods and services, thus widening the tax base. Consequently, this leads to higher revenues from sales taxes and import duties (Abdih et al., 2012)

More importantly, beyond its significance for consumption and fiscal revenues, remittance inflows contribute to physical capital accumulation by financing investment directly or increasing their recipients' creditworthiness (through the increasing, in some proportion, access to more credits available to invest in productivity-enhancing physical capital); population growth-qua-fertility by a larger working-class pool-or by outward labor migration seeking their fortune, more usually finds its increase associated with growing migrant remittances (Chami et al., 2003; Barajas et al., 2009).

Furthermore, remittances promote financial sector development by enhancing financial intermediation and alleviating credit constraints for households that rely on remittances. This increases the demand for financial products and services (Ali & Ashry, 2018). At the macro level, remittances improve the balance of payments position by reducing current account deficits, increasing foreign exchange reserves, and stabilizing the local currency exchange rate (Meyer & Shera, 2015).

On the other hand, remittance may also have adverse outcomes. Some economic thinkers claim it may encourage the departure of skilled labor to increase the human labor force in economies that pay higher wages across the border due to higher growth, which negatively impacts the local country because it experiences a loss in important skills it may require in specific sectors (Koay & Choong, 2013).

Furthermore, recipients of remittances essentially invest in areas such as housing, land, and jewelry, which make minimal contributions to national productivity and thus contribute to unproductive economic activities, as noted by Ukeje and Obiechina (2013). These differing dual effects of remittances underline the complexities of their contribution to shaping the recipient economies.

2.3 Empirical Studies

2.3.1 Early Empirical Studies

Empirical studies on the classical theory have demonstrated a strong relationship between foreign aid and economic growth (Levy, 1988; Gulati, 1975; Gupta, 1975; Papanek, 1973). Most of these studies used single-equation regressions and cross-sectional analysis. Studies have suggested that foreign aid can increase economic growth by enhancing local

savings and alleviating foreign exchange constraints in developing countries. However, these studies were criticized for using cross-sectional analysis and having small sample sizes. Furthermore, they neglected time series characteristics such as unit roots and cointegration tests, which may lead to inaccurate statistical analysis and results.

Subsequent research in this area includes a panel cross-section analysis by Burnside and Dollar (2000), which found that foreign aid could assist countries with solid macroeconomic policies, such as trade liberalization and an efficient monetary policy. Burnside and Dollar found that countries with solid macroeconomic policies achieved significant positive results when aid was combined with successful policy tools. However, Easterly et al. (2003) expanded the sample size to include data from 1970 to 1997, utilizing Burnside and Dollar's model and variables. They argued that foreign aid might foster economic growth even without successful macroeconomic policies, emphasizing that inconsistencies in definitions of aid, growth, and policy tools rendered the results inconclusive.

In contrast, in non-classical schools, the owners criticized classical thought for its practical outcomes. Unlike traditional schools, extensive research suggests that foreign capital has a restricted and possibly adverse impact on the national income growth rate due to decreased savings and an increased capital-output ratio. Some economists who support this theory suggest that a substantial portion of such sources of funding is utilized to increase consumption rather than saving, as noted by Areskoug (1969), Rahman (1967), and Griffin (1971). The decline in the savings ratio is due to several factors, such as inadequate tax collection efforts, an inflexible tax system, reduced overall tax levels, a shift in government spending towards consumption, and the availability of easily accessible financing sources, which lead to increased dependence on them over local sources.

The increase in the capital-output ratio due to an increase in foreign capital is linked to the allocation of a significant portion of financial resources, such as loans and aid, to non-productive activities; investments are concentrated on infrastructure projects that pay dividends indirectly, such as roads, bridges, and airports (Mankiw et al., 1992; Riddell, 2014). Furthermore, they are dedicating a significant amount of these resources to capital-intensive technological initiatives. This is a result of the development strategy of the

borrowing countries and the impact of the supported entities and organizations through project supervision and economic feasibility assessments, as documented by Griffin (1970) and Voivodas (1973).

Empirical studies supporting non-classical theory emerged prominently during the 1970s and 1980s, inspired by the Harrod-Domar model and the two-gap hypothesis. According to Mosley (1980), Weiskopff (1972), Griffin (1970), and Griffin and Enos (1970), foreign aid has a detrimental effect on economic growth. For LDCs, Griffin (1970) employed cross-sectional analysis and correlation. Foreign aid has a negative impact on economic growth, according to ordinary least squares (OLS) regressions. They say foreign aid encourages consumption, and only a portion is invested. Aid increases will also lower tax revenue, collecting incentives, and boost efficiency. Due to this, foreign aid will hurt economic growth.

Various studies emphasized macroeconomic policy in the late 1990s. Foreign aid can have a negative impact on recipient countries if they lack effective macroeconomic policies and government interventions. Turnorsskey (2008), Pallage and Robe (2001), Nyoni (1998). Concerning the possibility of aid-induced Dutch disease in Tanzania, Nyoni (1998) examines the relationship between foreign aid inflows and the real exchange rate in Tanzania, assessing the potential for Dutch Disease. The study found that aid inflows led to real depreciation, increased economic openness, and currency devaluation, while government spending caused genuine appreciation. Contrary to the Dutch Disease theory, aid inflows did not result in genuine appreciation. Therefore, Tanzania can continue to receive aid for productive investments without the risk of Dutch Disease.

Regarding the relationship between foreign Aid and Conflict, Scholars who have addressed aid's impact on conflict have developed two perspectives. One camp argues that aid increases the spoils of rebellion, with rebels potentially seeking to control aid rather than accepting government distribution (Azam, 1995; Grossman, 1991). Another camp posits that aid reduces the likelihood of conflict by fostering economic growth, reducing reliance on primary commodity exports (a source of rebel funding), and enhancing government military capacity through aid fungibility (Collier & Hoeffler, 2002; Feyzioglu et al., 1998).

Additionally, increased aid can shorten the duration of civil wars by boosting government military spending (de Ree & Nillesen, 2009).

Despite its potential benefits, aid volatility poses significant risks. Aid revenues, often more volatile than government revenue or other economic shocks, can undermine economic growth and increase poverty, fueling grievances and reducing the opportunity cost of conflict (Lensink & Morrissey, 1999; Arcand & Chauvet, 2001). Variability in aid flows also heightens the risk of civil war by reducing fungible resources for deterrence. Large, rapid aid drops—termed aid shocks—have distinct effects on conflict and warrant focused analysis, as they may exacerbate instability more than gradual fluctuations.

Similarly, studies on remittances in conflict settings reveal both positive and negative impacts. On the positive side, studies (e.g., Batu, 2019; Regan & Frank, 2014) highlight how remittances can reduce conflict participation by increasing opportunity costs for potential recruits, support government stability through welfare payments, and aid war-to-peace transitions by preventing displacement. They also help families sustain livelihoods in conflict zones, making the situation more bearable (Van Hear et al., 2002; Lindley, 2009). Additionally, migrant remittances often align with peacebuilding efforts by fostering resilience and supporting basic needs.

Conversely, remittances may exacerbate conflicts. Studies (e.g., Collier & Hoeffler, 2004; Price, 2012) indicate that diaspora often funds rebel groups or terrorism, prolonging conflicts. In Somalia, Lindley (2019) notes that remittances, while primarily used for household needs, sometimes fund militia groups. According to Beyene (2015), the Ethiopian diaspora tends to escalate conflicts, in contrast to more peace-oriented diasporas in Kenya and Nigeria. These findings highlight the complex and context-dependent nature of remittance impacts on conflict.

Finally, the literature on FDI and armed conflict predominantly emphasizes the negative impact of conflict on investment. Studies in political science consistently conclude that armed conflict deters FDI due to heightened political risks, whereas the international business literature provides mixed results. Early works, such as Kobrin (1979), found inconclusive links between political stability and FDI. Later studies, such as Schneider and Frey (1985) and Woodward and Rolfe (1993), emphasize that political stability attracts

Foreign Direct Investment (FDI), although exceptions exist (e.g., Olibe and Crumbley, 1997).

Nigh (1985) highlights that intrastate and interstate conflicts significantly reduce U.S. manufacturing foreign direct investment (MFDI), especially in developing countries. Shapiro and Globerman (2003) and Lai (2007) corroborate that armed conflict has a severe impact on investment volumes and destination choices, with civil conflicts having the most detrimental effects. Busse and Hefeker (2007) further assert that violent conflict creates uncertainty, which raises investment premiums and reduces Foreign Direct Investment (FDI) inflows, ultimately harming economic growth.

Additionally, Krueger (2005) notes that while civil conflict lowers FDI, external conflict occasionally has positive effects; this is because external conflicts may create opportunities for foreign investors in strategic sectors, such as defense, reconstruction, or resource extraction, particularly in regions where governments provide favorable terms to attract investment as part of post-conflict recovery efforts. Asiedu (2002) emphasizes the contagion effect in Africa, where armed conflict in one country reduces foreign direct investment (FDI) in neighboring nations. Finally, Bussmann (2010) and others argue that economic interdependence through Foreign Direct Investment (FDI) decreases the likelihood of armed conflicts, highlighting the reciprocal relationship between FDI and political stability.

2.3.2 Recent Empirical Literature

A significant amount of recent empirical literature is available to analyze the effect of each external funding source on economic development using various indicators. Most of this literature focuses on how external funding influences recipients' economic growth and poverty reduction.

Although there are few contemporary empirical studies on the influence of foreign finance on economic development in the Palestinian economy, this study builds upon earlier research that has addressed this topic. It was conducted in many low-income countries and conflict-affected nations, with a focus on research related to the Palestinian economy. This forms the foundation for the mechanisms and factors relevant to the study topic.

Gaies and Nabi (2019) clearly distinguished two types of external financing: foreign direct investment and loans. They also examined the impact of external financing on the economic growth of developing nations. The study demonstrated that both sources significantly foster economic growth by facilitating investment through credit channels.

Based on empirical evidence, Adusei (2020) concluded that the impact of official development assistance on per capita GDP growth was positive in sub-Saharan Africa. The results showed that, despite the donors' strict conditions associated with soft loans and grants, foreign aid contributed to increased per capita GDP growth in the region. The study showed that the mechanisms of state institutions direct the motives of economic agents and donors. Therefore, countries with strong economic institutions, a rule of law, a favorable investment environment, and well-established property rights are better positioned to attract investment and provide a conducive environment for growth within the country.

Mingiri et al. (2016) examined the impact of institutions on the relationship between foreign financial flows, economic growth, and domestic savings in the Southern African Development Community (SADC) region from 1980 to 2009. Given the ongoing debate surrounding the connection between external funding and economic growth, this study examined the correlation between economic growth and external financing in the specified region, including its various sources.

A study by Muslam (2020) found that external financing sources, including development assistance, foreign loans, and foreign investment, can contribute to Iraq's reconstruction and address specific sectoral issues within the Iraqi economy. Foreign companies can bring significant financial resources, advanced technology, job opportunities, and modern management practices. Nevertheless, it is essential to discuss the implications of relying on external loans to address the public budget deficit.

Stojanovic et al. (2017) focused on the significance of direct investments in global economic financing, their role in fostering global economic development, and the effects of foreign direct investment on Bosnia and Herzegovina's economic progress. The researchers identified the key activities that are crucial for maximizing investment attraction. By employing statistical and quantitative analysis, this study demonstrates that the influx of foreign capital is a crucial prerequisite for accelerating economic growth. Furthermore, it establishes a positive correlation between the inflow of foreign capital and economic

development in Bosnia and Herzegovina. The positive impact of foreign capital inflows on macroeconomic variables in Bosnia and Herzegovina's economy has been demonstrated through the monitoring and analysis of different instruments, particularly investments in the free zone and joint ventures with foreign investors.

Ekanayake et al. (2020) examine the theoretical propositions that (a) the inflow of remittances from workers residing abroad contributes to the economic growth of Latin American nations, and (b) remittances from workers play a role in alleviating poverty within Latin American countries. The study revealed that workers' remittances have become a significant source of revenue for numerous developing nations in recent decades. Workers' remittances are the

second-largest source of foreign financing globally, following foreign direct investment. The researcher analyzed the effects of workers' remittances on economic growth and poverty in 21 Latin American countries, using annual data encompassing all Latin American nations from 1980 to 2018. Additionally, they employed the panel least squares and fully modified least squares (FMOLS) methods. Furthermore, he employed an autoregressive distributed lag (ARDL) approach for cointegration analysis to assess the impact of workers' remittances on economic growth and poverty in specific countries, both in the short and long term. The findings indicate that workers' remittances have a positive long-term impact on economic growth in the majority of countries, but their effects in the short term are varied. Additionally, the study found that worker remittances contributed to a decrease in poverty rates in Latin America.

Chea (2023) examines the influence of worker remittances on poverty and inequality by analyzing data from the 2014 Cambodia Socio-Economic Survey. It provides evidence indicating that remittances have reduced the poverty rate by 2 percent at the national level or 5 percent for recipient households. Moreover, the inflow of remittances has reduced the poverty gap by 2.5 percentage points or 6.6 percentage points for a specific subset of recipient households. However, it is essential to note that remittances also contribute to an increase in inequality, as indicated by the GINI coefficient.

Justino and Shemyakina (2012) further enrich the understanding of how remittances affect labor markets in post-conflict environments. Their analysis of Tajikistan reveals that remittances tend to reduce labor force participation and working hours, with this effect being

particularly pronounced among women in regions most affected by the 1992–1998 armed conflict. This finding highlights the complex socio-economic impacts of remittances in conflict-affected areas, where the influx of external funds can significantly influence economic stability and labor dynamics.

Eljafari (2012) contributes to the understanding necessary from the perspective of remittances in the Palestinian economy and their substantial macroeconomic influence. He contributed to the view that such remittance inflows, representing more than one-quarter of GNDI, have been a driving force in economic stability in Palestine, especially given the adverse local job opportunities. Based on time series data from 1970 to 2008, Eljafari's econometric analysis reveals that remittances have a significant impact on private consumption, investment, and imports. The problem remains how these remittances should be channeled into productive investments within the national economy rather than being consumed.

Saad (2015) discussed the macroeconomic impact of remittances in Palestine. According to the author, remittances have been crucial in sustaining the Palestinian economy over the years, particularly during periods of political turmoil. His study examined how remittances, which were between 10 and 15 times larger than FDI between 1995 and 2013, significantly influenced critical macroeconomic variables, including consumption, investment, and income growth. Saad's findings also highlight another important dimension: the dynamic and long-lasting effects of remittance inflows, which substantially contribute to the economy's resilience during the Second Intifada.

Taghdisi (2015) highlighted the primary shortcomings in the theoretical frameworks of donors, their policies, and approaches when dealing with countries in a state of conflict, which may, in some cases, prolong the conflict itself. It also noted that countries experiencing conflicts are among those that receive the most foreign aid. However, the impact of this aid on economic development in those countries is likely to be short-lived, given the donors' theoretical frameworks and political tendencies. The researcher analyzed the impact of donor activities on foreign aid to the Palestinian territories, both before and after the Intifada, to illustrate the significant shifts in donor financing in response to the escalation of the conflict, particularly in terms of spending on development and institution-building. The researcher concluded that this shift was not only inconsistent with the needs of the Palestinian economy

but also, in some cases, helped exacerbate the impact of the conflict on the Palestinian economy.

Syed (2022) develops a niche by analyzing the relationship between remittances and peacebuilding. His hypothesis, stating that one can find both positive and negative influences of remittances on peace, leads through multivariate regression models to the result that higher remittance inflows are associated with lower levels of peace in conflict zones. Syed's findings suggest that even while remittances help sustain families in conflict zones, the absence of regulation and possibly lower transaction costs in such zones may contribute to prolonging the conflict, as financial flows through channels outside traditional surveillance mechanisms are enabled.

Zafeer (2015) illustrates that the neoclassical argument, which discusses the impact of armed conflict on foreign direct investment, is only partially correct; some investors accepted the risk and made investment efforts in the conflict zone. His study explores this seemingly counterintuitive phenomenon through a mixed-methods approach, incorporating a large-N study and comparative case studies of Iraq and Afghanistan following U.S.-led military campaigns. He demonstrates that external military interventions (EMI) involving "boots on the ground" create an impression of security and stability, which positively influences foreign investors' risk assessments. This finding is significant in intra-state conflicts, where the assumption of capital flight due to armed conflict is often nullified. In turn, the thesis presents an incisive argument in the debate on the armed-conflict-FDI linkage, suggesting that FDI behavior can change due to external military intervention —a finding remarkably consistent with other studies on conflict and FDI inflows.

In their study, Abu Jamie et al. (2017) aimed to measure the impact of European aid on the Palestinian economy after the Oslo agreement. Additionally, it examined the prevailing political and economic conditions and their impact on the volume and nature of this aid. It addressed the external and internal obstacles that impede the optimal use of this aid. The study found that, in light of the availability of suitable climate and political conditions, the rate of European aid and loans was closely tied to the rate of economic growth. In addition, despite the increase in the volume of European support for the Palestinian economy, the Israeli blockade and the losses inflicted on the Palestinian economy significantly inhibited the rate of growth. The study also found that European aid and loans had a positive impact

on growth and development, as evidenced by the increase in gross domestic product growth rate. Specifically, a 1% increase in the European aid rate led to a 2.56% increase in gross domestic product.

Iqtait (2019) found that international donors contributed more than USD 34 billion to Palestine between 1993 and 2016 to support the Palestinian Authority's efforts in state-building and peace projects. Aid, directed by World Bank programs, focused on economic stability regardless of political influences. As a result, there was fiscal and economic cooperation with Israel, with interconnected economic programs. Although the PA promoted local revenue sources, its limited geographical authority meant that Israel managed resource allocation. Therefore, more than 80% of PA's revenues were sourced from clearing fees or foreign donations overseen by Israel or international donors. This reliance weakens the Palestinian Authority's financial stability and capacity to make independent decisions in the political landscape of Israel.

Wildeman (2019) investigates the challenges of monitoring and comprehending foreign financing in the Occupied Palestinian Territories (OPT) between 2010 and 2016. The study examines the perspectives of Western donor nations and organizations on aid distribution, focusing on their views regarding the Oslo Peace Process, Palestinian development, and Israeli military governance. It underscores the importance of aid recipients' understanding of the origin, duration, and objectives of the assistance provided while highlighting concerns about the lack of qualitative analysis in evaluating spending. All evidence suggests that aid has not delivered results in the OPT, and this is further affirmed by the fact that living and political conditions have continuously deteriorated since 1993. Over $35 billion (USD) in aid funding has failed to reverse this development and may even have contributed to the worsening of conditions by being given in a contextually inappropriate manner. This suggests that a radical departure from the existing aid model is now necessary.

Daoudi (2023) attempts to demonstrate the influence of foreign direct investment on the unemployment rate in Algeria. To achieve this, he incorporates several variables into the model, including actual gross domestic product, gross fixed capital formation, and public spending. Based on the findings from the approved model, it is evident that foreign direct

investment does not significantly reduce unemployment rates in Algeria, either in the short term or the long term, or through causal relationships.

Building on the relationship between political factors and foreign direct investment, Nazeer and Masih (2017) identified political instability as a detrimental element that might impede the inflow of foreign direct investment (FDI) and limit economic progress. Their study concentrated on Malaysia, which experienced political instability due to racial diversity. The empirical findings suggest that long-term and short-term relationships exist between political instability, foreign direct investment (FDI), and economic growth in Malaysia, with economic growth exerting the most significant influence on both political instability and FDI. The findings suggest that the Malaysian government may utilize them to focus on economic growth, thereby influencing Foreign Direct Investment (FDI) and promoting political stability.

Quibria et al. (2014) focused on the contributions of major donors to Bangladesh, conducting a critical review to examine the effectiveness of their aid. According to this study, the performance of foreign aid in Bangladesh's economy was mixed, and it was found that the government and donors bear responsibility for the failure. The shortcomings of the donors' approach to providing aid necessitate a change in the mechanism by providing more political space to recipient countries. The study concluded that political leadership needs to adapt policies and institutions in response to economic needs. When achieved, foreign aid will necessarily be an excellent incentive for development and thus reduce poverty.

Miaari et al. (2014) discuss how limitations to employment issued by the Israeli government affect the economic and political situation within Palestine. The study from which this paper stems presents evidence that such a limitation, which considerably reduces Palestinian labor access to the Israeli labor market, has resulted in a significant drop-off in employment and household incomes, thus worsening the already dire economic condition of the area. This also explains how barriers to employment related to conflict are bound to negatively impact the economy's stability and contribute to the rise of more outstanding social issues, such as poverty and inequality.

Ali (2012) presents a comprehensive analysis of the economic cost of the Darfur conflict (DC), marking the first effort to quantify its impact. The study identifies various costs associated with the war, including the destruction of infrastructure, direct military

expenditures, and their effects on capital formation, as well as human losses in terms of life and income. The authors estimate that the Sudanese government has incurred substantial costs due to the conflict, representing a significant proportion of the country's GDP. The study highlights the stark contrast between the war's financial toll and the Sudanese government's minimal investment in public health and education over the past two decades, underscoring the devastating impact of the conflict on a society unable to meet basic needs for education, food, healthcare, and shelter.

The study by Morrar et al. (2022) makes a significant contribution to research on economic development within the context of the Palestinian-Israeli conflict, particularly in Jerusalem. This was achieved by presenting the main topic of this study, which is that the development of appropriate economic clusters in Jerusalem faces numerous difficulties and challenges due to occupation policies, which serve as an obstacle to growth and development. This paper recommends a development plan that includes four clusters: housing and infrastructure, health, education, tourism, and culture, to ensure sustainable development. The study emphasized the importance of external financing from donors and financial support from the government, banks, and the private sector in providing appropriate financial support for developing the clusters or sectors the study proposed to focus on.

Abu Ajwa's (2011) study aimed to determine the impact of international aid on economic development in the Palestinian territories by identifying Palestinian priorities in economic development, assessing the extent of their need for aid, and examining whether foreign aid was utilized to benefit the Palestinian economy and exploited optimally. This study found a statistically significant relationship between the total amount of aid and economic development, measured by per capita GDP.

Al-Zein's study (2013) aimed to identify foreign direct investment in the Palestinian territories and its impact on economic development during the period (1995 - 2010), by examining the areas and conditions of investment in the Palestinian territories and reviewing the size and sources of foreign investment flows into the Palestinian territories. The study concluded that the volume of direct foreign investment is still low and not commensurate with ambitions because the investment environment in Palestine is not encouraging, in addition to the practices of the Israeli occupation that prevent the development of the investment climate in Palestine, and the weakness of the incentives and guarantees provided

by the Palestinian Investment Encouragement Law. The econometric analysis also revealed that foreign direct investment has no significant impact on economic development, as measured by gross domestic product. This is due to the weak flow of foreign direct investment.

2.3.3 Review, Critique, and Analysis of Previous Studies

The literature review on external funding and its role in the development process offers valuable insights; however, it also reveals considerable limitations and gaps in this area. These contributions have helped bring into focus studies that explore the effects of external funding on economies, such as that of Palestine, during the Israeli-Palestinian conflict. Other studies have comprehensively examined external funding sources, including both Foreign Direct Investment (FDI) and Official Development Assistance (ODA), and highlighted their various contributions to growth through credit channels and investment opportunities, as noted by Gaies and Nabi (2019), among others, in Adusei's (2020) work. Others, such as Muslam (2020) and Stojanovic et al. (2017), delve into regional insights on post-conflict reconstruction, emphasizing the sectoral impacts of foreign direct investment (FDI) and loans.

Another well-researched area is the role that remittances play in maintaining economic stability. Various studies, such as those by Saad (2015) and Eljafari (2012), demonstrate that remittances have dynamic and long-term effects on consumption and economic resilience, particularly in a conflict-affected economy like Palestine. Other research by Ekanayake et al. (2020) and Chea (2023) underlines the place that remittances play in poverty reduction and equality. Researchers such as Taghdisi (2015) and Wildeman and Tartir (2021) have critically analyzed this external aid, focusing on its politicization and developmental limitations. Abu Jamie et al. (2017) and Iqtait (2019) examined other inefficiencies caused by structural barriers, such as Israeli blockades and donor dependence.

Ali (2012) and Miaari et al. (2014) provide conflict-specific analyses focusing on the economic costs of labor market disruption and infrastructure destruction. Similarly, other authors, such as Muslam (2020), Morrar et al. (2022), and Wildeman (2019), discuss overdependence on borrowing, Israeli-imposed blockade, and inefficiency in the distribution of aid as factors hampering Palestine's economic development.

This body of work, however, is replete with several limitations. Most studies have been narrowly focused on Gross Domestic Product (GDP) as a proxy for economic growth, without considering broader dimensions such as poverty and unemployment. For instance, although Gaies and Nabi (2019) and Adusei (2020) relate the discussion to GDP, they overlook the non-monetary indicators of remittance use, just as Stojanovic et al. (2017) and Muslam (2020) do.

Most studies evaluate only one or two sources of finance, such as FDI, remittances, and aid, for example, often resulting in fragmented analyses. The literature also tends to be underrepresented in terms of conflict-specific dynamics. Works such as Taghdisi (2015) criticize donor conditions; however, very few studies consider other obstacles imposed by the Israeli occupation, such as freedom of movement and trade restrictions, geopolitical instability, and more. Though Saad (2015) has investigated remittances, the role of conflict dynamics and its implications for the effectiveness of such development is highly under-investigated. Most of these studies focus on growth indicators without considering unemployment and poverty indicators, which are crucial in a conflict-affected economy.

This study attempts to fill these gaps by embracing a holistic approach. It combines various funding sources, including foreign direct investment (FDI), remittances, and aid, to study their holistic impact on Palestine's selected economic development indicators. This study also adopts a conflict-sensitive approach; therefore, the socio-political issues of the Israeli Occupation, such as restrictions on movement and geopolitical instability, must be considered.

By expanding the scope of development indicators from GDP to include unemployment and poverty, this study offers, to a certain extent, a more comprehensive analysis of economic development. Based on this foundation, the study presents practical perspectives that can yield maximum developmental gains from external funding, while addressing donor conditionalities and structural barriers. With this in mind, the study aims to bridge these knowledge gaps and contribute to a nuanced understanding of how external funding can facilitate sustainable development in Palestine, particularly in the context of armed conflict.

Table 2.2: Summary of Recent Empirical Studies

Author(s)	Country	Focus Area	Dependent Variable	Independent Variable	Key Findings
Gaies & Nabi (2019).	Developing Nations	Impact of FDI and loans on economic growth	Economic growth	FDI and loans	Both FDI and loans significantly foster growth via credit channels
Adusei (2020)	Sub-Saharan Africa	Impact of foreign aid on GDP growth in Sub-Saharan Africa	GDP growth	Foreign aid	Foreign aid has a positive impact on GDP, regardless of donor conditions.
Mingiri et al (2016).	Southern Africa	Institutions, foreign finance, and growth in the SADC region	Economic growth and domestic savings	Institutions and foreign financial flows	Institutions mediate the relationship between finance and growth.
Muslam (2020)	Iraq	Role of external financing in Iraq's reconstruction	Economic reconstruction and sectoral development	Development assistance, foreign loans, and investment	External financing supports reconstruction, but reliance on loans is risky.
Stojanovic et al. (2017).	Bosnia and Herzegovina	Impact of FDI on Bosnia and Herzegovina's economic progress	Economic development (GDP)	FDI	FDI inflows positively correlate with economic development
Ekanayake et al. (2020).	Latin America	Impact of remittances on growth and poverty in Latin America	Economic growth and poverty	Remittances	Remittances contribute to long-term growth and poverty reduction.
Chea (2023)	Cambodia	Remittances' effect on poverty and inequality in Cambodia	Poverty and inequality	Remittances	Remittances reduce poverty but increase inequality.
Justino & Shemyakina (2012).	Tajikistan	Impact of remittances on labor markets in Tajikistan	Labor force participation and working hours	Remittances	Remittances reduce labor force participation in conflict zones.
Eljafari (2012)	Palestine	Macro-economic influence of remittances in Palestine	Consumption, investment, and imports	Remittances	Remittances stabilize the economy and influence consumption.
Saad (2015)	Palestine	Long-term effects of remittances during the Second Intifada	Consumption and investment		Remittances were crucial during the period of political turmoil in Palestine.
Syed (2022)	Conflict Zones	Remittances' influence on peacebuilding in conflict zones	Peace	Remittances	Remittances may prolong conflicts by flowing through unregulated channels.
Taghdisi (2015)	Conflict Zones	Shortcomings in donors' policies in conflict zones	Development	Foreign aid policies	Donor policies often fail to align with local needs, thereby prolonging conflicts.
Zafeer (2015)	Iraq and Afghanistan	FDI behavior in conflict zones under external interventions	Economic growth	FDI under conflict conditions	FDI inflows can increase under external military interventions
Abu Jamie et al.	Palestine	Impact of European aid on	GDP	European aid	European aid positively correlated

Table 2.2: Summary of Recent Empirical Studies

Author(s)	Country	Focus Area	Dependent Variable	Independent Variable	Key Findings
(2017)		Palestinian economic growth			with GDP growth in Palestine.
Iqtait (2019)	Palestine	Effect of international aid on Palestinian fiscal policies	Fiscal stability	Foreign aid	Aid contributes to fiscal stability but is heavily dependent on donors.
Wildeman (2019)	Occupied Palestinian Territories	Challenges in monitoring aid in the OPT (Occupied Palestinian Territories)	Development outcomes	Aid distribution policies	Aid distribution has not reversed deteriorating conditions in the OPT.
Quibria et al. (2014).	Bangladesh	Effectiveness of foreign aid in Bangladesh	Economic development	Foreign aid	Aid effectiveness depends on aligning policies with local needs and priorities.
Abu Ajwa (2011).	Palestine	Impact of international aid on Palestinian development	Per capita GDP	Aid	Aid has a positive correlation with economic development in Palestine.
Daoudi (2023)	Algeria	Effect of FDI on unemployment in Algeria	Unemployment	FDI	FDI does not significantly reduce unemployment in Algeria
Morrar et al. (2022)	Jerusalem	Economic development and challenges due to occupation policies	Economic cluster development and sustainable growth	External financing from donors, the government, and the private sector	Israeli policies hinder the development of economic clusters, which require coordinated support for sustainable progress.
Al-Zein (2013)	Palestine	Impact of FDI on Palestinian economic development	GDP	FDI	FDI's impact on GDP is minimal due to limited inflows
Miaari et al. (2014).	Palestine	Impact of employment restrictions on the Palestinian economy	Income and poverty	Employment restrictions	Employment restrictions significantly harm income and worsen poverty in Palestine.
Ali (2012)	Darfur (Sudan)	Economic cost of the Darfur conflict	Economic costs	Conflict	Conflict imposes heavy costs, including on infrastructure and capital formation.
Nazeer & Masih (2017)	Malaysia	Political instability and FDI inflows in Malaysia	FDI inflows and growth	Political instability	Political instability limits foreign direct investment (FDI) inflows, which in turn slows economic growth.

Source: Prepared by the researcher.

Chapter Three: Study Methodology and Analytical Framework For the Palestinian Economy

3. Introduction

This chapter presents the study's methodology through two integrated components. The first provides a diagnostic analysis of the Palestinian economy, focusing on structural constraints, external dependency, and the evolution of foreign financial flows between 1994 and 2023. The second introduces the empirical framework for examining the relationship between these financial flows and key development outcomes. It details the variables, data sources, model specifications, and econometric strategy, with a focus on the ARDL approach. Both components connect the political-economic context to the empirical analysis, allowing the study to test its hypotheses.

3.1 Structural Diagnosis of the Palestinian Economy: Constraints, Dependencies, and Development Gaps

The previous chapter laid a critical theoretical framework that defined economic development, its objectives, and its preconditions. It also examined some of the primary theories of development. It assessed why a country would seek external funding to bridge a resource gap brought about by a savings or trade deficit. It identified the different types of foreign finance: aid and grants, FDI, and worker remittances. Furthermore, within the theoretical framework, the dependent variables of economic development indicators were linked to the independent variables of external funding sources, providing a basis for further analysis.

Building on this foundation, this section focuses on literature relevant to the study, analyzing the relationship between external funding sources: FDI, foreign grants and aid (FGA), compensation of workers in Israel (CWI), and private transfers from abroad (PTA), and key economic development indicators in the Palestinian territories. These indicators include per capita GDP, unemployment rates, and poverty levels. Considering the complex political situation in the Palestinian territories, characterized by ongoing conflict, this analysis seeks to provide a deeper understanding of the role and impact of external funding in addressing economic challenges and promoting sustainable development in Palestine.

3.1.1 Assessing the Palestinian Economy

The Palestinian economy has undergone profound structural distortions due to prolonged Israeli occupation, restrictive economic policies, and limited access to key resources. These factors have entrenched economic dependency, constrained growth, and hindered the development of a self-sustaining economic framework. Over the decades, Palestinian economic performance has been shaped by land confiscations, trade restrictions, control over financial resources, and limited access to labor markets.

The Oslo Accords and the subsequent Paris Economic Protocol were expected to provide a foundation for economic self-reliance; however, they reinforced external control over trade, fiscal policies, and mobility. Additionally, recurrent political instability, the division of the West Bank into administrative areas with varying levels of Israeli control, and the blockade of Gaza have further fragmented economic activities, limiting industrial expansion and sustainable development. This section critically examines the underlying structural challenges, the implications of Israeli economic policies, and the impact of external dependency on Palestinian economic development.

3.1.1.1 Structural Challenges, Economic Dependency, and Development Constraints in Palestine

The Palestinian economy has been structurally constrained due to the prolonged Israeli occupation, which has significantly influenced its development trajectory. Since the occupation of Gaza and the West Bank, including East Jerusalem, in June 1967, Israeli policies have systematically shaped the legal and regulatory framework governing economic activities, leading to structural distortions and deep economic dependency (UNCTAD, 2022a; Arnon & Weinblatt, 2001). The Palestinian territories have been transformed into a captive market for Israeli goods and a source of cheap labor, restricting independent economic growth and reinforcing asymmetrical trade relations (Shikaki, 2021; Abdelkarim, 2024).

A key factor in this dependency is land confiscation, which has significantly limited Palestinian agricultural and industrial expansion. Israel has expropriated large portions of Palestinian land, particularly in the West Bank, for settlement expansion and other purposes, effectively reducing available arable land and disrupting agricultural production (B'tselem,

2019; OCHA, 2017; UNCTAD, 2019a). Additionally, the construction of the separation wall and settlement expansion has fragmented Palestinian territories, impeding internal trade and mobility, which has further constrained economic growth (Amnesty International, 2022; World Bank, 2019).

Beyond land, Israel exerts control over vital natural resources, including water, minerals, and energy reserves, further limiting Palestinian economic self-sufficiency. Israel restricts Palestinian access to water resources, with approximately 80% of groundwater in the West Bank controlled by Israel, leaving Palestinian farmers and households with inadequate water supplies (Selby, 2003; Zeitoun, 2008; ESCWA, 2022). Additionally, Israel imposes severe restrictions on the Palestinian stone-cutting industry, which relies on limestone quarries and has prevented the exploitation of Gaza's offshore gas reserves (UNCTAD, 2019b; Maqadad & Abu Jiab, 2022). The inability to utilize these resources stifles industrial growth, curbs job creation, and restricts export potential, limiting prospects for sustainable economic development.

The labor market is another domain where structural distortions have emerged. Due to limited employment opportunities in the Palestinian territories, a significant portion of Palestinian workers rely on jobs in Israel, often under exploitative conditions. Palestinian workers earn lower wages than their Israeli counterparts, and work permits are frequently used as a political tool, making labor conditions highly unstable (Khalidi, 2016; Adnan & Etkes, 2021; Farsakh, 2024). This dependence on Israeli employment not only restricts the development of the Palestinian labor market but also exacerbates economic vulnerability during political crises, leading to sharp increases in unemployment and poverty (

The signing of the Oslo Accords in 1993 and the subsequent Paris Economic Protocol in 1994 were expected to enhance Palestinian economic independence. However, these agreements further entrenched Israeli control over Palestinian trade and financial resources. Under the Paris Protocol, the Palestinian economy remained integrated into a customs union with Israel, preventing the establishment of an independent trade policy (Roy, 1999; IMF, 2001). While the protocol allowed the Palestinian Authority to import goods outside Israel, these imports were subject to Israeli-imposed restrictions and standards, limiting diversification and access to competitive global markets (P.L.O., 1994; Fanack, 2012).

Financially, the protocol granted Israel control over the collection of Palestinian tax revenues, including value-added tax and customs duties on imports entering Palestinian territories via Israeli ports. These revenues are periodically withheld by Israel, creating fiscal instability for the Palestinian Authority and constraining its ability to fund development projects and public services (UNCTAD, 2013; AMAN, 2020). Moreover, the Palestinian economy remains without an independent currency, relying on the Israeli shekel, severely limiting the Palestinian Authority's ability to implement independent monetary policies to control inflation and interest rates (Khalidi & Samour, 2011).

The division of the West Bank into Areas A, B, and C after the Oslo Accords has further hindered economic development. While Area A, comprising major Palestinian cities, is under complete Palestinian Authority control, it is small and densely populated, limiting expansion opportunities. Area B, under Palestinian civil control but Israeli security control, faces bureaucratic restrictions on development projects. The most significant portion, Area C, which makes up 60% of the West Bank, remains under complete Israeli control, restricting Palestinian access to natural resources and land for agriculture, industry, and infrastructure projects (Watson, 2000; World Bank, 2013). These constraints have fragmented the Palestinian economy, prevented comprehensive infrastructure development, and further cemented economic dependency on Israel (Salameh, 2020; ESCWA, 2023; Abdelkarim, 2021).

Overall, these policies have resulted in a highly asymmetric economic relationship between Israel and Palestine, reinforcing trade deficits, stifling industrial development, and limiting the Palestinian Authority's capacity for independent economic policymaking. The continued external control over trade, financial flows, and resource allocation has undermined the Palestinian economy's ability to achieve self-sustained growth and has perpetuated structural deficiencies that hinder long-term development (Arnon & Weinblatt, 2001; Arafeh, 2018; UNCTAD, 2019d). Addressing these structural challenges requires revisiting existing economic arrangements and establishing mechanisms to enhance Palestinian economic self-reliance, which is crucial for achieving sustainable development and reducing dependence on external funding and aid.

The structural constraints imposed by Israeli policies have severely hindered economic development in Palestine. The lack of control over land, natural resources, trade policies, and financial revenues has created an environment of dependency that limits the Palestinian economy's ability to generate sustainable growth. The fragmentation of Palestinian territories and restrictions on movement have obstructed infrastructure projects, reduced investment opportunities, and weakened key economic sectors such as agriculture, industry, and trade. The reliance on employment in Israel, coupled with an absence of independent monetary and fiscal policies, has left the Palestinian economy highly vulnerable to external shocks, exacerbating unemployment and poverty. The inability to develop a self-sufficient and resilient economic structure has perpetuated reliance on foreign aid and remittances, which, while providing short-term relief, do not offer a sustainable pathway to economic independence. As a result, development efforts remain constrained, reinforcing a cycle of economic stagnation and dependency that undermines long-term progress. Overcoming these challenges requires structural reforms, enhanced policy autonomy, and strategies prioritizing domestic economic resilience and diversification.

3.1.1.2 Impact of the Blockade and Closures

The continued closure policy imposed by Israel has severely exacerbated the economic crisis in the Occupied Palestinian Territories, including the West Bank, East Jerusalem, and the Gaza Strip. Since the onset of the Second Intifada in late 2000, Israel has enforced strict blockades and closures across these territories, leading to the near-total collapse of several key economic sectors (Roy, 1998; UNCTAD, 2020; Euro-Mediterranean Human Rights Monitor, 2022).

One of the most immediate and detrimental consequences of these measures has been the economic isolation of the Palestinian Territories from international markets. Restrictions on the movement of goods and people have significantly hindered Palestinian businesses from participating in global trade (World Bank, 2004; UNCTAD, 2023a). Stringent security checks and frequent border closures have prolonged import and export procedures, increased transportation costs, and spoiled perishable goods, further reducing market access. The Gaza Strip, in particular, has been effectively cut off from international trade, crippling exports of locally produced goods such as textiles, agricultural products, and furniture. This economic

isolation has led to declining incomes, forced businesses to operate below capacity, and resulted in rising unemployment and deteriorating living conditions (UNCTAD, 2006; Amodio et al., 2018; World Bank, 2024a).

The blockade and closures have also been a major driver of soaring unemployment and poverty rates in the Palestinian Territories. Restrictions on employment opportunities outside these areas have left many Palestinians dependent on an already shrinking economy. In Gaza, unemployment rates have persistently exceeded 40%, forcing a growing number of residents to rely on foreign aid and remittances (ILO, 2018). The economic blockade has hindered private sector growth, limiting its ability to generate employment and increasing its dependency on external assistance (UNCTAD, 2020; ILO, 2023). This prolonged economic stagnation has severely undermined development efforts, exacerbating social and economic instability.

The agricultural and industrial sectors have borne the brunt of these restrictions. Security-imposed limitations on accessing agricultural lands and severe restrictions on importing essential inputs such as fertilizers and machinery have significantly reduced agricultural productivity. Palestinian farmers also face export restrictions, making agriculture an increasingly unprofitable sector (Khalidi & Samour, 2011; UNOCHA, 2018). Similarly, the blockade has paralyzed Gaza's industrial sector by preventing the importation of raw materials and equipment necessary for manufacturing. The World Bank estimates that a decade of blockade has led to the near-total collapse of Gaza's industrial base, resulting in widespread unemployment and deindustrialization (World Bank, 2007; ILO, 2024).

The blockade has also severely hindered infrastructure development and reconstruction efforts. Repeated military operations in Gaza have led to the widespread destruction of roads, schools, hospitals, and power plants. Meanwhile, stringent Israeli restrictions on importing essential construction materials such as cement and steel have made rebuilding difficult. As a result, the humanitarian crisis has deepened, leaving much of the population without access to essential services necessary for economic productivity and development (OCHA, 2015; World Bank, 2024b). This lack of infrastructure investment has further impeded economic recovery and long-term development, prolonging the economic hardships Palestinians face.

A less visible but equally devastating consequence of the blockade and closures has been the loss of human capital. Movement restrictions have severely limited opportunities for Palestinians to pursue education or employment outside their territories, leading to a growing brain drain in the West Bank and Gaza. Many skilled workers and professionals have migrated to other countries in search of better opportunities, thereby depleting the local labor force and hindering long-term economic growth. This loss of human capital has profoundly impacted Palestine's innovation, productivity, and overall economic potential. The inability to retain skilled professionals has weakened key sectors, making economic recovery even more challenging (Khalidi & Samour, 2011; ILC, 2024).

3.1.2 Palestinian Economic Development: Phases, Indicators, and Realities

The period from 1994 to 2023 has been challenging for the Palestinian economy, marked by numerous incidents and events stemming from political agreements, conflicts, and international developments. This period can be divided into four distinct phases, each with unique economic developments and structural challenges. Critical indicators of GDP, GDP per capita, unemployment, and poverty rates will facilitate an understanding of the consequences of these events, including but not limited to the signing of the Oslo Accords, the Second Intifada, the conflict between Hamas and the Palestinian Authority, the Gaza wars, and the COVID-19 pandemic.

3.1.2.1 Phase 1: 1994–2000 (Oslo Accords and Economic Restructuring)

This period marked the apparent transition of the Palestinian economy's performance into a metamorphosing phase, following the establishment of the Palestinian National Authority by the Oslo Accords of 1993, which set up the framework for self-government in parts of the West Bank and Gaza Strip. Economic indicators during this period showed an increase in the gross domestic product (GDP) in the Palestinian territories, from approximately $5 billion in 1994 to about $7.1 billion in 2000, achieving a growth rate of 37% over the entire period. The highest growth rate achieved by the economy was recorded in 1997. The growth rate reached 14.7%, while the lowest was in 2000, at -8.6%.

GDP per capita also experienced an upward trajectory, rising from $2,361 in 1994 to $2,830 in 1999 before declining to $2,507 in 2000. However, unemployment rates remained relatively stable, averaging around 11%, due to the ongoing fundamental structural

challenges and the restrictions Israel imposed on the movement of individuals and trade. As for poverty rates, they improved slightly due to international aid following the signing of the peace agreement, with an average of 22.5% by 1999. However, they surged to 35% in 2000, coinciding with the start of the second intifada at the end of that year.

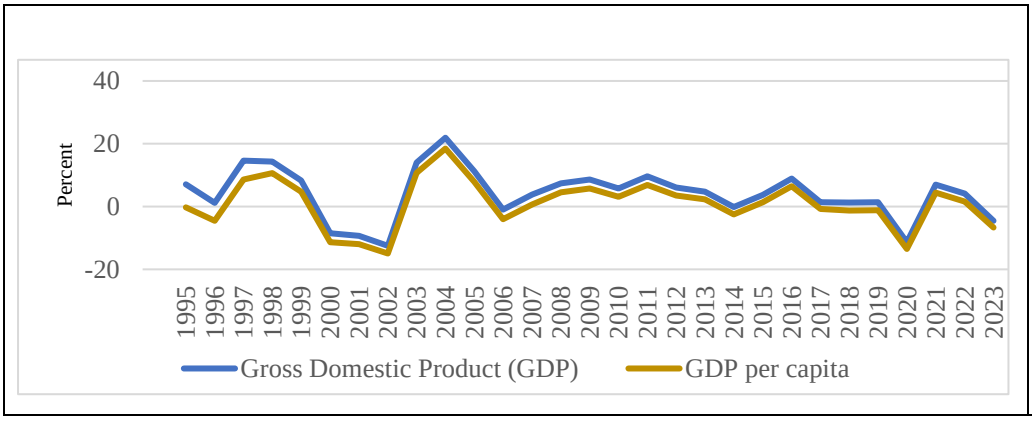


Figure 3.1: GDP Growth Rates and Per Capita GDP Growth Rate (1995–2023)

This phase was characterized by a sense of hope for the future, so it witnessed an improvement in economic indicators for several reasons, the most important of which was the political stability in that period after the signing of the Oslo Accords and the establishment of the Palestinian National Authority (Arnon et al., 1997). In addition to the increase in investment projects in the Palestinian territories, the most critical aspect is the significant flow of grants and foreign aid during that period (World Bank, 1999); a considerable portion of it was allocated to infrastructure, as well as the influence of Palestinian labor inside and outside Israel, which contributed to raising the gross national income (Kanafani, 2001).

In addition, it also becomes apparent during this phase that savings are linked to income fluctuation, accompanied by an increase in final consumption. The peace process and the flow of foreign aid during this period contributed to improving income levels, which continued to increase the value of final consumption until 1999. This is concerning the fact that production and consumption decisions in the Palestinian market are wholly linked to Israeli supply and demand due to the connection of the Palestinian market to Israel, which is the result of Israel's control over the borders and external crossings of the Palestinian territories, causing the weakness of the Palestinian economy and making it dependent on the Israeli economy.

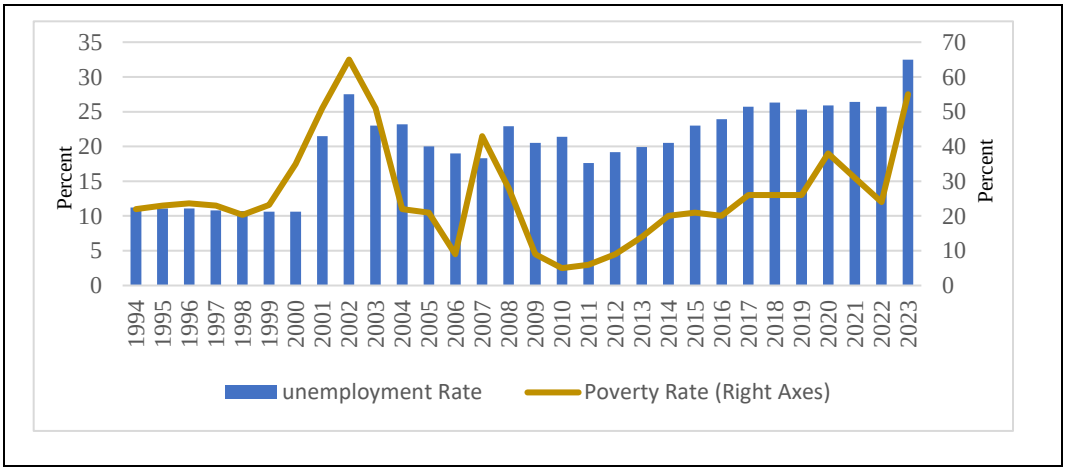


Figure 3.2: Unemployment Rates and Poverty Levels (1994–2023)

3.1.2.2 Phase 2: 2001–2006 (Second Intifada and Economic Crisis)

This period is considered one of the worst periods the Palestinian economy has ever seen, with the beginning of the Second Intifada late in 2000, and political instability, destruction, and decline. GDP recorded a violent up and down course; its first months of the year 2000 still showed signs of stability before a nosedive resulting from the Intifada and Israeli policies of closures and military operations. By 2001, the GDP had shrunk by 9.3% to $6.5 billion and continued to shrink in 2002 by a further 12.5%, shrinking the GDP to $5.6 billion. During these two years, the per capita GDP fell by 26.9%, from $2,208 in 2001 to $ 1,618 in 2002. This contraction showed the extent of damage wrought by conflict and occupation policies.

The recovery began in 2003 and continued until 2005, marked by a 15.7% average annual rise in actual GDP, which reached $8.7 billion by the end of 2005. It was not surprising that the latter's increase led to a rise in per capita GDP from $2,080 in 2003 to $2,659 in 2005. The driving forces of such a recovery include "the partial lifting of curfew and restrictions, rises in labor flows to Israel, and handovers of funds withheld via the Palestinian Authority." Additionally, employment generation was facilitated in both the public and private sectors, resulting in approximately 100,000 new jobs (World Bank, 2004). However, this progress was then hindered in 2006 after Hamas's victory in the legislative elections, which called off a complete blockade from Israel, the United States, Europe, and even some Arab countries. The blockade thus weakened trade and, therefore, economic activities. This reduced GDP growth by about 1% and GDP per capita by 4%.

Gross capital formation was severely affected, with sharp declines in the first years of the Second Intifada. While some recovery occurred in 2003 and 2005, the decline over the six years reached 11.3%. Savings rates also declined significantly, with negative savings becoming the norm as households drew on reserves to maintain consumption in the face of uncertainty. Infrastructure and house demolitions, coupled with widespread demolitions and military sieges such as the "Separation wall" operation and the siege of President Arafat in Ramallah, further undermined economic stability. Investment opportunities were limited, and the capital formation levels experienced in 1999 were not attained during this period.

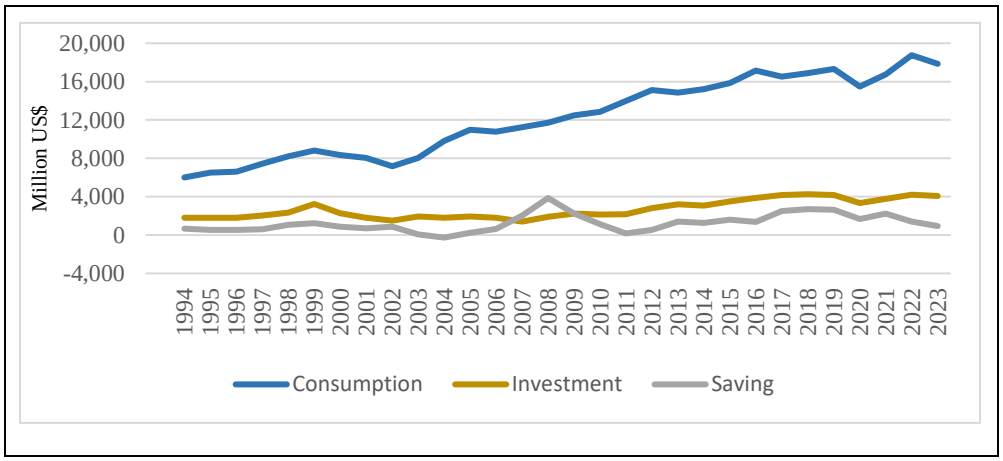


Figure 3.3: Total Investment, Saving, and Total Consumption (1994–2023)

Unemployment rates more than doubled in 2001, reaching 21.5% from 10.6% in 2000, and remained extremely high, averaging 22.4% over the six years. Poverty rates also soared, reaching as high as 65% in 2002, as sources of income were wiped out and humanitarian aid became increasingly relied upon. While poverty levels did fall to 51% in 2003 and further to 9% by 2006, these figures disguised the uneven nature of recovery and the many difficulties that most Palestinians continued to face.

The devastating economic situation during this period was not confined to the brief period immediately following the Second Intifada. Long-term and continuous Israeli military operations, blockades, and the closure of border-crossing points undermined economic stability and also the developmental prospects in the Palestinian Authority areas through constant disruption (World Bank, 2003; Roy, 2004). Infrastructure destruction in the West

Bank, combined with the lack of a clear political resolution, has further adversely impacted growth in the area (Arnon, 2007; Wildeman & Tartir, 2014).

Further adding to the overall economic loss, the estimate was as high as $6.5 billion, equal to 140% of Palestinian GDP (UNCTAD, 2005). This goes to show how the Israeli economy has been grossly devastated as a result of the conflict and occupation policies. This period can be encapsulated as one of severe economic hardship and destruction. Although recoveries did occur, especially from 2003 to 2005, the lingering impact of the Second Intifada and the blockade following the 2006 elections further weakened the economy. The high level of unemployment, rampant poverty, and massive infrastructural destruction epitomize the problems besetting the Palestinian economy and its development potential.

3.1.2.3 Phase 3: 2007–2019 (Political Division and Repeated Conflicts)

The political split between Gaza and the West Bank that began in 2007 created a real turning point for the Palestinian economy and further weakened an already weak foundation. It was expected to create new conditions of disorder in governance and to exacerbate the economic burdens weighing on the Palestinian Authority (World Bank, 2018). Since then, the West Bank and Gaza Strip have followed very different economic paths. While there was a relative stabilization in the West Bank, the Gaza Strip has been devastated by an extreme blockade, repeated invasions, and targeted destruction of infrastructure and productive capacities (Roy, 2016; UNCTAD, 2015).

These attacks all occurred within three cruel and devastating wars experienced by the Gaza Strip during 2008, 2012, and 2014, which caused the ruin of tens of thousands of homes, critical infrastructure, and public facilities, factories, and farms, along with substantial devastation to personal properties, where thousands turned into rubble amidst a battlefield. The staggering economic consequences of the hostilities have caused long-lasting bruises among the Palestinian economic sectors, in particular, within the Palestinian territory of the Gaza Strip (Roy, 2016; PMA, 2015).

During this period, the broader Palestinian economy faced heightened risks and recurring political and economic crises, resulting in severe shocks and instability. Despite the devastation, the year 2015 witnessed a relative recovery from the vast destruction during the Gaza war in the middle of 2014. However, by the close of 2014 and into the first quarter

of 2015, Israel ceased the transfer of clearance revenues to the government of the Palestinians. This withholding of funds has disrupted the government's financial performance and severely affected the government's

Between 2007 and 2019, despite numerous challenges, the Palestinian economy showed significant improvements in most economic indicators, particularly in the West Bank. The GDP gradually increased from $9 billion in 2007, with a growth rate of 3.8%, to $15.8 billion in 2019, slowing to 1.8% by the end of the period. This upward trajectory was then interrupted in 2014 by the aggression on Gaza, which saw the economy slightly contract by 0.2%. The economy's rebound led to GDP growth resuming at 3.7% by 2015, following a peak of 8.9% in 2016, and resulted in a GDP of approximately $15.2 billion. Whereas the growth was very rapid between 2013 and 2016, it slowed substantially after 2017, averaging 1.3% yearly from 2017 to 2019. This represents a slower growth period, reflecting an increasingly stretched and challenged economy during the latter years of this timeline.

This was reflected in the per capita GDP, which rose from $2,570 in 2007 to $3,315 in 2013, but then contracted to $3,233 in 2014, as the protracted Gaza conflict took its toll. Beginning in 2015, the per capita GDP also followed the same trend of increase and decrease. From $3,278 in 2015, the amount rose to $3,463 in 2017, indicating moderate growth.

Over this period, average unemployment was at 22 percent, while the poverty levels continued to improve, yet were generally high; especially in the Gaza Strip, the blockade massively exacerbated poverty, peaking at as high as 43 percent in the year 2007 and 28 percent in the year 2008.

Although poverty decreased to an average of 7% between 2009 and 2012, it rose again, reaching 26% during the last three years of this phase. In summary, the years 2007–2019 were characterized by significant economic fluctuations. While the West Bank experienced growth, supported by foreign aid and relative stability, Gaza faced economic collapse due to consecutive blockades, wars, and widespread destruction. This political split deepened the disparities between the two regions, trapping Gaza in a cycle of economic decline and dependence while simultaneously hindering comprehensive economic development across Palestine as a whole.

Gross capital formation exhibited significant fluctuations during the period. It sharply declined by 22.8% in 2007 but rebounded with a remarkable 36.1% increase in 2008. In the following years, like 2009, 2012, and 2013, it achieved laudable growth rates indicative of economic activities and investment recovery. However, the trend did not hold as gross capital formation eventually contracted by 1.9% in 2019.

Savings in the period had significant fluctuations, reflecting the economy's volatile nature. Whereas several years have registered remarkable growth, the setbacks in 2011 and 2012 indicated the economy's fragility. To a large extent, the growth of GDP in this period was influenced by foreign aid to the Palestinian Authority, especially after Hamas took over Gaza. Foreign aid increased by double the amount it was in 2005, significantly benefiting the West Bank. The blockade and repeated destruction lowered Gaza's share of the Palestinian GDP from 32.1% in 2006 to 22.9% in 2014.

Savings also demonstrated sharp variations. Following a notable 26.3% growth in 2015, savings sharply declined due to political instability and financial crises. Although a partial recovery was observed in 2015 and 2016, the combined impact of declining foreign aid and recurring fiscal shocks placed additional strain on the Palestinian economy. By the end of 2019, savings had contracted by 3.2%, reflecting the enduring challenges of the period.

3.1.2.4 Phase 4: 2020–2023 (The Onset of COVID-19 and the Israeli Aggression on Palestinian Territories)

In 2020, the COVID-19 pandemic gave a new perspective to these challenges. While many crises had been registered over the years, the pandemic's effects differed. Besides being a global health disaster, the pandemic affected nations differently in terms of their preparedness and capacity to respond adequately. However, the crisis was unprecedented in the contemporary chronicle of Palestine, marked by widespread repercussions across entire sectors of the economy and on a macro scale. The pandemic disrupted economic life and paralyzed trade, negatively impacting local labor markets and further escalating fragilities (PMA, 2021).

At the onset of the pandemic in 2020, the GDP contracted significantly, shrinking by 11.3%, underscoring the severity of COVID-19. In the post-pandemic period, the Palestinian economy has been facing a mix of opportunities for recovery and persistent challenges. On

the positive side, the COVID-19 vaccination deployment in 2021 significantly reduced the pandemic impact and helped avoid long, total closures similar to those during 2020. However, global price surges—each caused by increased import costs—began to pressure the local economy and further complicate the recovery process (World Bank, 2022).

During 2022, the economy regained its gradual growth pace following the pandemic crisis, albeit at a slower rate than in the preceding year. This slow growth resulted from the lingering uncertainty stemming from the continued influence of various factors, including lower volumes of foreign grants and donations, ongoing deductions on revenues that accumulate in clearance by Israel, and the ongoing negative repercussions of rising political and security tensions. Such unparalleled escalations in local prices have weakened purchasing power and domestic demand, thereby exacerbating the current severe vulnerability of the general economic context (PMA, 2023).

It became even worse in the year 2023. With the first three quarters showing a significant improvement on most economic indicators, the fourth quarter took a sudden, sharp reversal due to the Israeli aggression in the Gaza Strip. In the West Bank, strict measures are adopted by Israel; these include restricting the movement of Palestinian workers, suspension of the transfer of clearance funds, and restrictions on individual and commercial activities, which caused a wide-margin deterioration in economic performance (PMA, 2024).

GDP growth also followed this fluctuation. The GDP rebounded by 7% in 2021 to $15 billion as the economy began recovering from the pandemic's impact. Growth slowed to 4.8% in 2022, raising GDP to $15.6 billion, but declined sharply by 4.6% in 2023, reducing GDP to $14.9 billion due to the aggression in Gaza and related disruptions.

Unemployment hit the economy hard, averaging 26% in 2020 and 2022, and reaching 30.4% in 2023. The poverty rate improved in 2022 to 24% from its peak during the pandemic, which reached 38% in 2020 but increased once more to reach 55% in 2023, further indicative of the severe socio-economic cost of Israeli policies and aggressions.

Gross capital formation was similarly up. Contracted by 20.3% in 2020 and began to grow again to reach 13.3% in 2021, slowed to 11.7% in 2022, and contracted again by 3.1% in 2023. Savings increased by 36.2% and then achieved positive growth in 2021; however, they became negative in 2022 and 2023 as households increasingly drew on their reserves.

The GDP per capita increased slightly to $3,050 in 2021, after declining to $2,923 in 2020, and reached $3,100 in 2022. However, it dropped to $2,860 in 2023, reflecting the cumulative effects of political instability and disruptions to economic activity.

3.1.3 Structural Imbalances and Economic Gaps in Palestine

The second chapter's theoretical framework explores why most developing countries rely on external funding to finance economic development. It found that these countries face an imbalance in the structure of economic resources due to three significant gaps: the internal resources gap (savings gap), the external resources gap, and the general budget gap. The theoretical framework also shows that external funding can effectively fill these gaps. Therefore, this part will analyze the three gaps in the Palestinian economy, which have faced numerous structural challenges due to ongoing political instability and external shocks since 1994, following the signing of the Oslo Accords.

This section reviews the causes and developments of these gaps and probes how political conditions shaped Palestinian economic dependence on external funding between 1994 and 2023.

3.1.3.1 Deficit in Domestic Savings (Local Resource Gap)

The savings gap refers to the disparity between the investments required for economic development and the actual local savings. The Palestinian economy faces a significant gap, as it suffers from a profound disparity between savings and investment, manifested in the inability of local savings to cover gross domestic investment. During this period, the values of available national savings were very low or negative compared to the volume of gross domestic investment in some years (Ajamieh et al., 2023).

This appears from national accounts data, which indicate that final consumption expenditure exceeds the gross domestic product and accounts for most of the gross national income, which reflects the dominance of the consumer nature on the one hand and the marginality of saving in the components of available national income on the other hand (PCBS, 2024). This situation has also led to an increase in the indebtedness of most Palestinian families, who, in recent years, have been forced to borrow from banks to bridge the gap between their actual incomes and their growing living expenses (PBA, 2014).

Therefore, this fluctuation in the savings gap can be attributed to several factors, the most important of which are income disparity and consumption patterns. Like most developing countries, the high-income class in Palestine channeled much of its income towards conspicuous consumption rather than investing in productive fields. This consumer culture and limited opportunities to save hindered the growth of domestic resources that could be utilized for productive investment (Ayyash et al., 2020).

Moreover, Political instability after the Oslo Accords further increased the savings gap, whereby the Palestinian economy faced turmoil as a result of repeated conflicts: the Second Intifada (2000-2005) and successive Israeli military operations in Gaza during 2008, 2012, and 2014. These conflicts caused significant economic shocks, reducing the ability of businesses and households to save, and personal savings were depleted as a result of coping with economic crises (Byman, 2018).

In addition, relying on the Israeli labor market due to high unemployment rates and limited opportunities within Palestine, many Palestinians sought to work in Israel, where wage levels were higher. However, restrictions on work permits and wages have suppressed savings. At the same time, political and security events have caused fluctuations in access to work in Israel, further deepening the savings gap (Hallaq, 2020; PCBS, 2023b).

Furthermore, the weakness of the financial infrastructure is also due to the undeveloped Palestinian banking and financial systems in the post-Oslo period (World Bank, 2008; PMA, 2012). The lack of available financial services and weak credit infrastructure also restricts savings and investment opportunities. Political restrictions, including those imposed by the Israeli authorities, have hindered the growth of local financial institutions (UNCTAD, 2019).

Reviewing the development of this gap from 1994 to 2023, we observe that it was influenced by political instability, as illustrated in Figure 3.4. This figure illustrates the economic turmoil and the limited ability to manage domestic savings. The savings gap has narrowed during this period in response to external shocks, international aid, and domestic fiscal challenges.

During the post-Oslo Accords period, from 1994 to 1998 inclusive, structural obstructions to income-generating productive abilities were reflected in low incomes characterized by high consumption factors. Meanwhile, the obstruction and restriction

procedures imposed by the Israeli occupation prevented the functioning of an accurate economic cycle, which was supposedly capable of generating sufficient domestic savings. Compared to a financial savings gap of $1,270 million in 1996, Palestinian financial needs would rise to $1,298 million, reflecting the increased vulnerability of savings gaps during the post-settlement era. More resources became available compared to previous years, mainly through additional international aid facilitated by the settlements.

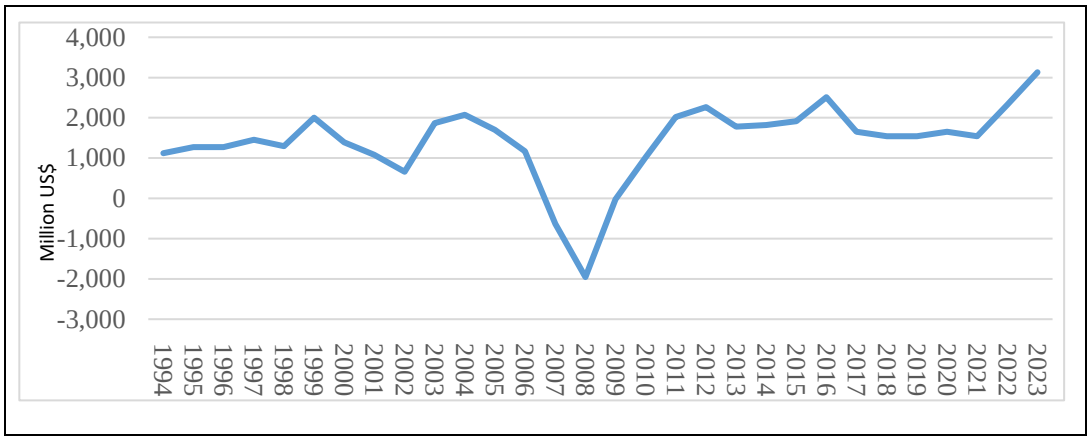


Figure 3.4: Local Resource Gap (Saving Gap) (1994-2023)

Significant political and economic changes swept Palestine from 1999 to 2006, directly impacting the savings gap. This period was indeed very politically and economically turbulent, which must have been reflected in levels of investment and saving.

The savings gap was $2,007 million in 1999. The primary determinant of this rise was an unprecedented increase in investments, which peaked at $3,239 million, driven by optimism following the Oslo Accords and substantial inflows of international aid. Due to continued economic hardships, high unemployment, and deficient savings capacity, domestic savings remained extremely low. In 2000, it fell to $ 1,391 million as investments decreased to $2,268 million, reflecting the economic strain brought on by the start of the Second Intifada.

Between 2001 and 2005, the Second Intifada drastically interrupted the course of the Palestinian economy, thus widening the savings gap even further. In 2001, it was $1,078 million, while investments fell drastically to $1,790 million, a trend that continued in 2002. As a result, domestic savings decreased, reducing the gap to $658 million in 2002, the lowest. In 2003, the gap rose again to $1,867 million while investments increased to $1,931 million.

This continued to grow in 2004 when the gap reached $2,076 million, although investments fell slightly to $1,811 million. These increasing gaps reflect growing dependence on foreign aid and the complete or near-total erosion of domestic savings in the face of ongoing economic hardships and conflict.

In 2006, increased political polarization between Hamas and Fatah laid the ground for an Israeli blockade of the Gaza Strip. This further decreased investments, which fell to $1,815 million, and domestic savings, which also decreased, widening the difference to $1,173 million. This period was marked by the worst form of blockade and political divisions, which caused the nation to suffer from deteriorating foreign aid that was insufficient to cover the widening gap left by the increasing foreign direct investment.

This has led to a significant upward trend in domestic savings, resulting in a negative saving-investment gap from 2007 to 2009, with a low of -$1,954 million reached in 2008. Indeed, this recovery was supported by increased investments, boosted by international aid, particularly for the reconstruction of Gaza, as well as improved government revenues. Savings continued to outstrip investment in 2009, with a negative gap of -$21 million, supported by continuous flows of aid and increases in investment. The savings gap followed a sawtooth pattern from 2010 to 2020 due to external shocks, including wars in Gaza and the COVID-19 pandemic. However, domestic savings were hampered by high unemployment and economic instability. From 2021 to 2023, the economy began recovering from the pandemic; however, the savings gap increased significantly to $3,131 million by 2023. The renewed Israeli conflicts drove it, and increased living costs further deepened the reliance on external financing.

3.1.3.2 Deficit in Foreign Exchange (External Resources Gap)

The difference between a country's imports and exports is its external trade balance, also referred to as the trade deficit or trade gap. Since 1994, one of the significant challenges has been the trade deficit, which has prevented the Palestinian economy from generating adequate revenues from exports to cover the cost of imports (PCBS, 2023c). These factors contributed to widening the trade gap during this period; the most significant factor was Israeli control over trade, as under the Paris Protocol, Palestine was integrated into a customs union with Israel, resulting in the adoption of Israeli tariffs and trade policies. This has

hindered the Palestinian economy's ability to establish independent trade relations with the rest of the world (Paris Protocol, 1994; Arnon & Weinblatt, 2001). Additionally, Israeli control of the border, especially with Jordan, limited Palestine's access to international markets (UNCTAD, 2019c). Furthermore, the Palestinian economy has become heavily dependent on imports, especially from Israel, for obtaining vital goods such as food, fuel, and building materials (PCBS, 2023c).

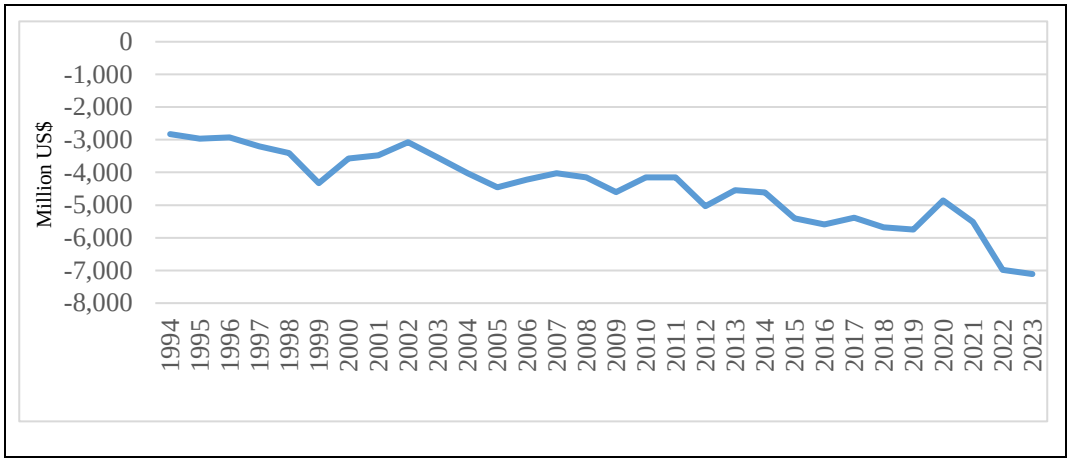


Figure 3.5: External Resources Gap (Trade Gap) (1994-2023)

At the same time, the Palestinian economy has struggled to develop a solid export base due to restrictions on the movement of goods and the destruction of productive infrastructure during conflicts (Arnon et al., 1997). In addition to the Israeli policies related to land confiscation and restrictions imposed on agricultural and industrial activities, Israel imposed its control over natural resources, and industrial areas were often targeted during military operations. These policies limited Palestine's export capacity, especially in the agricultural and industrial sectors (UNCTAD, 2015).

By tracing the course of this gap, as expressed in Figure (3.5), we notice that since 1994, the trade gap, or net export, has been constantly negative, reflecting the gap between what is within the narrow capability of the country to export and its heavy dependence on imports, especially from Israel, within limits of fluctuation that many political and economic events had influenced during 1994-2023.

This is reflected in the wide gap in the balance of trade between 1996 and 2000, widening from a low of $2,927 million in 1996 to $4,323 million by 1999. This is explained

by Palestine's limited capacity to produce for export and its heavy dependence on imports of essential commodities, such as food, fuel, and construction materials. However, despite the economic optimism in the post-Oslo Accords period, higher consumption, investment projects, and structural restrictions imposed by the Israeli occupation on trade and movement prevented an increase in exports. Evidence of this is found in a constantly growing trade deficit.

The trade gap, however, underwent minor changes during the Second Intifada. In 2001, it declined to $3,474 million owing to the sudden collapse in economic activity caused by Israeli military incursions and closures. Export performance could have been appreciably improved. In 2005, with continued improvement in imports and sluggish export performance, the trade gap rose to US$4,459 million.

This division between Hamas and Fatah, as well as the Israeli blockade on Gaza, further exacerbated Palestine's trade deficit in 2006. The gap, which was $4,218 million in 2006, widened to $4,598 million by 2009. The blockade reduced the mobility of goods in and out of Gaza to extremely minimal levels and completely floored the production sectors, such as agriculture and industry. However, the continued importation of essential goods and humanitarian aid is a contributing factor to the growing trade deficit.

In addition to the Israeli restrictions on trade and movement, political instability has further widened the trade gap from 2011 to 2020. The trade gap was $5,030 million in 2012, reaching its peak of $5,746 million in 2019. While efforts to improve domestic production were undertaken, the Palestinian economy was highly dependent on imports, above all from Israel, and needed a sound export base.

This was $5,516 million US dollars from the previous year of 2021 during the post-pandemic period. The trade gap for the country in 2022 was reported to be $6,982 million US dollars; this increased to $7,110 million US dollars in 2023. Due to the increase in prices, there has been a growing demand for imports, which contributes to the increased demand resulting from inflation. However, with the control of border crossings and trade routes by Israel, the exports remained low and prevented Palestine from increasing revenues from its exports.

3.1.3.3 Deficit in Public Finance (General Budget Gap)

The fiscal gap refers to the deficit between revenues and expenditures. Palestine has consistently faced a budgetary imbalance due to its limited capacity to raise tax revenues, which is offset by the persistent need for public spending on essential services, social welfare, and security (World Bank, 2022; IMF, 2022).

Since establishing the Palestinian National Authority in 1994, the Palestinian government has faced significant financial challenges. The widening public finance gap can be attributed to several factors, the most important of which is the weak ability to generate revenues. The Palestinian economy relied heavily on international aid and foreign revenues and needed a solid tax base (Iqtait, 2022; Shaban, 2022). The Israeli occupation and restrictions on various economic activities carried out, especially in Area C, have brought about a condition whereby the Palestinian Government cannot generate decent domestic revenues for itself (UNCTAD, 2022b).

Other significant challenges involve the leakage of tax revenues, mainly because Israel collects customs duties and value-added tax on behalf of the PA through the Paris Protocol. Israel often withholds such revenues as a political weapon against the Palestinians and furthers the weakening of the public finances of the PA (UNCTAD, 2013).

Among the challenges is the increase in public expenditures, as the Palestinian Authority faced increasing demands for public spending, especially in social services, infrastructure, and public sector salaries (World Bank, 2016). Moreover, it has been considered one of the most critical challenges to public finances for the Palestinian government, as it reached $3.8 billion by the end of 2023, distributed among domestic debt amounting to $2.5 billion, bank loans, and commercial debt, in addition to external debt amounting to $1.3 billion (PCBS, 2023d).

Regarding the development of the public finance gap figure, it is evident that the period from 1997 to 2000 marked the unmistakable emergence of the public budget gap. Specifically, in 1997, this reached -$426.6 million. In the following year, 1998, the respective gap improved to $322.9 million; however, this remained insufficient to cover the financial deficit. In the year following further, notably 1999, the aforementioned deficit continued to

"shrink, to attain accordingly - $206.3 million. After 2000, the economic and political conditions left hardly any opportunity to continue this improvement, and the gap widened again to $240.3 million.

Accordingly, there has been a growing dependency of the Palestine Authority on foreign aid and revenues to manage a significant portion of its fiscal deficit; additionally, through this, Israel's policies of retaining revenue for 'Political Gains' regularly squeezed the pressures harder. "Economic uncertainties deepened due to unrest, which impeded raising the regular/ standard level of collections.

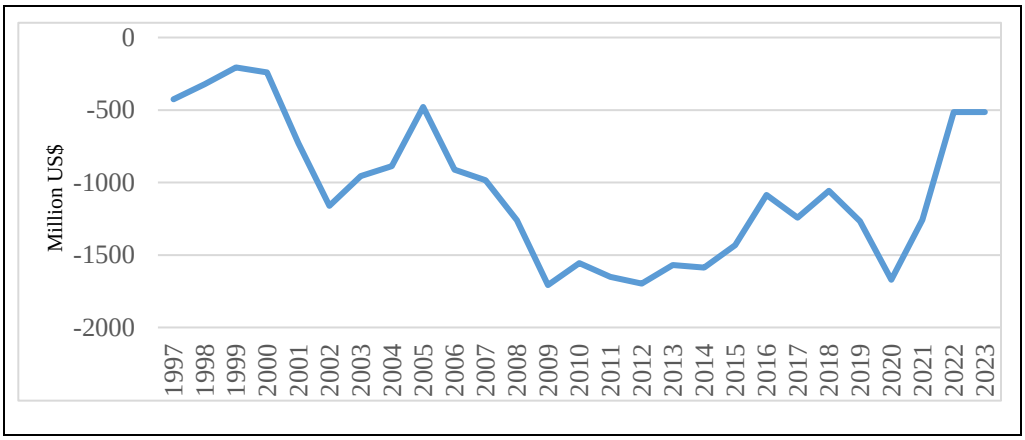


Figure 3.6: General Budget Gap (1997-2023)

In general, the economic devastation and destruction of infrastructure during the Second Intifada, from 2000 to 2005, increased significantly. This was $729 million in 2001, whereas it was $1,162 million in 2002. The sharp rise during the mentioned period and the deteriorating security environment, coupled with higher financial pressures imposed by the Intifada, led the Government of Israel to stop further transferring the withheld tax revenues for one reason;

The deficit decreased but remained high in the following years: $956 million in 2003 and $888 million in 2004. Despite all this, the gap continued to narrow with increased foreign aid, reaching $478 million by 2005.

This period was also characterized by the continued increase in the budget deficit, a spill-over of the political split between Hamas and Fatah during the period 2006-2010, when Hamas took over Gaza and Israel imposed an economic siege. In 2006, the gap stood at -

$911 million. The difference, therefore, continued to increase with the persistence of the siege and armed conflicts in Gaza, reaching -$1,707.8 million in 2009. The high-security expenditure continued with the rise of political and economic crises, on top of increasing reliance on foreign aid to fill the financial deficit that resulted from it. Nevertheless, the economic deterioration persisted due to a decline in tax revenues and difficulties with their collection.

Nevertheless, from 2011 to 2020, it remained huge, notwithstanding attempts to rein in public finances. For instance, it reached -$1,650.6 million in 2011 and extended to -$1,698.4 million in 2012. The period also saw a fluctuating gap of $1,586.9 million in 2014, which then extended to $-1,431.8 million in the subsequent year. As such, heavy reliance on foreign aid continued unabated, more so given political instability and the blockade imposed on Gaza. This gap further widened in 2020 to -$1,670.7 million, mainly due to the impact of the COVID-19 pandemic on the Palestinian economy.

More recently, the improved budget gap resulted from increased foreign aid, as well as austerity measures. In 2022, this gap narrowed from $515.2 million to $514.664 million in 2023, indicating a temporary improvement in public financial management. However, such progress is highly dependent on continued financial support from international donors to be sustained.

3.1.4 Sources of External Funding in the Palestinian Economy

Since the signing of the Oslo Accords in 1994, the Palestinian economy has relied heavily on external sources of financing to compensate for the general budget deficit, savings gap, and trade gap. These gaps were directly affected by political and economic developments, including the Second Intifada, the blockade of Gaza, and internal political divisions. The following is a review of the development in the most important sources of external financing that Palestine has received.

3.1.4.1 Foreign Grants and Aid

The motives behind the flow and provision of grants and aid to the Palestinian territories varied between political, economic, and humanitarian motives. Political motives are the most critical factor in foreign grants and aid, as they usually stem from the donor

countries' strategic interests and foreign political concerns. Assistance for political purposes usually aims to achieve two primary goals. The first is related to encouraging regimes that begin or continue to reconcile their foreign policy with the needs and desires of donor countries, and the second is to support regimes classified as “friendly regimes” and keep them in power. (Abdel-Fattah et al., 2001).

In this regard, the European Union sought to play an essential and influential role in the Arab-Palestinian-Israeli conflict, enter the gateway to the Middle East, and preserve Israel’s crucial interests through foreign aid, whose goal was to support the peace process and achieve political gains on the Palestinian side for the benefit of Israel, while disregarding the goals. Developmentally, this became clear through the use of foreign aid as a pressure card on then-President Arafat to force him to carry out reforms that Israel wanted and on the Hamas movement to force it to recognize Israel (Bani Fadl, 2009).

John Kerr, Director of the European Commission Office in the West Bank, also explicitly confirmed that the amount of economic support provided to the Palestinians is linked to progress in the peace process between them and the Israelis (Al-Zaytouna Center for Studies and Consultations, 2007).

Similarly, American aid to the Palestinian Authority has been highly politicized. Decisions to provide financial support rely on reports from U.S. intelligence agencies regarding relations with the Palestine Liberation Organization and its political factions, especially opposition groups, to ensure the security of Israeli personnel, including settlers and soldiers. This approach was underscored when the United States Development Agency required a pledge not to provide aid to any party classified as a terrorist organization under U.S. law (Lubbad, 2004).

Economically, many foreign and international aid and grants are conditional to ensure the economic interests of the donor countries, such as obligating the countries receiving aid to purchase goods and resources from the donor countries or imposing specific conditions. Donor countries may also assist in achieving other economic goals, such as increasing the penetration of their companies into the markets of countries receiving their aid, securing higher market prices, and fostering economic dependency in aid-receiving countries on donor countries (Al-Wawi, 2022). For example, the European Union, one of the financiers

of the Palestinian Authority, stipulated the purchase of what is necessary for projects funded by a state as a condition for financing, with the presence of experts whose salary reaches four times the highest monthly wage in the Palestinian Authority, This makes the value of the equipment, experts' wages and supplies reach 70% of the total aid provided, and the figures in this aspect indicate that the fees of experts and consultants from citizens of donor countries amounted to half of the aid provided to the Palestinians, while technical assistance reached 85%. (MAS, 2005).

As for humanitarian motives, humanitarian aid is among the most provided to the Palestinian people. They are linked to helping the population, especially those afflicted by disasters and wars, alleviating their suffering, and protecting and preserving human dignity. The best evidence of this is the provision of humanitarian, health, educational, and relief services in the Palestinian territories by the United Nations Relief and Works Agency for Palestine Refugees. It receives foreign aid from several countries, institutions, and various Arab and international parties and provides humanitarian services to more than 2.5 million refugees in the Palestinian territories (UNRWA, 2007).

From the above, it is evident that foreign aid and grants provided to the Palestinian people often have a predominantly political purpose. While assistance through non-governmental organizations may serve humanitarian, relief, or economic objectives, political considerations dominate overall foreign assistance. For instance, foreign aid ceased following Hamas's 2006 electoral victory and the subsequent Palestinian division, but resumed vigorously when Salam Fayyad assumed government leadership. Each institution and organization brings distinct motivations—humanitarian, economic, or political—to aid in distribution.

Since grants and aid began to flow into the Palestinian territories at the end of 1993, when the international conference to provide financial assistance to the Palestinian Authority was held in Washington, in which 42 countries participated, the conference participants announced their primary goal as a result of giving grants and aid, which is to rehabilitate the infrastructure—establishing public facilities and institutions, and financing and managing the development process in the areas of the Palestinian Authority (United Nation, 1993). The political goal behind this aid was to give the Oslo Accords and the peace process economic

and social credibility for the Palestinians (Samara, 1997). Providing grants and foreign aid has been divided into three stages: pledge, commitment, and disbursement. This means that donors do not necessarily have to disburse all the aid pledged or committed, as this assistance is primarily linked to the political developments on the ground (Abu Ouda, 2015).

The data presented in Table 3.5 and Figure 3.7 highlight the fluctuations in the volume of grants and aid provided to the Palestinian territories from 1994 to 2023. These fluctuations reflect the underlying goals of this aid, primarily linked to the peace settlement process, the political dynamics between the Palestinian and Israeli sides, and the nature of the relationships between the Palestinian Authority and donor countries.

From 1994 to 2000, foreign aid gradually increased from $472 million in 1994 to $730 million in 2000. This aid was necessary to fill the general budget gap, as the Palestinian Authority relied heavily on these funds to cover public expenditures. Politically, there was optimism following the signing of the Oslo Accords, which encouraged the international community to provide aid in support of establishing the Palestinian state.

Despite the significant financial support, the Palestinian economy struggled to reduce the savings gap substantially. Although the aid facilitated investments in infrastructure and other critical sectors, domestic savings remained weak. This weakness was attributed mainly to high levels of consumption and relatively low household incomes, which limited the economy's capacity to achieve sustainable financial independence.

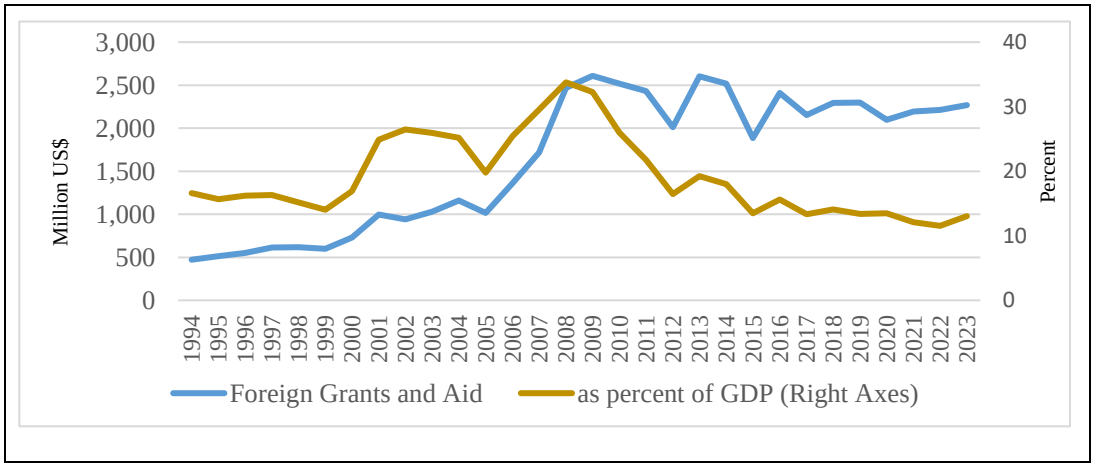


Figure 3.7: Foreign Grants and Aid (1994-2023)

During the second intifada, foreign aid increased from $997 million in 2001 to $1,015 million in 2005. This funding was crucial in offsetting the economic decline caused by the conflict. The public budget gap increased significantly during this period, as war and Israeli closures devastated the economy and reduced domestic revenues. International aid helped mitigate the impact of the savings gap, but the economy remained significantly short of domestic savings.

Foreign aid, for instance, reached $1,361 million in 2006 and rose dramatically the subsequent year to $1,717 million. However, with the war in Gaza and the reconstruction needs, foreign aid reached an overall value of $2,469 million in 2008. It became an essential financial boost for the age to reduce the overall budgetary imbalance. On record, the general economy suffered abrupt deterioration due to political division and blockage. However, the savings gap remained high because most of the money was used to finance basic projects rather than increase domestic savings. The trade gap remained broad due to a heavy reliance on imports and export restrictions.

During 2010-2020, it declined again to reach its highest point in 2014 at $2,602 million. This aid helped the economy absorb shocks such as wars in Gaza and the global financial crisis. Nevertheless, such aid could not completely close the general budget gap. The saving gap, factoring in poor domestic savings, persisted, and so did the trade gap due to dependence on imports.

Therefore, foreign aid stood at US$2,033 million in 2021 and increased to US$2,270 million in 2023. Since the deficit decreased, the general budget gap was reduced to a specific limit; however, it was still inadequate to address structural difficulties, such as the savings and trade gaps. The economy remained dependent on foreign aid and financial flows coming from abroad.

3.1.4.2 Foreign Direct Investment (FDI)

FDI is crucial in stimulating economic growth and achieving development in Palestine. Foreign investment directly contributes to enhancing productive capabilities, creating job opportunities, and facilitating the transfer of modern technologies. Nevertheless, numerous external and internal obstacles hinder the flow of foreign investment into Palestine (Rahman, 2021).

As for external obstacles, the lack of political and security stability in the Palestinian territories is considered one of the most critical obstacles facing foreign direct investment (Wildeman & Tartir, 2021), as well as Israeli control over Palestinian crossings and their permanent and repeated closure and the lack of a seaport or international airports due to the restrictions imposed by the Israeli occupation, The dependency of the Palestinian economy on the occupying state and its economies, the economic siege imposed on the Palestinian territories, incredibly the Gaza Strip, the failure to activate economic agreements (UNCTAD, 2020; Wildeman, 2019; World Bank, 2014).

Internal obstacles include the lack of sufficient and appropriate infrastructure, including roads, communications, water, and electricity networks, to attract foreign direct investment, the ineffectiveness of the public sector and civil service, the high interest imposed on loans and credit facilities granted to investors, and the failure to complete legislation to encourage investment in the Palestinian territories (Obaid & Talalwah, 2019; Zubeida, 2016; OECD, 2022). Weak networking between local and foreign investors, as well as ineffective promotion of investment opportunities available in the Palestinian territories, particularly for foreign investors (Nasr, 2008; Talalwah, 2017).

Over the past three decades, foreign direct investment in Palestine has demonstrated resilience and growth despite numerous political and economic challenges. Foreign investment played a crucial role in bridging the savings gap by providing funds for infrastructure and development investments (Abu-Eideh, 2014). However, the trade gap remained unabated, exacerbated by the high dependence on imports, although the inability to generate domestic savings continued to be an obstacle to fully closing the gap (Badwan, 2021; PCBS, 2023c).

As shown in Figure 3.8, the volume of FDI in Palestine between 1994 and 2000 remained relatively modest, increasing from $180 million in 1994 to $728 million in 2000. This may be because international optimism following the historic signing of the Oslo Accords set the tone for encouraging foreign investors to support Palestinian infrastructure development. However, despite these flows, the savings gap remained large, as domestic savings were low due to structural economic challenges, including high consumption levels, low incomes, and the constraints imposed by the Israeli occupation.

The second intifada had a significant impact on the Palestinian economy, resulting in a decline in Foreign Direct Investment (FDI) from $ 1 billion in 2005 to $417 million in 2006. Within this period, that is, between 2006 and 2010, there has been an increasing foreign direct investment, reaching the total of $1,343 million in the year 2008, increasing to $1,959 million in the year 2009 due to the urge toward the rebuilding of Gaza as a result of political conflict and division between Hamas and Fatah. The focus is on rebuilding infrastructure and housing in Gaza, as well as other developmental projects in the West Bank.

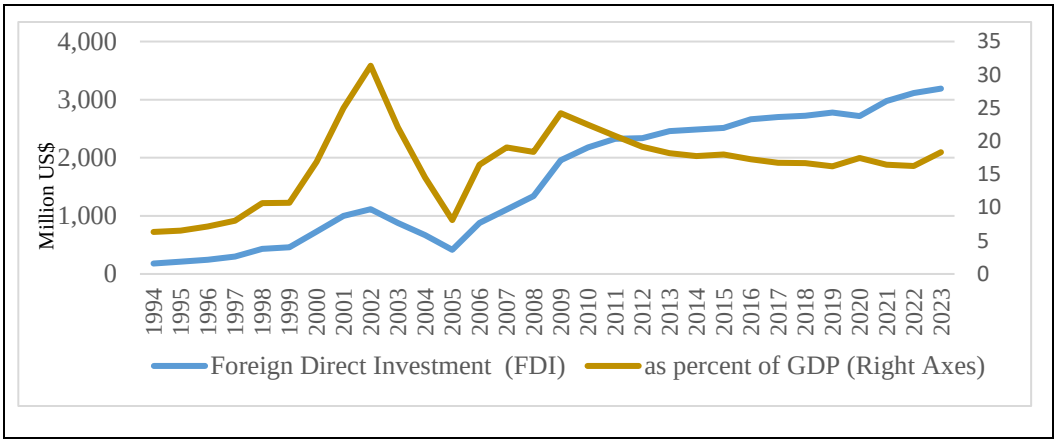


Figure 3.8: Foreign Direct Investment (FDI) (1994-2023)

FDI increased gradually between 2011 and 2020, reaching $2,777 million in 2019. Despite continuous political instability, periodic conflicts, and Israeli restrictions on trade movement, international investors continued their support for Palestine, where international investment increased in essential development projects and reconstructions (World Bank, 2023). However, savings continued to lag due to high unemployment rates and limited economic growth, which impeded the ability to save.

Following the COVID-19 pandemic, FDI increased and reached 3,190 million USD in 2023. Thus, this is a time of restoring international interest in contributing to Palestine's economy following the COVID-19 pandemic. Since then, FDI flows have driven recovery and primary financing of key infrastructure projects, particularly in the energy, telecommunications, and housing sectors (World Bank, 2023).

3.1.4.3 Worker Remittances

Remittances from Palestinian workers abroad constitute a significant source of financial resources, accounting for a substantial portion of the foreign currencies received

(IMF, 2023; Abu-Salmia, 2018). These transfers also enhance the stability of the trade balance and significantly contribute to alleviating the current account deficit in Palestine (Hassouneh & Alrabadi, 2020). At the level of gross domestic product, the importance of workers' remittances in supporting the economies of labor-sending countries is highlighted, as Palestinian workers' remittances contribute to helping the gross domestic product by enhancing consumption and investment, especially since the Palestinian economy is small and that Palestine exports a large number of workers abroad relative to the number of workers to population, especially in the occupied territories, European countries and the Arabian Gulf (Eltalla, 2019; Saad, 2015).

This high percentage of workers' remittances contributed, to a large extent, to financing consumption and imports and also contributed to improving living standards and social protection. However, most of it was consumed by Israeli goods and services or imported through Israel. Although the leading macroeconomic indicators fluctuate due to Israeli political and security variables, the general ratio of final consumption to GDP can be estimated at approximately 119% from 1994 to 2023. On the other hand, the contribution of external remittances to increasing and expanding public demand also leads to expanding economic activity in general and providing additional job opportunities in the local economy (PMA, 2024; PCBS, 2023; Kurd, 2024).

The data in Figure 3.9 show that, in the period following the Oslo Accords, workers' remittances contributed mainly to economic growth. In the years following the outbreak of the second intifada in 2000, their remittances also contributed to alleviating the economic hardships that resulted from it. The specificity of the political and security conditions in the Palestinian territories occupied in 1967 resulted in a lack of stability and significant fluctuation in macroeconomic variables, according to the changes imposed by Israel on economic policies, security conditions, and repeated closures (Kurd, 2024).

This appears in the available data on the percentage of remittances from workers abroad over the past decades. During the 1990s, the ratio of labor transfers (including transfers from expatriates who do not work in the Israeli economy) to GDP (at current prices) increased from about 17.6% in 1994 to 21.7% in 2001, then decreased (as a result of the effects of the Second Intifada). and the closures imposed by Israel and start building

separation wall) to about 10-11% during 2003-2006, less than half the rate of previous years. This percentage of transfers received from workers started to increase during the following period to reach nearly 35% in 2022 before decreasing to 29% in 2023 as a result of the Israeli aggression on the Palestinian territories that year.

However, for Palestine, workers' remittances are divided into compensation for workers in Israel, private sector transfers from abroad, and diaspora remittances. This division reflects the classification used in the balance of payments, providing deep insight into how each type of transfer evolves and is affected by different crises (IMF, 2009).

Unable to create self-sustaining job opportunities that absorb the local labor force, the Palestinian economy has compelled many Palestinian workers to seek work in Israel (Farsakh, 2005). This, in turn, substantially shaped the trend of remittances. As shown, Palestinian workers' earnings from Israel have accounted for more than 90 percent of worker compensation remittances and over 50 percent of total personal remittances, according to the Balance of Payments and International Investment Position Manual, 6th edition, as defined by the IMF. Interestingly, it has been found that the share of household current transfers for consumption accounts for approximately 30 percent of the total personal transfers, while remittances, which are being used for investment, account for approximately 15 percent of the total inflows (Saad, 2015; Kurd, 2024; PMA & PCBS, 2024).

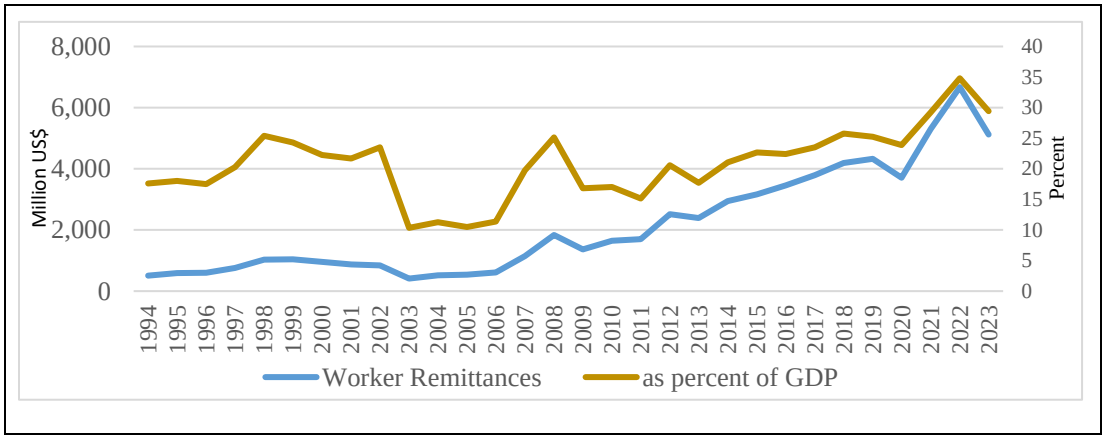


Figure 3.9: Workers Remittances (1994-2023)

Despite the availability of foreign labor, the Israeli economy has continued to need Palestinian labor since 1968. The higher wages in Israel primarily drive this trend compared to those in the West Bank and Gaza Strip, coupled with the weak growth in the operational

capacity of the Palestinian economy (Miaari & Sauer, 2011). Over the past three decades, however, remittances from Palestinian workers in Israel and abroad have witnessed many fluctuations due to internal and external political and economic factors. The security and political conditions between Palestine and Israel have a direct impact on employee compensation, as shown in Figure 3.10.

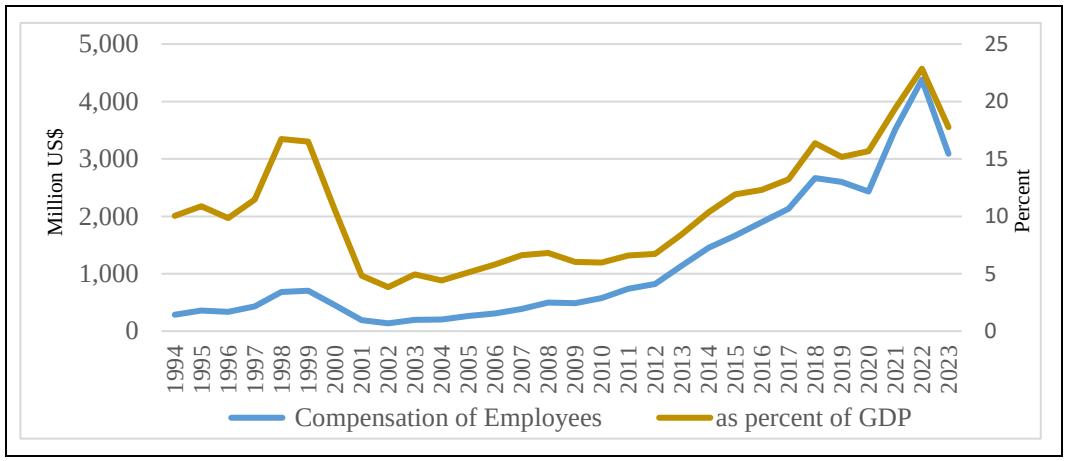


Figure 3.10: Compensation of Employees (1994-2023)

Following the signing of the Oslo Accords, relative stability in the political and security conditions allowed a larger number of Palestinian workers to work in Israel. Consequently, workers' compensation increased from $286 million in 1994 to $705 million in 1999. However, with the outbreak of the Second Intifada in 2000, Israel imposed strict restrictions on the entry of Palestinian workers. As a result, workers' compensation decreased sharply from $193 million in 2001, as this period was characterized by continuous closures and Israeli policies that restricted the movement of workers. Which directly affected remittances from Palestinian workers.

Between 2015 and 2019, workers' compensation in Israel witnessed relative stability, reaching a peak of $2,598 million in 2019. With the emergence of the COVID-19 pandemic in 2020, transfers declined to $2,434 million due to restrictions on movement and work. With the start of economic recovery in 2021, remittances rose to $3,507 million. However, they declined again in 2023 to $3,092 million due to the Israeli aggression against the Palestinian territories, particularly the Gaza Strip.

In addition to remittances from workers in Israel, the Palestinian balance of payments highlights emigrant remittances as the second key component of total remittance inflows. These transfers include money from Palestinians working abroad to the private sector (their families and relatives in the Palestinian territories). These transfers are a vital component of the current account and serve as a lifeline for Palestinian families during times of crisis. In addition to the internal political situation in Palestine, Diaspora remittances are greatly affected by global economic crises.

In 1994, emigrant remittances increased from $216 million to $504 million in 2000. This rise is attributed to Palestine's relative stability after the Oslo Accords, which encouraged Palestinians abroad to send more money to support their families. This led to an increase in domestic consumption, improving living standards.

Since the outbreak of the Second Intifada, remittances from emigrants have witnessed a relative increase. In 2001, remittances totaled $675 million and increased to $700 million in 2002. During this period, remittances constituted essential support for Palestinian families in the face of the deteriorating economic conditions in the Palestinian areas as a result of Constant conflict.

Post-2006 witnessed evident fluctuations in emigrant remittances, particularly due to the effects of the global financial crisis in 2008. Despite the economic challenges faced by Palestinians abroad, the increasing need to support families affected in Gaza due to wars and the siege led to a significant increase in remittances, reaching this level. The type of transfer is about $1,337 million as a result of the increasing humanitarian needs after the siege of Gaza and the aggression against the Strip in 2008.

From 2015 onward, remittances steadily increased, reaching approximately $ 1,724 million in 2019. With the onset of the coronavirus pandemic in 2020, remittances declined to $1,278 million, as many Palestinians abroad lost their jobs due to the global economic crisis. With the onset of the global economic recovery, remittances increased again, reaching $2,290 million in 2022, but stabilized at $2,030 million in 2023 due to ongoing global economic challenges.

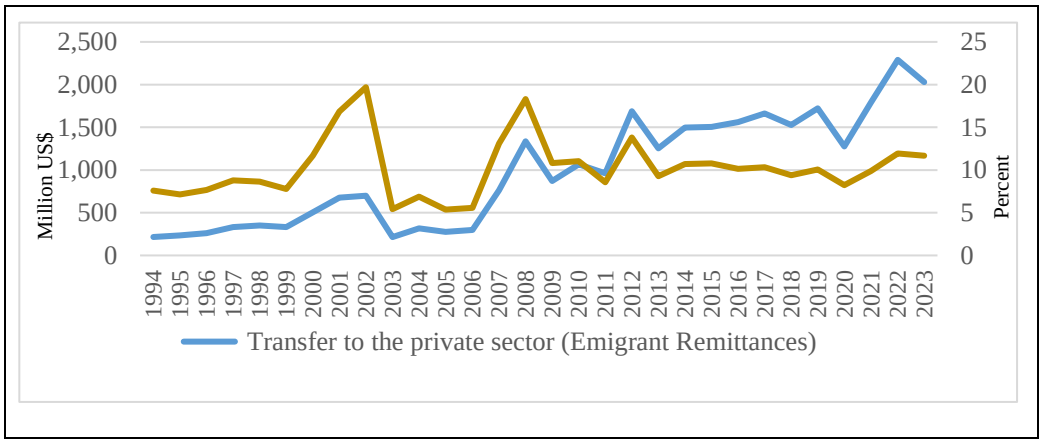


Figure 3.11: Transfer to the private sector (Emigrant Remittances) (1994-2023)

3.1.5 Relation Between Independent and Dependent Variables in Addressing Economic Gaps in the Palestinian Economy (1994–2023)

Between 1994 and 2023, foreign sources of finance played a decisive role in mitigating the economic challenges arising from the widening savings, trade, and budget gaps in Palestine. Political instability, the intensity of conflict, and structural constraints will determine how well these foreign funding sources reduce unemployment and poverty and increase per capita GDP.

The savings gap, caused by low domestic savings and a high consumption propensity, widened from $1,122 million in 1994 to $3,131 million in 2023. In such a situation, FDI became an important tool to bridge the gap, growing from $180 million to $3,190 million during this period. FDI supported GDP per capita growth, particularly during periods of stability. For instance, from 1994 to 1999, FDI growth contributed to an increase in GDP per capita from $2,361 to $2,830. During the Second Intifada, FDI declined to $417 million in 2005, and GDP per capita remained stagnant at $2,208. In 2023, while FDI peaked, the compounding effects of conflict led to a decline in GDP per capita to $2,860, underscoring the challenges of sustaining growth in a conflict environment.

The saving gap, particularly during the crises, has been filled mainly through foreign grants and aid. It increased from US$472 million in 1994 to US$2,270 million in 2023, maintaining investments and stabilizing GDP growth. These aid flows during Oslo were sufficient to stabilize GDP per capita at $2,830 in 2000. However, during the Second Intifada,

aid reached as high as $1,015 million, yet it was unable to prevent the savings gap from deteriorating further to $1,078 million; GDP per capita remained at the same level. While aid inflows brought temporary relief in the post-pandemic period, they were insufficient to stem the effects of a continuously deteriorating saving gap and intensifying conflict.

The trade gap, reflecting an imbalance between imports and exports, increased from $2,828 million in 1994 to $7,110 million in 2023, indicating Palestine's heavy reliance on imports. FDI contributed to narrowing this gap by supporting industrial and infrastructure projects, but its impact was constrained by structural barriers and trade restrictions imposed by Israel. Private transfers from abroad reduced the trade gap by increasing household consumption. The GDP from these transfers surged from $216 million in 1994 to a single-year high of $2,030 million in 2023, helping retain GDP per capita and reducing the impact on poverty. Periodically, when conflict reaches a high point, as witnessed recently during 2023 private transfers, it remains an area that cannot stabilize this deteriorating trade gap.

The estimated financial gap, defined as the difference between revenues and expenditures, ranged from $426.6 million in 1997 to $514.7 million in 2023, underscoring the need for foreign aid to support public finances. While current-year aid inflows, such as the $2,469 million disbursed in the 2008 war in Gaza, underpinned public sector activities, these inflows failed to support financial sustainability over a more extended period. Repeated fiscal deficits in recurring periods signify that GDP per capita is vulnerable to such shocks and, consequently, diminishes the role of effective aid in achieving economic stability.

Unemployment and poverty, as the mains of economic development, were therefore directly linked with sources of funds from outside. Foreign Direct Investment (FDI) emerged as the primary source of job creation, especially during periods of economic stability. For example, from 1994 to 1999, when FDI rose, unemployment remained stable at approximately 11%. However, during the Second Intifada, FDI dropped dramatically, resulting in a doubling of unemployment to 21.5%. When FDI reached $3,190 million in 2023, unemployment increased to 30.4% due to the ever-growing aggression and disruption in the economy.

Worker remittances were crucial in alleviating unemployment and poverty because they represented the primary source of household income. Thus, within two years, from 1994

to 1999, remittances increased from $286 million to $705 million, unemployment was stabilized, while poverty reached only 22.5%. During the Second Intifada, however, it dropped to $193 million, and unemployment rose to the point where the poverty level reached 65%. In 2023, the rate of remittances increased to $3,092 million; however, their role is diminished due to the increased level of conflict, as unemployment remained at 30.4% and poverty at 55%.

These private transfers from abroad supplemented household incomes and, therefore, gave an extra boost to alleviating poverty. Transfers increased from $216 million in 1994 to $504 million in 2000, supporting poverty reduction in Oslo. During the Gaza wars, the peak reached $1,337 million in 2008, mitigating the shock. In contrast, private transfers went down to $2,030 million by 2023, with the role this could play in poverty dampened due to heightened political instability and disruptions to economic life.

External funding sources filled Palestine's savings, trade, and budgetary gaps. However, these structural barriers and recurrent conflicts hindered their effectiveness in increasing per capita GDP and mitigating unemployment and poverty, leading to increased dependency on external inflows. These challenges signal that attention should shift toward strategies that build resilience domestically and reduce dependence on external financing.

These structural findings form the contextual basis for constructing the empirical strategy used in this study. Understanding Palestine's political economy, funding structure, and development challenges is crucial for selecting appropriate variables and specifying a model that can capture the dynamics between external financial flows and development outcomes. The following section presents the quantitative methodology adopted to examine these relationships empirically using the ARDL framework.

3.2 Empirical Strategy: ARDL Modeling of External Financial Flows and Development Indicators

Building on the structural diagnosis of the Palestinian economy and its dependence on external funding, this section outlines the empirical methodology used to test the study’s hypotheses. It presents the data sources, variable definitions, model specifications, and econometric strategy. The aim is to translate the contextual realities described in the first section into a rigorous analytical framework that quantifies the effects of foreign aid, FDI,

labor income, and private transfers on GDP per capita, unemployment, and poverty using the ARDL approach.

3.2.1 Data and variables

Based on earlier experimental literature and key discussions from previous works, this study focuses on two broad categories of variables. This includes dependent variables that reflect economic development indicators, including average GDP per capita, unemployment rates, and poverty levels. These explanatory variables represent exogenous sources of finance to drive these indicators: foreign grants and aid, foreign direct investment, compensation for Palestinian workers in Israel, and private sector transfers abroad (Janoski, 1990; Borensztein et al., 1998; Collier & Dollar, 2002; Babajić et al., 2022; Keita, 2021).

The data analyzed in this study consists of quarterly data from the first quarter of 2000 to the third quarter of 2023. Annual data for all variables are available from 1994 to 2023, hence a total of 30 observations since the establishment of the Palestinian National Authority. However, the quarterly data analysis was adopted, given the limited annual observations. Most of the variables in this study are available quarterly from 2011 to 2023, resulting in a total of 52 observations. Then, the Denton methodology was applied to disaggregate annual data into quarterly frequency, starting from 2000, thereby increasing the number of observations to 96 for each variable used in this study.

The ARDL approach has been selected in this work, as it incorporates both short-run and long-run variable relationships, enabling the dynamic assessment of the impacts of external funding on economic indicators. It is ideal for small sample sizes with mixed stationarity properties; thus, the time-series nature of the dataset justifies its use in the present study. Merging quarterly data using the ARDL technique ensures the robustness of the estimates regarding the interlinkages between external funding and key economic variables.

3.2.1.1 Dependent Variables

The per capita GDP (LPCGDP) reflects an individual's economic well-being in a country. It is calculated by dividing the country's total GDP by its population. The GDP itself refers to the sum of the value of goods and services produced in a specific period, typically one

year, and is expressed in monetary units. This is a crucial indicator of a nation's economic health and its citizens' standard of living.

This study states that GDP per capita "is a portion of 'real GDP' given or distributed to each member of the population. Real GDP divided by the whole population is obtained during a specific period to obtain per capita estimates. "The data for this variable are from the Palestinian Central Bureau of Statistics (PCBS). This method provides a more accurate indication of economic well-being, taking into account changes in purchasing power and inflationary pressures over time.

Several studies have identified a range of independent variables that significantly influence GDP per capita. These positive factors for economic growth include FDI, worker remittances, and private-sector transfers. Together, these elements raise GDP per capita and productive capacity while boosting individual incomes (Borensztein et al., 1998; Makki & Somwaru, 2004).

The unemployment rate (LUEMR) is the proportion of the labor force ready and willing to work but unable to find work (Janoski, 1990). In this study, the definition of the unemployment rate was adopted as defined by the Palestinian Central Bureau of Statistics, which defines it as the percentage of individuals aged 15 years and over who were unemployed during the reporting period but were willing to work and actively searching for work during the previous four weeks. For the specified period. Data for this indicator were obtained from the Palestinian Central Bureau of Statistics (PCBS).
The poverty rate (LPVTR) refers to the inability of individuals or families to achieve socially acceptable minimum goods and services, even when working. This also includes those with only temporary problems and those who do not receive sufficient income (Gweshengwe & Hassan, 2020; World Bank, 2011). According to the statistics published by the International Labor Organization (ILO), used in this study, the poverty rate was defined as the percentage of workers living on less than $2.15 a day.

3.2.1.2 Independent Variables

Foreign Grants and Aid (LFGA) refers to the financial assistance that donor countries and organizations provide to other state governments for economic or social development purposes. The government can assist the recipient nation directly or indirectly through third parties, such

as the World Bank and the United Nations (OECD, 2016). This defines foreign grants and aid operationally as grants obtained from OECD donors for specified types of aid, such as grants, loans, and technical cooperation, based on the actual disbursements. Additionally, it reflects financial flows from all bilateral and multilateral donors, as well as charitable foundations.

Foreign Direct Investment (LFDI) According to OECD (2009), FDI has been defined as an investment made to establish a lasting interest by a foreign investor in an economic entity operating in a country other than that of the residence of the investor, evidenced by owning at least 10 percent of the company's voting powers. In this analysis, FDI has been measured by the total foreign investment flows in the territories. The series was sourced from the International Investment Position, Section 91, from the Palestinian Central Bureau of Statistics, and the Palestinian Monetary Authority.

Compensation of Employees in Israel (LCWI) refers to the total income received by Palestinian laborers within Israel. Income involves wages, salaries, and other remuneration earned from employing Palestinians in various Israeli firms or institutions. It is derived from a single central source of income within Palestinian families and is considered a major contributor to the foreign financing of the Palestinian economy.

In this study, workers' compensation from Israel was measured as the total flow of wages, salaries, and employment benefits that Palestinian workers receive from Israel. Data for this variable were obtained from the Palestinian Balance of Payments report issued by the Palestinian Central Bureau of Statistics and the Palestinian Monetary Authority. The variable is extracted from official financial flow records and classified under workers' compensation under item 15 in the sixth edition of the balance of payments report (PMA & PCBS, 2023).

While there are studies that reveal the crucial contribution of remittances from Palestinian workers in Israel to the Palestinian economy, which is supportive, helping increase per capita GDP and alleviate unemployment and poverty, the importance is much more critical in the economic recession periods in enhancing the income of the Palestinian families that will strengthen household consumption and drive economic growth (Hassouneh, 2017; Eltalla, 2019).

Private Sector Transfers from Abroad (LPTA)- Private sector transfers refer to financial flows sent by individuals or private institutions abroad to individuals or entities in the home

country. These remittances are primarily for personal use or consumption and are not linked to labor income (IMF, 2009) .This study defines private sector remittances as remittances from diaspora and other private remittances. Data are obtained from the Palestinian Balance of Payments report, specifically item 23, based on data issued by the Palestinian Central Bureau of Statistics and the Palestine Monetary Authority.

3.2.1.3 Control Variables

Conflict Intensity (LCONIV) is one of the most direct measures of the violence and intensity of a conflict, as indicated by the number of casualties, including deaths and injuries, resulting from the conflict (Ezeoha & Ugwu, 2015). This can give an idea of violence and the intensity of the conflict, the quantitative measure by measuring casualties in terms of the number killed or injured in politicized incidents; in this instance, Palestinians were used (Fielding, 2004; Collier & Hoeffler, 2004; Hegre & Sambanis, 2006). This study uses the number of Palestinians who were killed or injured for political motives per quarter, as in these studies, such data was given every quarter from the human rights organization B'Tselem of Israeli origin.

Trade Openness (OPNT) is a key controlling variable in unemployment frameworks, particularly in economies with trading external dependencies and labor market structure impediments, such as in Palestine. Trade openness reflects an economy's freedom in providing goods, services, and factors of production without restrictions. Empirical studies confirm that trade openness is positively correlated with inflows of foreign direct investment (FDI) and, in turn, with labor demand and employment (Demirhan & Masca, 2008; Asiedu, 2006).

A more open trade environment attracts foreign investors seeking efficiency and market expansion, which can potentially create job opportunities in export-oriented sectors. However, trade openness can also increase competition, reducing employment in less competitive domestic industries, particularly in conflict-affected and structurally constrained economies, such as Palestine (Rodrik, 1998). The impact of trade openness on unemployment is thus complex, as it interacts with other economic variables, including external funding sources such as foreign direct investment (FDI), foreign aid, and remittances.

Table 3.1: Key Variables, Indicators, Data Sources, and Similar Studies

Variable	Indicator	Sources	Similar Studies
PCGDP (Per Capita GDP)	Real GDP per person, calculated as Real GDP divided by the total population	PCBS	Borensztein et al., 1998; Makki & Somwaru, 2004
UEMR (Unemployment Rate)	Percentage of individuals aged 15 and over who are unemployed and actively seeking work	PCBS	Janoski, 1990; Blomström & Kokko, 2003; Justino, 2010
PVTR (Poverty Rate)	Percentage of employed people living below $2.15 per day	PCBS, ILO, UNDP	Gweshengwe & Hassan, 2020; World Bank, 2011; Mueller & Techasunthornwat, 2020; Babajić et al., 2022
FDI (Foreign Direct Investment)	Total foreign investment inflows into the Palestinian territories	PCBS, PMA, UNCTAD, IMF	Makki & Somwaru, 2004; Mucuk & Demirsel, 2013; Gohou & Soumaré, 2012; Keita, 2021
FGA (Foreign Grants and Aid)	Financial flows from donors, including grants, loans, and technical assistance	PCBS, MOF, OECD, World Bank, UNDP	Collier & Dollar, 2002; OECD, 2016; Khan et al., 2022; Karras, 2006
CWI (Compensation of Workers in Israel)	Total inflows of wages, salaries, and other compensation from employment in Israel	PCBS, PMA	Hassouneh, 2017; Eltalla, 2019
PTA (Private Sector Transfers from Abroad)	Total private transfers and remittances from expatriates and private institutions	PMA, PCBS	Chami et al., 2005; Ratha, 2003; Ogujiuba & Eboreime, 2024; World Bank, 2006
CONI (Conflict Intensity)	Number of politically motivated deaths due to conflict	B'Tselem, OCHA, PCBS	Fielding, 2004; Collier & Hoeffler, 2004; Hegre & Sambanis, 2006; Justino, 2012
OPNT (Trade Openness)	The ratio of total exports and imports to GDP,	PCBS, World Bank, IMF	Demirhan & Masca, 2008; Asiedu, 2006; Dollar & Kraay, 2004
INF (Inflation Rate)	Annual percentage change in the Consumer Price Index (CPI), reflecting changes in the cost of living	PCBS, PMA, IMF	World Bank, 2011; Gweshengwe & Hassan, 2020; Easterly & Fischer, 2001

By incorporating a control for trade openness, the analysis of its role in defining labor market conditions reduced omission variable bias, and the control for multicollinearity in the model was eased. In a nation with a restricted trading environment, such as Palestine, with restrictions placed by Israeli restrictions, controlling for trade openness is significant in isolating its role from other macro and policy-related factors contributing to trends in unemployment.

Inflation Rate (LINF). Inflation is a significant cause of poverty, especially in fragile and conflict-ridden economies such as Palestine. Empirical studies (Dollar & Kraay, 2002; Easterly & Fischer, 2001) confirm that inflation erodes actual earnings and purchasing power, disproportionately impacting poor communities (World Bank, 2011; Gweshengwe & Hassan, 2020). Empirical studies (Ferreira et al., 2013; Ravallion & Chen, 1997) confirm that high inflation is a significant contributor to increased poverty levels. Inflation's regressive consequences have been emphasized in studies, with its impact exacerbating living standards for poor communities (Lustig et al., 2013; Agenor, 2002). Inflation-fueled price increases in food items in Palestine even deepen poverty (PMA & PCBS, 2024). Inflation must, therefore, be included in poverty analysis to understand its impact in terms of its economic consequences.

3.2.2 Advantages of the ARDL model: Key benefits and features:

Flexibility in the Integration Order of Variables:

Unlike traditional cointegration methods, the ARDL model does not require all time series variables to be integrated in the same order. It allows for the inclusion of variables that are I(0) (stationary at level) and I(1) (stationary after first difference) in the same model, provided none of the variables are integrated of order I(2). This feature increases the applicability of the ARDL model in empirical research (Pesaran & Shin, 1999; Nkoro & Uko, 2016).

Simultaneous Estimation of Short- and Long-term Effects:

The ARDL model enables the simultaneous estimation of both the short-term and long-term effects of the independent variables on the dependent variable. It also allows for the inclusion of explanatory variables with different lag lengths, capturing the unique influence of each variable over time (Pesaran et al., 2001).

Suitability for Small Samples:

Unlike other cointegration methods that require large sample sizes to obtain reliable estimates, the ARDL model is effective even with small sample sizes. It also allows for the use of ordinary least squares (OLS) for parameter estimation, making it computationally simple and accessible (Pesaran & Shin, 1999).

Elimination of Omitted Variable Bias and Autocorrelation Issues:

The ARDL model addresses issues related to omitted variable bias and autocorrelation. Selecting lags appropriately for each variable produces efficient and unbiased parameter estimates. This feature enhances the robustness and reliability of the estimated coefficients (Nkoro & Uko, 2016; Pesaran et al., 2001).

Optimal Lag Selection:

Unlike the traditional models, which use a fixed number of lags for all variables, in an ARDL model, each variable selects its optimal number. This flexibility will ensure the estimation of a model with the required statistical and measurement properties, making it more efficient and accurate (Pesaran & Shin, 1999; Lütkepohl, 2005).

Estimation of Direct and Total Effects:

The ARDL model enables the estimation of both the direct and total effects of the independent variables on the dependent variable. It also enables researchers to test for long-term equilibrium relationships between the variables using diagnostic tests. This approach ensures the model captures the structural consistency or balance between short-term and long-term estimated parameters (Pesaran et al., 2001).

To apply the ARDL methodology, after ensuring the stability of the time series data by conducting the augmented Dickey-Fuller (ADF) test for unit roots. Next, the ARDL bounds testing approach can be used based on the given formula:

$$\Delta y_{t=} \beta_0 + \sum_{i=1}^{n} \beta_i \, \Delta y_{t-i} + \sum_{i=0}^{n} \delta_i \, \Delta x_{t-i} + \varphi_1 y_{t-1} + \varphi_2 x_{t-1} + \mu_1$$

When examining the equation, it is essential to consider the various components involved. The first difference operator (Δ), drift components ($\beta 0$), and the error term (μ) play crucial

roles. The error term is expected to exhibit characteristics such as serial independence, homoscedasticity, and normality. All ß and δ coefficients are nonzero, with $\varphi 1$ also being negative and significant, indicating the rate of change. The parameters βi and δi represent short-term dynamic coefficients, while $\varphi 1$ and $\varphi 2$ represent long-term coefficients.

The subsequent phase will confirm the existence of a durable association between the variables through the utilization of the bounds test, as per the F-test methodology proposed by Pesaran et al. (2001). The cointegration is examined in the preceding equation by comparing the outcomes of the null hypothesis, which posits the absence of cointegration, with the alternative hypothesis, which acknowledges the existence of cointegration. The decision is made by comparing the computed F value with the critical values proposed by Pesaran et al. (2001) within the required bounds. When the calculated F value exceeds the tabulated value, we reject the null hypothesis and accept the alternative hypothesis. After identifying cointegration among the variables, the subsequent step is to estimate the long-term equation using the provided formula:

$$y_t = \beta_0 + \sum_{i=1}^{p} \partial_i \, y_{t-i} + \sum_{i=0}^{q} \theta_i x_{t-1} + \epsilon_t$$

Where ∂, θ represents the variable's coefficients, p and q refer to the lag periods for those variables, while ε represents the random error term.

Then, specifications of the ARDL autoregressive distributed lag model for short-run dynamics and the Error Correction Model are derived by constructing the following equation (ECM):

$$ECM: \Delta y_t = c + \sum_{i=1}^{p} \partial_i \, \Delta y_{t-1} + \sum_{i=0}^{q} \theta_i \, \Delta x_{t-1} + \omega ECT_{t-1} + \upsilon_t$$

ECTt-1 represents the error correction term, while the coefficients in the short-run equation reflect the short-run dynamics that guide the model toward equilibrium. The coefficient ω, also known as the error correction coefficient, measures the speed of adjustment, indicating how rapidly short-term imbalances are corrected to reach long-term equilibrium. For the model's short-term estimates to be valid, ω should be negative and statistically significant (Pesaran & Shin, 1999; Pesaran et al., 2001; Nkoro & Uko, 2016).

3.2.3 Testing the Quality of Performance of the ARDL Model and its Diagnostic Criteria

After ensuring that there is a long-run equilibrium relationship between the dependent variable and the explanatory variables, the parameters of the ARDL model are estimated for both the short and long run, in addition to estimating the vector error correction parameter (VECM) using the ordinary least squares (OLS) method, based on the number of lag periods specified. Before adopting and applying the estimated model, the quality of its performance should be confirmed by conducting the following diagnostic tests (Nkoro & Uko, 2016; Ramsey, 1969):

3.2.3.1 Statistical Diagnostic Tests:

These tests include a set of statistical indicators, including (Gujarati & Porter, 2009; Wooldridge, 2013):

- R-squared: Coefficient of determination that measures the proportion of variance explained in the dependent variable.
- Adjusted R-squared: The adjusted coefficient of determination reflects an adjustment to the R-squared after considering the number of independent variables.
- S.E. of Regression: The standard error of regression measures the extent of dispersion in the residuals.
- Sum Squared Residual (SSR): The sum of the residuals' squares, which measures the model's goodness of fit.
- Log Likelihood: The natural logarithm function of the maximum likelihood is used to evaluate the model's goodness.
- F-statistic: A statistic that tests the significance of the model as a whole.
- Prob. (F-statistic) The probability value associated with the F-statistic is used to determine if a model is statistically significant.
- Durbin-Watson Statistic: The Durbin-Watson statistic is used to detect serial correlation of residuals.

3.2.3.2 Standard Diagnostic Tests:

These tests include several criteria that help evaluate the quality of the model, including the following:

- Lagrange factorial test for serial correlation between residuals (Lagrange Multiplier Test of Residual - BG Test) (Godfrey, 1978; Gujarati & Porter, 2009).
    - Objective: To detect the existence of a serial link between the remainders.
    - Tool: Breusch-Godfrey (BG) test to check whether the model residuals are independent or correlated.
- Autoregressive Conditional Heteroscedasticity - ARCH Test (Engle, 1982; Wooldridge, 2013)
    - Objective: To detect the presence of non-constant variance in the residuals.
    - Tool: ARCH test to detect the presence of conditional heteroskedasticity.
- Test for normal distribution of random errors (Jarque-Bera Test - JB Test)
    - Objective: Test the extent to which the actual distribution of the model residuals matches the normal distribution.
    - Tool: Jarque-Bera (JB) test to see if the residuals are normally distributed (Jarque & Bera, 1987; Gujarati & Porter, 2009).
- Testing the fit of the model in terms of the functional form (Ramsey RESET Test)
    - Objective: Verify the suitability of the specified model to the form of the relationship between variables.
    - Tool: Ramsey RESET test to check if the relationships between variables are linear or lack functional form (Ramsey, 1969; Wooldridge, 2013).
- Multicollinearity Test

o Objective: Verify the existence of a strong linear relationship between independent variables that may lead to instability of parameters.

o Tool: Correlation coefficient analysis and use of the variance inflation factor (VIF) index (Gujarati & Porter, 2009; Wooldridge, 2013).

3.2.3.3 Stability Tests and Model Parameters:

Besides the previous diagnostic tests, the stability of the estimated model parameters must also be checked, which is done using the following tests:

Testing the stability of ARDL model parameters:

The stability and consistency of the long-run parameters are checked against the estimates of the short-run parameters. One of the following two tests can be used (Dahmani & Nasour, 2013):

- Cumulative Sum of Recursive Residual - CUSUM test
  - Objective: To detect any structural changes in the data over time.
  - Tool: The graph of the CUSUM statistic is drawn, and the model is considered stable if the graph remains within the critical limits (upper and lower limits) at the level of significance used in the study (Brown et al., 1975; Dahmani & Nasour, 2013).
- Cumulative Sum of Squares of Recursive Residual - CUSUM SQ test
  - Objective: Verify the stability of the model parameters by following the changes in the squares of the residuals.
  - Tool: The graph of the CUSUM SQ statistic is drawn, and if the line remains within critical limits, the parameters are considered structurally stable, but if the line exceeds these limits, this indicates the presence of structural changes in the data (Brown et al., 1975; Dahmani & Nasour, 2013).

Note: The CUSUM and CUSUM SQ tests are used together to ensure that the parameters are stable and that no structural changes affect the model estimates.

3.2.4 Model Specifications

This study, titled 'Evaluating the Effectiveness of External Funding on Economic Development in Conflict-Torn Environments: The Palestinian Experience,' aims to analyze the impact of external funding and conflict intensity on economic development in Palestinian territories. The model identifies key determinants of per capita GDP, unemployment, and poverty. The model employs the ARDL methodology to estimate both short-term and long-term relationships. The model can be described as follows:

Model 1: Per Capita GDP (PCGDP)

$$\Delta LPCGDP_t = \alpha + \sum_{i=1}^{p} \beta_{1i} \Delta LPCGDP_{t-i} + \sum_{i=0}^{q} \beta_{2i} \Delta LFDI_{t-1} + \sum_{i=0}^{q} \beta_{3i} \Delta LFGA_{t-1} + \sum_{i=0}^{q} \beta_{4i} \Delta LCWI_{t-1} + \sum_{i=0}^{q} \beta_{5i} \Delta LPTA_{t-1} + \sum_{i=0}^{q} \beta_{6i} \Delta LCONV_{t-1} + \lambda_1 LPCGDP_{t-1} + \lambda_2 LFDI_{t-1} + \lambda_3 LFGA_{t-1} + \lambda_4 LCWI_{t-1} + \lambda_5 LPTA_{t-1} + \lambda_6 LCONIV_{t-1} + \varepsilon_t$$

Model 2: Unemployment Rate (UEMR)

$$\Delta LUEMR_t = \alpha + \sum_{i=1}^{p} \beta_{1i} \Delta LUEMR_{t-i} + \sum_{i=0}^{q} \beta_{2i} \Delta LFDI_{t-1} + \sum_{i=0}^{q} \beta_{3i} \Delta LFGA_{t-1} + \sum_{i=0}^{q} \beta_{4i} \Delta LCWI_{t-1} + \sum_{i=0}^{q} \beta_{5i} \Delta LPTA_{t-1} + \sum_{i=0}^{q} \beta_{6i} \Delta LCONIV_{t-1} + \sum_{i=0}^{q} \beta_{7i} \Delta LINF_{t-1} + \lambda_1 LUEMR_{t-1} + \lambda_2 LFDI_{t-1} + \lambda_3 LFGA_{t-1} + \lambda_4 LCWI_{t-1} + \lambda_5 LPTA_{t-1} + \lambda_6 LCONIV_{t-1} + \lambda_7 LOPNT_{t-1} + \varepsilon_t$$

Model 3: Poverty Rate (PVTR)

$$\Delta LPVTR_t = \alpha + \sum_{i=1}^{p} \beta_{1i} \Delta LPVTR_{t-i} + \sum_{i=0}^{q} \beta_{2i} \Delta LFDI_{t-1} + \sum_{i=0}^{q} \beta_{3i} \Delta LFGA_{t-1} + \sum_{i=0}^{q} \beta_{4i} \Delta LCWI_{t-1} + \sum_{i=0}^{q} \beta_{5i} \Delta LPTA_{t-1} + \sum_{i=0}^{q} \beta_{6i} \Delta LCONIV_{t-1} + \sum_{i=0}^{q} \beta_{7i} \Delta LINF_{t-1} + \lambda_1 LPVTR_{t-1} + \lambda_2 LFDI_{t-1} + \lambda_3 LFGA_{t-1} + \lambda_4 LCWI_{t-1} + \lambda_5 LPTA_{t-1} + \lambda_6 LCONIV_{t-1} + \lambda_7 LINF_{t-1} + \varepsilon_t$$

Explanation of Variables:

$\Delta LPCGDP_t, \Delta LUEMR_t, \Delta LPVTR_t$:The first differences between the log-transformed dependent variables at time ***t*** for per capita GDP, unemployment rate, and poverty rate, respectively.

$Subscript\Delta LFDI_t, \Delta LFGA_t, \Delta LCWI_t, \Delta LPTA_t, \Delta LCONIV_t + \Delta LOPNT_t + \Delta LINF_t$: The first difference of the log-transformed independent variables at time ***t*** for Foreign Direct

Investment, Foreign Grants and Aid, Compensation of Workers in Israel, Private Sector Transfers from Abroad, and Conflict Intensity, respectively.

$LPCGDP_{t-1}, LUEMR_{t-1}, LPVTR_{t-1}$: Lagged log-transformed dependent variables at time ***t*** -1 for Per Capita GDP, Unemployment Rate, and Poverty Rate, respectively.

$LFDI_{t-1}, LCFGA_{t-1}, LCWI_{t-1}, LPTA_{t-1}, LCONIV_{t-1} + LOPNT_{t-1} + LINF_{t-1}$: Lagged log-transformed independent variables at time ***t* -1** for Foreign Direct Investment, Foreign Grants and Aid, Compensation of Workers in Israel, Private Sector Transfers from Abroad, and Conflict Intensity, respectively.

α : Intercept term.

$\beta_{1i}, \beta_{2i}, \beta_{3i}, \beta_{4i}, \beta_{5i}, \beta_{6i}, \beta_{7i}$ Coefficients represent the short-term effects of the independent variables on the dependent variable.

$\lambda_1,\ \lambda_2, \lambda_3, \lambda_4, \lambda_5, \lambda_6, \lambda_7$: Coefficients represent the long-term effects of the independent variables on the dependent variable.

Chapter Four: Empirical Analysis of External Funding and Economic Development in Palestine: Impact on Per Capita GDP, Unemployment, and Poverty

4. Introduction

This chapter presents a comprehensive analysis of the impact of external funding sources on key economic indicators in Palestine, using the Autoregressive Distributed Lag (ARDL) model. The study evaluates the long-term and short-term relationships between foreign aid, foreign direct investment, worker remittances, and private sector transfers with per capita GDP, unemployment, and poverty.

The chapter begins with unit root tests and stability analysis to ensure the reliability of the time-series data, followed by cointegration tests to establish long-run equilibrium relationships. The ARDL model is then estimated to examine the effects of external financial inflows on economic development performance, with a detailed discussion of both long-run and short-run dynamics. Diagnostic and stability tests are conducted to validate the robustness of the results.

4.1 Unit Root Tests in the ARDL Procedure

Performing unit root tests in the ARDL procedure is a critical prerequisite for ensuring the validity of econometric estimation, particularly in models that analyze long-run relationships. In the ARDL bounds testing approach, confirming that none of the variables under investigation is integrated of order two or higher, I(2) or higher, is essential. I(2) variables would invalidate the critical values provided by Pesaran et al. (2001) and could lead to misleading inferences regarding cointegration relationships. Therefore, a careful assessment of the stationarity properties of each time series is necessary before proceeding to model estimation. Two of the most widely accepted methods for testing the existence of unit roots are the Augmented Dickey-Fuller (ADF) test (Dickey & Fuller, 1979) and the Phillips-Perron (PP) test (Phillips & Perron, 1988). The ADF test addresses autocorrelation by adding lagged difference terms to the regression. In contrast, the PP test corrects for serial correlation and heteroskedasticity in the error terms without requiring the addition of lagged

differences. Utilizing both tests strengthens the robustness of the results, as each has different sensitivities to structural breaks, trend specifications, and autocorrelation structures.

In this study, both the ADF and PP tests are applied to all variables included in the ARDL models to assess their stationarity properties at both the level and first-difference forms. The procedure ensures that the variables are either integrated of order zero, I(0), or integrated of order one, I(1), but not of order two, I(2). The outcomes of these tests are summarized in Table 4.1. The findings show that none of the variables is stationary at the second difference, indicating that all series are suitable for inclusion in the ARDL framework. This step confirms that the subsequent cointegration analysis and dynamic modeling based on the ARDL methodology rest on a statistically sound foundation.

Table 4.1. Unit Root Test

Variable	Formula	Augmented Dickey-Fuller (ADF)		Phillip-Perron		Conclusion
		Levels	1st difference	Levels	1st difference	
LPCGDP	Intercept	-0.826	-10.326***	-0.724	-10.463***	I(1)
	Intercept & trend	-1.986	-10.268***	-1.877	-10.398***	
LCONIV	Intercept	-5.695***	---	-5.607***	---	I(0)
	Intercept & trend	-6.376***	---	-6.334***	---	
LUEMR	Intercept	-4.065***	---	-5.261***	---	I(0)
	Intercept & trend	-4.178***	---	-5.058***	---	
LPVTR	Intercept	-1.386	-4.865***	-2.526	-9.994***	I(0)
	Intercept & trend	-3.450**	-5.012***	-2.998	-9.939***	
LFGA	Intercept	-2.723*	-11.329***	-8.106***	-53.303***	I(1)
	Intercept & trend	-2.700	-11.340***	-9.130***	-73.681***	
LFDI	Intercept	-1.368	-4.598***	-1.645	-4.582***	I(1)
	Intercept & trend	-2.274	-4.583***	-2.059	-4.578***	
LCWI	Intercept	0.406	-8.518***	-1.348	-8.625***	I(1)
	Intercept & trend	-4.293***	-8.751***	0.269	-8.839***	
LPTA	Intercept	-1.509	-6.530***	-1.366	-6.552***	I(1)
	Intercept & trend	-3.219*	-6.500***	-2.679	-6.510***	
LOPNT	Intercept	-2.110	-10.574***	-2.031	-10.625***	I(1)
	Intercept & trend	-1.657	-10.736***	-1.511	-11.032***	
LINF	Intercept	-2.165	-7.045***	-1.907	-7.047***	I(1)
	Intercept & trend	-0.831	-7.333***	-0.974	-7.277***	

Notes: ***,**, and * denote rejecting the null hypothesis of unit root existence at the 1%, 5%, and 10% significance levels, respectively. The lag length selection was based on the Schwarz information criterion (SIC) for the ADF test, and the bandwidth selection was based on Newey-West using the Bartlett Kernel for the PP tests.

4.1.1 Lag Length Selection Methodology

To determine the optimal lag length for the ARDL models estimated in this chapter, the Akaike Information Criterion (AIC) was utilized. EViews 14 software automatically selected the lag structure by minimizing the AIC value for each dependent variable model,

with an initial maximum lag length of four for all variables. This approach ensures consistency and objectivity across the model specification process's GDP per capita, unemployment, and poverty rate functions. Using the AIC minimizes the risk of overfitting and enhances the reliability of both short-run and long-run coefficient estimates in the ARDL framework.

4.1.2 Addressing Potential Endogeneity

Despite the powerful ARDL method's modeling capabilities, potential endogeneity problems exist regarding certain explanatory variables, including foreign direct investment (FDI), foreign assistance, and private remittances. Past studies have noted that these variables may be endogenous, as they are both determinants and outcomes of the economic development process (Chami et al., 2005; Easterly, 2006). For instance, economic development may attract more Foreign Direct Investment (FDI), and declining poverty may lead to increased remittances. Though the ARDL algorithm is quite resistant to specific endogeneity issues owing to its dynamic specification and lag pattern (Pesaran et al., 2001), it cannot eliminate the likelihood of such bias due to simultaneity or missing variables.

Due to the limitations of the available data and the type of quarterly series, more advanced methods, such as the Instrumental Variable (IV) method or the Generalized Method of Moments (GMM) estimation, were not applicable within the present work. Future work could address such potential endogeneity issues by identifying suitable external instruments, such as geopolitical shocks, exogenous policy shifts, or global financial trends, to more clearly distinguish the causal effect of external finance flows on poverty, unemployment, and per capita GDP. Using such methods would enhance the robustness of the results and their causal interpretation..

4.2 Estimation of the Per Capita Gross Domestic Product (LPCGDP) Function

This section aims to estimate the per capita GDP function using the Autoregressive Distributed Lag (ARDL) model after verifying variable stationarity and conducting cointegration tests. It analyzes the long-term relationship between external funding, foreign direct investment, worker compensation, and remittances with per capita GDP in Palestine. Short-term adjustments are evaluated through the Error Correction Model (ECM) and the

Bound Test. Additionally, diagnostic and stability tests are performed to ensure the reliability of the results.

4.2.1 Cointegration Tests for the Per Capita GDP Function

Cointegration of two or more variables refers to a long-term equilibrium relationship between those variables, whereas the same equilibrium relationship may not exist in the short term. Then, short-term imbalances must be corrected at a specific rate for each period according to the periods under study (daily, monthly, quarterly, semiannually, ...). This rate can be calculated by estimating the so-called error correction model (Banerjee et al., 1993). It is worth noting that it is essential to conduct stability tests for the variables of the model under study to treat stability problems if they exist, on the one hand, in addition to determining the appropriate model to study the co-integration of those variables according to their degree of stability, on the other hand (Johansen, 1988).

Several methodologies can be utilized to examine cointegration between two or more variables. One of the most well-known approaches is the Engle and Granger method (Engle & Granger, 1987), which is considered to have limited applicability due to its reliance on specific assumptions. The primary assumptions are that the model under study includes only two variables and that both variables exhibit stationarity of the same order, specifically first-order integration, I(1).

The Johansen method was introduced as a more flexible approach to address these limitations, allowing for more than two variables, provided all variables are stationary at the first difference. Compared to the Engle and Granger method, the Johansen approach is more versatile and extensively applied in empirical research (Johansen, 1988; Juselius, 2018). When employing cointegration techniques, using long time series data for the relevant economic variables is preferable, as it enhances the robustness and reliability of the estimated models, resulting in more accurate and meaningful findings.

Despite the advantages of the Johansen method, both it and the Engle-Granger approach require variables to be integrated in the same order. To overcome this constraint, Pesaran and Pesaran (1997) introduced the Autoregressive Distributed Lag (ARDL) model, which was later developed into a cointegration approach by Pesaran et al.(2001). The ARDL method combines autoregressive and distributed lag models, offering greater flexibility in

handling variables with varying degrees of integration. This approach considers the lagged values of the time series data and the explanatory variables, making it a robust alternative for examining long-run relationships in economic research.

Unlike other cointegration methods, such as those proposed by Engle and Granger (1987), Johansen (1988), and Johansen and Juselius (1990), the ARDL approach can apply the bounds testing method to cointegration regardless of whether the variables are I(0) or I(1). However, the variables must not be integrated in the order I(2) or higher, as the critical F-statistic values calculated by Pesaran et al. (2001) do not apply in such cases.

Table 4.2 validates the long-run equilibrium between the variables, corroborated by the Johansen tests' output for cointegration tests. Trace tests have a maximum of three cointegrating relations, rejecting no cointegration under the alternative hypothesis. In particular, a rank of one yields a value of 119.65, which is larger than 95.75 ($p = 0.0004$). For ranks two and three, values are significant, but no rejection of the alternative hypothesis occurs for three or more.

Table 4.2. Long Run Cointegration Results
For the Per Capita GDP Function

Hypothesized No. of CE(s)	Trace			Maximum Eigenvalue		
	Trace statistic	0.05 Critical Value	*p*-value**	Max-Eigen Statistic	0.05 Critical Value	*p*-value**
None *	119.650	95.754	0.000	43.650	43.650	0.019*
At most 1 *	75.999	69.819	0.015	27.419	27.419	0.242
At most 2 *	48.581	47.856	0.043	20.668	20.668	0.297
At most, 3	27.913	29.797	0.081	16.411	16.411	0.202
At most 4	11.501	15.495	0.182	8.805	8.805	0.303
At most 5	2.696	3.841	0.101	2.696	2.696	0.101

The Trace test indicates three cointegrating equations at the 0.05 level, while the Max-eigenvalue test indicates one cointegrating equation. * Denotes rejection of the hypothesis at the 0.05 level. **MacKinnon-Haug-Michelis (1999) *p*-values.

Conversely, the Max-Eigen value identifies one cointegrating relation with a Max-Eigen value of 43.65, more significant than its critical value of 40.08 ($p = 0.019$). All successive ranks cannot reject the null hypothesis and, thus, have less strong evidence for several cointegration relations.

The difference between the Trace and Max-Eigenvalue tests indicates a lack of confidence in determining the exact number of cointegrating relations. Trace, however, considered in many cases a more sensitive rank determination for the existence of several, confirms at least one and at most three long-run relations in a state of stability. These findings

suggest that an error-correction model (ECM) should be used to attempt to model both short-run fluctuations and long-run realignments. Cointegration analysis reveals interdependencies among controls, external financing, and economic factors, highlighting overall movement over time and underscoring the need for coordinated policy intervention.

4.2.2 Autoregressive Distributed Lag Bound Test for the Per Capita GDP Function

The Bound Test, developed by Pesaran et al. (2001), is one of the most significant tests for testing relations of cointegration. It tests for the long-run relation between the dependent and independent variable(s). Under null, there is no long-run relation between them; under alternative, there is a long-run equilibrium between them. As computed, the F-statistic is well more than the upper-bound (I(1)) at all traditional values of critical values; therefore, reject the null hypothesis and conclude that the variable(s) are cointegrated.

Table 4.3 presents the output of the Bound Test, which validates that a long-run relation between the variables holds. With a value of 15.93, its calculated value comfortably overcomes the upper critical value I(1) at 1% (4.59). With such high statistical justification, one rejects the null hypothesis of no-level relation. It validates that the variables move together in the long run in a long-term equilibrium.

Table 4.3. Autoregressive Distributed Lag Bounds Test
For the Per Capita GDP Function

Null Hypothesis: No Long-Run Relationships Exist		
Test Statistics	**Value**	
F-statistics	**15.93025**	
	Critical Value Bounds	
Significance	Lower Bound I(0)	Upper Bound I(1)
10%	2.303	3.154
5%	2.550	3.606
1%	3.351	4.587

Source: Author Calculations (EViews 14)

The confirmation of a long-run relation confirms that the Autoregressive Distributed Lag (ARDL) model can be utilized when dealing with a mix of level I(0) and first difference I(1) stationary variables. This confirms the efficacy of the model adopted in this work. After confirming cointegration, an Error Correction Model (ECM) can then be adopted. With ECM, both short-run fluctuations and long-run corrections can be captured, allowing for the evaluation of the reaction of the variables to an external shock and correction towards long-run trends.

A long-run relation signifies that controls, external funding sources, and economic development indicators move together over time. It suggests that interventions in one variable, such as labor market reform, foreign funding sources, or trade openness, will have a significant impact on other economic factors. Policymakers must, therefore, consider the interrelated nature of these factors when formulating policies to enhance economic development in Palestine.

4.2.3 Estimated Long-run Coefficients for The Per Capita GDP Function

The ARDL estimation results in Table 4.4 provide crucial insights into the long-run relationship between per capita GDP and external funding sources. Long-run causality is confirmed by the significant and negative coefficient of the lagged per capita GDP, indicating that economic adjustments occur gradually over time. This suggests that deviations from the long-run equilibrium are not immediately corrected but persist, reinforcing the notion of a stable yet slow-moving adjustment process.

The coefficient for LPCGDP(-1) is negative and highly significant (-0.308**,** $p < 0.01$), indicating that past values of per capita GDP have a strong influence on current levels. This finding supports a long-run equilibrium relationship within the model, where approximately 30.8% of deviations from the long-term trend in per capita GDP persist into the next period. The moderate speed of adjustment implies that external economic shocks and policy interventions have lasting effects on the economy, requiring sustained efforts to stabilize and stimulate long-term growth. These results align with empirical findings from fragile economies, where structural rigidities and external dependencies slow economic recovery (Collier & Hoeffler, 2004; Justino, 2012). Economic adjustments in such contexts are constrained by limited access to investment, reliance on foreign aid, and vulnerability to external shocks. The persistence of deviations from long-run equilibrium further underscores the need for comprehensive and sustained economic policies that foster resilience and enhance the effectiveness of external financial inflows**.**

Foreign grants and aid (LFGA(-1)) significantly contribute to GDP per capita, with a coefficient of 0.145 ($p = 0.000$), confirming that external aid plays a vital role in supporting social programs, infrastructure, and government consumption (Collier & Dollar, 2002; Keita, 2021). Aid is a key stabilizing force in Palestine's economy, where weak domestic capital

accumulation and high economic uncertainty limit self-sustaining growth. However, the long-run impact of aid depends on how efficiently it is allocated. If directed towards productive investments, such as industrialization, export-oriented sectors, and technological development, aid can catalyze structural transformation and economic diversification. Conversely, if it remains concentrated in short-term consumption and unproductive sectors, it risks entrenching dependency rather than fostering sustainable development (Easterly, 2006; Hirschman, 1958).

Table 4.4. Estimated Long-Run Coefficients Using the ARDL (4,4,3,0,4,1) Model For the Per Capita GDP Function

Dependent Variable: LPCGDP				
Variable	Coefficient	Std. Error	t-Statistic	Prob.
Linear Dependent				
LPCGDP(-1)	-0.308	0.057	-5.439	0.0000
Linear Independent				
LFGA(-1)	0.145	0.029	4.961	0.000
LFDI(-1)	0.042	0.032	1.325	0.190
LCWI	0.073	0.017	4.293	0.000
LPTA(-1)	-0.011	0.026	-0.404	0.687
LCONIV(-1)	-0.014	0.005	-2.940	0.004
C	0.134	0.075	1.784	0.079

Foreign direct investment (LFDI(-1)), with a coefficient of 0.042 (p = 0.190), does not make a statistically significant contribution to per capita GDP, suggesting that FDI inflows to Palestine remain low, inelastic, and constrained by political and economic instability (Mucuk & Demirsel, 2013; Keita, 2021). The absence of a stable business environment, weak financial infrastructure, and regulatory restrictions hampers the ability of FDI to translate into productive capital. Given the limited absorptive capacity of the Palestinian economy, FDI inflows are concentrated mainly in low-value sectors, failing to generate forward and backward linkages that drive structural transformation (UNCTAD, 2020). According to the unbalanced growth theory, strategic investments should be directed toward key leading sectors, mainly manufacturing, ICT, and renewable energy, to stimulate growth and generate spillover effects across other industries (Hirschman, 1958). Without a sectoral focus, FDI remains ineffective in driving broad-based economic expansion.

Worker compensation in Israel (LCWI) has a highly significant and positive impact on per capita GDP, with a coefficient of 0.073 (p = 0.000), reinforcing the role of labor income

from employment in Israel in sustaining Palestinian household incomes (Farsakh, 2005; Eltalla, 2019). Palestinian workers in Israel earn higher wages than those in domestic markets, enabling increased consumption, savings, and investment. However, this heavy reliance on external labor markets creates systemic vulnerabilities, as employment opportunities are contingent on political stability and Israeli labor policies. A more sustainable strategy would involve redirecting remittances toward domestic industrial and entrepreneurial activities to stimulate self-sustaining employment rather than reinforcing labor dependency (World Bank, 2022). The unbalanced growth theory posits that investment in leading sectors can generate alternative employment opportunities, thereby reducing reliance on external labor markets and enhancing overall economic resilience (Hirschman, 1958).

Private sector transfers (LPTA(-1)) have a negative but statistically insignificant impact on per capita GDP **(**-0.011, p = 0.687**)**, suggesting that remittances from the Palestinian diaspora are not effectively utilized for productive investments. Unlike FDI, which targets corporate expansion, private transfers are predominantly used for household consumption rather than business development (Chami et al., 2005; Ratha, 2003). In economies with high remittance inflows, policies that incentivize savings, investment in small and medium-sized enterprises (SMEs), and infrastructure financing can enhance the productivity of remittance flows (Ogujiuba & Eboreime, 2024). In the Palestinian context, a coherent strategy that channels private remittances into development-oriented sectors could significantly enhance economic sustainability and reduce external dependency**.**

Conflict intensity (LCONIV(-1)) has a negative and significant impact on per capita GDP **(**-0.014, p = 0.004**)**, emphasizing the long-term economic consequences of political instability (Collier & Hoeffler, 2004; Justino, 2012). Political unrest, trade restrictions, and infrastructure damage undermine productivity, disrupt investment flows, and increase economic uncertainty. The unbalanced growth perspective emphasizes the importance of targeted investments in resilient sectors, such as agriculture, digital services, and logistics, which can withstand external shocks and remain stable during periods of political turbulence (Hirschman, 1958; UNCTAD, 2020). Strengthening these sectors would allow the economy to maintain stability, even in the face of external shocks.

The constant term (C = 0.134, p = 0.079) suggests that structural challenges persist even after accounting for external funding sources, reinforcing the high dependency on aid and remittances in driving economic performance. This aligns with the unbalanced growth framework, which argues that economic progress occurs through sectoral concentration and selective investment rather than uniform development across all industries (Hirschman, 1958). The Palestinian economy remains structurally dependent on foreign assistance and external labor markets rather than being internally driven by industrial expansion, technological innovation, or high-value trade**.**

While the Unbalanced Growth Theory remains relevant in interpreting the reliance of Palestinian per capita GDP growth on external financial flows, complementary frameworks provide deeper insights. The Endogenous Growth Theory stresses that sustained economic growth requires investments in human capital, innovation, and infrastructure (Romer, 1986). The limited domestic capacity to innovate and absorb external funds productively explains why external inflows have not translated into strong, broad-based growth in the Palestinian context. Additionally, the Structuralist Approach argues that structural distortions, such as a weak industrial base and trade dependence, inhibit the transformation of external capital into long-term economic expansion (Prebisch, 1950; Furtado, 1964). These theories underscore that the positive effects of foreign aid, FDI, and remittances on per capita GDP are constrained without strategic domestic investment and structural reforms.

These findings reinforce the central premise of unbalanced growth theory, which argues that economic development is not evenly distributed across all sectors but is driven by selective investments in key industries (Hirschman, 1958). The dominance of external aid and remittances suggests that growth in Palestine is concentrated in consumption-driven sectors rather than being anchored in productive investments that can create long-term self-sufficiency. To break this cycle, economic policy should prioritize investment in high-potential sectors, such as advanced manufacturing, digital services, and renewable energy, ensuring that external funding sources are catalysts for economic transformation rather than perpetuating dependency. A strategic sectoral approach is necessary to generate spillover effects, allowing underdeveloped sectors to gradually benefit from the growth of more dynamic industries (OECD, 2016; Shumway & Stoffer, 2017).

4.2.4 Error Correction and Short-Run Estimation Results for the Per Capita GDP Function

The ARDL estimation results in Table 4.5 provide significant insights into the short-run relationship between per capita GDP and external funding sources in Palestine. The highly significant error correction term (-0.308, $p < 0.01$) confirms a long-run equilibrium relationship between per capita GDP and the independent variables. The negative coefficient implies that approximately 30.8% of any deviation from the long-run equilibrium is corrected each period, indicating a gradual adjustment process. The moderate speed of adjustment reflects the structural constraints and external dependencies that characterize the Palestinian economy, including institutional weaknesses and political uncertainties, which slow economic recovery. In fragile economies, the speed of convergence is often lower due to rigidities in investment flows, inefficient policy responses, and a reliance on external financial support (Collier & Hoeffler, 2004; Justino, 2012).

The lagged values of per capita GDP exhibit significant negative coefficients, confirming that economic shocks persist over multiple quarters. The coefficients for D(LPCGDP(-1)), D(LPCGDP(-2)), and D(LPCGDP(-3)) remain negative and statistically significant, indicating that past economic fluctuations continue to influence short-run GDP movements. This suggests that short-term economic adjustments are hindered by deep-seated vulnerabilities such as external funding volatility, trade restrictions, and labor market disruptions. These findings are consistent with the structural weaknesses identified in previous research on economies facing chronic instability, where cyclical economic downturns are prolonged due to external dependencies (Fielding, 2004; UNCTAD, 2020).

Foreign grants and aid exhibit mixed short-term effects. The immediate impact of D(LFGA) is not significant. However, the second lag (D(LFGA(-2))) is positive and significant (0.7129, $p = 0.01$), suggesting that external financial assistance contributes to GDP growth with a delay. However, the third lag (D(LFGA(-3))) turns negative and significant (-0.5453, $p = 0.003$), indicating inefficiencies in aid utilization and potential dependency effects. These results align with studies suggesting that while external aid initially stabilizes conflict-affected economies, its long-term effectiveness depends on

governance structures and policy frameworks that channel funding toward productive investments rather than recurrent consumption (Collier & Dollar, 2002; Keita, 2021).

Table 4.5 Error-Correction Estimation Result for the Per Capita GDP Function Using the ARDL (4,4,3,0,4,1) Model

Cointegrating Form				
Variable	**Coefficient**	**Std.**	**t-Statistic**	**Prob.**
Linear Dependent				
D(LPCGDP(-1))	-0.214	0.062	-3.433	0.001
D(LPCGDP(-2))	-0.291	0.062	-4.726	0.000
D(LPCGDP(-3))	-0.221	0.070	-3.156	0.002
Linear Independent				
D(LFGA)	0.211	0.198	1.067	0.289
D(LFGA(-1))	-0.390	0.299	-1.306	0.196
D(LFGA(-2))	0.713	0.271	2.626	0.010
D(LFGA(-3))	-0.545	0.182	-2.998	0.004
D(LFDI)	0.011	0.066	0.173	0.863
D(LFDI(-1))	-0.090	0.073	-1.234	0.221
D(LFDI(-2))	-0.266	0.055	-4.834	0.000
D(LPTA)	0.014	0.031	0.442	0.660
D(LPTA(-1))	0.031	0.021	1.462	0.148
D(LPTA(-2))	0.042	0.016	2.558	0.013
D(LPTA(-3))	0.097	0.025	3.926	0.000
D(LCONIV)	0.000	0.004	0.061	0.951
DUMEXT	-0.046	0.008	-6.025	0.000
ECM(-1)	-0.308	0.030	-10.308	0.000

R-squared	0.72851	Mean dependent var	0.00463
Adjusted R-squared	0.66981	S.D. dependent var	0.02709
S.E. of regression	0.01556	Akaike info criterion	-5.32084
Sum squared resid	0.01793	Schwarz criterion	-4.85178
Log-likelihood	259.0984	Hannan-Quinn criteria.	-5.13161
F-statistic	12.41067	Durbin-Watson stat	2.07549
Prob(F-statistic)	0.00000		

Source: Author Calculations (EViews 14)

Foreign direct investment has an inconsistent impact on GDP. While its immediate effect (D(LFDI)) is statistically insignificant, the second lag (D(LFDI(-2))) is significantly negative (-0.2659, $p < 0.01$), suggesting that FDI inflows may introduce short-run instability. This result supports concerns that, in politically uncertain environments, foreign investors hesitate to make long-term commitments, leading to fluctuations in capital inflows and delays in economic benefits (Mucuk & Demirsel, 2013; Wildeman & Tartir, 2021). The unpredictable nature of investment decisions under conflict conditions highlights the

importance of institutional reforms in enhancing investor confidence and ensuring that FDI contributes meaningfully to economic growth. Moreover, the sectoral composition of investment is crucial in determining economic outcomes. In line with the unbalanced growth theory (Hirschman, 1958), investment concentrated in non-tradable sectors such as services and consumption-related activities may fail to generate sustained growth. In contrast, targeted investment in high-productivity sectors, such as manufacturing and technology, could lead to a broader economic transformation (Rodrik, 2009).

Foreign private sector inflows show a lagged but positive effect on GDP growth. While the first lag of D(LPTA) is not significant, the second and third lags (D(LPTA(-2)) and D(LPTA(-3))) are positive and significant, supporting the argument that remittances and private transfers have a gradual impact on GDP. This aligns with the broader literature on remittance-dependent economies, where household-level spending and investment take time to translate into measurable economic growth (Chami et al., 2005; Ratha, 2003). The delayed impact suggests that while private sector inflows can stabilize consumption in the short run, their full economic benefits require policies that encourage productive investment and financial market development (World Bank, 2006; Ogujiuba & Eboreime, 2024). The unbalanced growth perspective further suggests that the benefits of remittances may be confined to specific sectors, primarily services and real estate, without necessarily fostering industrialization or productivity-driven growth (Ranis & Fei, 1961; Lin, 2012).

Conflict intensity has no significant influence on GDP ($p = 0.95$), indicating that political violence has a short-run economic influence that cannot be captured by observations in the model's quarter frequencies. The negative, strong coefficient of the external shock dummy (DUMEXT, -0.0455, $p < 0.01$) reinforces the notion that military escalations, economic blockades, or global financial crises have severe and immediate impacts on per capita GDP. Such evidence supports other works that highlight how economic instability in conflict regions is frequently triggered by, as well as worsened through, external shocks, which dampen trade, deter investment, and drain financial inflows (Collier & Hoeffler, 2004; Justino, 2012). Furthermore, the persistence of economic instability aligns with the unbalanced growth theory, which describes economies with structurally weak sectors and

sectoral disequilibria as being persistently plagued by macroeconomic instability (Hirschman, 1958; Aghion & Howitt, 1992).

The diagnostic statistics confirm the robustness of the ARDL model. The strong explanatory power is revealed by a high R-squared value of 0.7285, coupled with an even higher adjusted R-squared of 0.6698. At the same time, the significance of the regression overall is confirmed by the F-statistic of 12.41, $p < 0.01$. Furthermore, a Durbin-Watson statistic of 2.07 confirms the absence of serious autocorrelation problems, further establishing the consistency of the estimation results. The results also align with more comprehensive studies on external funding to fragile states, where financial inflows help mitigate immediate economic turbulence but require effective policy environments and governance to ensure sustainable growth (OECD, 2016; Khan et al., 2022).

The short-run perspective points to the Palestinian economy's structural disequilibrium. The lagged impact of aid, the uneven contribution of FDI, and the lagged contribution of private sector inflows indicate an economic structure that cannot efficiently utilize external financial inflows. The trend aligns with the unbalanced growth theory, which posits that economic progress in structurally weak economies disproportionately occurs in a few sectors, resulting in uneven growth across economic activities (Hirschman, 1958). In Palestine, growth driven by consumption-oriented industries has been facilitated by a reliance on remittances and foreign aid, rather than by productive industries such as manufacturing and agriculture. The persistence of vulnerability to external shocks and political instability underscores the need to adopt policies that stimulate investment in productive capacity, enhance institutional robustness, and create conditions conducive to sustained economic growth (Rodrik, 2009; Lin & Monga, 2011).

Although the ARDL model used in estimating the per capita GDP function offers robust insights into long-run and short-run dynamics, no additional robustness tests, such as Fully Modified Ordinary Least Squares (FMOLS) or Dynamic Ordinary Least Squares (DOLS), were performed. This limitation is primarily due to data constraints and the focus on ARDL's flexibility in handling variables with different integration orders. Future research

is encouraged to apply FMOLS or DOLS estimators to validate the long-run coefficients and strengthen the robustness of the findings.

4.2.5 Diagnostic and Stability Testing for the Per Capita GDP Function

Table 4.6. ARDL model diagnostic tests. These are essential tests for the validity and reliability of the estimated econometric framework. The tests verify the fundamental assumptions that any model underestimation using classical linear regression meets; therefore, the results are robust and do not suffer from any statistical issues that may impair their interpretation.

Table 4.6. Diagnostic Test Results for the GDP Per Capita Function

Test	Statistics	Probability	Decision
Heteroscedasticity	1.028	0.445	No heteroscedasticity
Serial correlation	2.035	0.139	No serial correlation
Normality (Kurtosis)	3.471	0.573	Residuals are normally distributed.

Source: Author Calculations (EViews 14)

The heteroscedasticity test yields a statistic of 1.028 with a p-value of 0.445. Since the p-value is more significant than 0.05, the null hypothesis of no heteroscedasticity cannot be rejected. This implies that the variance of the error terms is constant for all observations; therefore, the model does not suffer from heteroscedasticity. Such consistency in variance is essential to ensure that the estimated coefficients are efficient and that the model's predictions are reliable.

The serial correlation test provides a statistic of 2.035 with a p-value of 0.139. A p-value greater than 0.05 does not reject the null hypothesis of no serial correlation. It proves that the error terms are not serially correlated; hence, residuals are independent, and thus, statistical inferences based on the model are appropriate.

The kurtosis-based normality test provides a statistic of 3.471 with a p-value of 0.573. This high p-value confirms that the residuals are normally distributed, a key assumption for valid hypothesis testing and the construction of confidence intervals. This result further reinforces the model's reliability by confirming that the error terms follow the normal distribution.

These diagnostic test results indicate that the ARDL model is well-specified with no significant statistical problems. No heteroscedasticity implies constant variance of error terms, while no serial correlation means residuals are uncorrelated. Besides, the normality of residuals supports the validity of statistical inference.

4.2.6 Testing the Structural Stability of the Model for the Per Capita GDP Function

The CUSUM and CUSUM of Squares tests are applied to determine the stability of coefficients and variance over time regarding the reliability of the estimated relationships between GDP per capita and external funding sources. The CUSUM test checks for the cumulative sum of recursive residuals, while the CUSUM of Squares test looks at squared residuals to detect structural breaks or instability.

Figure 4.1 presents the results of the CUSUM and CUSUM of squares tests, demonstrating that the cumulative sum line remained within the critical boundaries at the 5% significance level throughout the sample period. This provides strong evidence of coefficient stability in the estimated model. Additionally, the sum of squared residuals remained within the critical limits, indicating variance stability with minimal signs of structural instability.

The CUSUM and CUSUM of Squares tests indicate that the estimated ARDL model for per capita GDP is stable over the sample period. This enhances confidence in the validity of the model's findings and its suitability for policy analysis regarding external funding, economic stability, and GDP growth in Palestine.

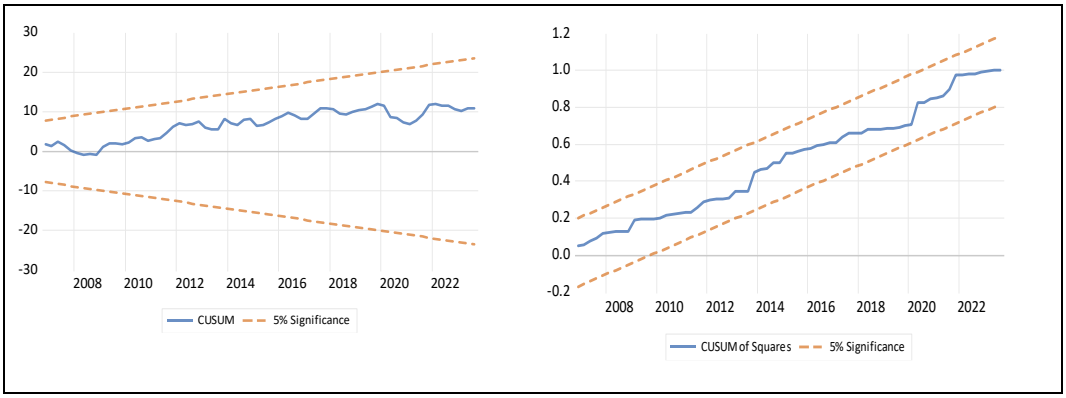


Figure 4.1. Stability of the Estimated Model for the Per Capita GDP Function

4.3 Estimation of the Unemployment Rate (LUNEMR) Function

Estimating the Unemployment Rate function is significant for analyzing long-run dynamics and structural sources of unemployment in Palestine. This section examines key factors that influence the unemployment rate, including both short-term and long-term relationships with external and domestic economic factors. With the application of advanced econometric techniques, including tests for cointegration, autoregressive distributed lag (ARDL) bounds testing, and error correction model (ECM), the analysis provides a rich picture of political instability, foreign direct investment, workers' remittances, trade openness, and foreign aid, and their impact on unemployment trends together. Analysis helps deepen an understanding of unemployment in Palestine and its persistent nature. It provides valuable insights for developing effective, focused interventions aimed at the long-term creation of jobs and overall economic stability.

4.3.1 Cointegration Tests for the Unemployment Rate Function

The results in Table 4.7 confirm the existence of long-run relationships between unemployment and its explanatory factors. There are three Trace and two Maximum Eigenvalue tests for cointegrating equations. As Trace tests are considered a safer criterion for estimating the number of cointegrating relations, tests firmly confirm that unemployment and its most significant factors have a long-run structural relation.

Table 4.7. Long Run Cointegration Results
for the Unemployment Rate Function

Hypothesized No. of CE(s)	Trace			Maximum Eigenvalue		
	Trace statistic	0.05 Critical Value	*p*-value**	Max-Eigen Statistic	0.05 Critical Value	*p*-value**
None*	176.683	125.615	0.000	52.082	46.231	0.011*
At most 1*	124.601	95.754	0.000	44.177	40.078	0.016*
At most 2*	80.424	69.819	0.006	33.489	33.877	0.056
At most, 3	46.935	47.856	0.061	25.183	27.584	0.098
At most 4	21.752	29.797	0.312	16.569	21.132	0.193
At most 5	5.183	15.495	0.789	5.081	14.265	0.732
At most 6	0.103	3.841	0.749	0.103	3.841	0.749

The Trace test indicates three cointegrating equations at the 0.05 level, while the Max-eigenvalue test indicates two cointegrating equations. * Denotes rejection of the hypothesis at the 0.05 level. **MacKinnon-Haug-Michelis (1999) *p*-values.

The presence of cointegration indicates that unemployment, external sources of funding, and structural aspects of the labor market in Palestine move in tandem over time. Any variation in such factors, including foreign direct investment, workers' remittances, and

foreign aid, will have long-term, persistent effects on unemployment, rather than transitory, short-term ones.

Additionally, several cointegrating relations confirm the multidimensionality of unemployment in Palestine. Political uncertainty, trade restrictions, and structural weaknesses in the labor market are likely to persist in causing unemployment. There is strong evidence of long-run equilibrium relations, and an error correction model (ECM) can, therefore, be used to model appropriate unemployment correction in response to external and domestic economic shocks in the long run.

4.3.2 Autoregressive Distributed Lag Bound Test for Unemployment Rate Function

The results of the ARDL Bounds Test presented in Table 4.8 confirm a long-run relationship between unemployment and its explanatory variables. The computed F-statistic of 6.378812 is significantly higher than the upper bound critical value at the 1% significance level (4.880), leading to the rejection of the null hypothesis of no long-run relationships. This finding provides strong evidence that the unemployment rate in Palestine is structurally linked to external funding sources and macroeconomic conditions over time.

The rejection of the null hypothesis suggests that unemployment does not merely fluctuate in response to short-term shocks, but is influenced by persistent factors that determine its long-run equilibrium. This reinforces the earlier cointegration test results, which confirmed the presence of multiple long-run equilibrium relationships. The significant long-run association implies that changes in foreign aid, FDI, worker remittances, or other economic factors will have lasting effects on employment levels rather than temporary deviations.

Table 4.8. Autoregressive Distributed Lag Bounds Test
for the Unemployment Rate Function

Null Hypothesis: No Long-Run Relationships Exist		
Test Statistics	**Value**	
F-statistics	**6.378812**	
	Critical Value Bounds	
Significance	Lower Bound I(0)	Upper Bound I(1)
10%	2.170	3.220
5%	2.550	3.708
1%	3.424	4.880

Source: Author Calculations (EViews 14)

4.3.3 Estimated Long-run Coefficients for The Unemployment Rate Function

Table 4.9 presents the ARDL estimation results for the unemployment rate function, providing valuable insights into the long-run determinants of unemployment in Palestine, particularly regarding external funding sources, trade openness, and conflict intensity. The presence of a long-run equilibrium relationship is confirmed by the highly significant and negative coefficient of the lagged unemployment rate, LUEMR(-1) (-0.832, $p < 0.01$). This implies that approximately 83.2% of deviations from the long-run unemployment rate are corrected each period, indicating a relatively fast adjustment speed. This suggests that external economic shocks and policy interventions have substantial and immediate effects on labor market dynamics, consistent with findings in other conflict-affected economies where labor markets exhibit high volatility and dependence on external financial flows (Collier & Hoeffler, 2004; Justino, 2012). The speed of adjustment further highlights the structural vulnerabilities within the Palestinian labor market, where employment patterns fluctuate rapidly in response to external shocks, a characteristic often observed in economies with high dependency on external financial inflows rather than internally driven growth (Ranis & Fei, 1961; Hirschman, 1958).

Foreign aid has a statistically significant negative impact on unemployment (-0.074, $p = 0.001$), reinforcing the argument that aid can temporarily generate employment by funding public sector wages and social programs (Collier & Dollar, 2002; Keita, 2021). However, this does not necessarily translate into sustainable job creation or structural improvements in the labor market. The dependency on aid to sustain employment aligns with the broader critique that external funding may reinforce distortions in labor markets by sustaining inefficient public-sector employment rather than fostering private-sector-led growth (Easterly, 2006). The framework of unbalanced growth theory suggests that while aid stimulates specific sectors, such as public administration and social services, it fails to create broad-based employment growth across all sectors of the economy, leading to persistent structural unemployment.

Foreign direct investment (FDI) has a strong and significant negative relationship with unemployment (-1.259, $p = 0.003$), confirming its role in job creation through industrial expansion and private sector development (Mucuk & Demirsel, 2013; Keita, 2021). The

substantial coefficient suggests that even minor increases in FDI can significantly reduce unemployment, highlighting its potential as a long-term economic stabilizer.

However, the limited inflows of FDI into Palestine due to political instability, Israeli-imposed restrictions, and an underdeveloped financial infrastructure have prevented its full potential from being realized (Wildeman & Tartir, 2021; UNCTAD, 2020). This aligns with the unbalanced growth perspective, where investment-driven growth tends to be concentrated in select sectors, leading to uneven development across industries and geographic regions (Hirschman, 1958). Without targeted policies to channel FDI into diverse, productive sectors, its employment benefits will remain constrained to limited economic activities.

Table 4.9. Estimated Long-Run Coefficients Using the ARDL (3,1,1,2,4,0,0) Model For the Unemployment Rate Function

Dependent Variable: LUEMR				
Variable	**Coefficient**	**Std. Error**	**t-Statistic**	**Prob.**
Linear Dependent				
LUEMR(-1)	-0.832	0.165	-5.038	0.000
Linear Independent				
LFGA(-1)	-0.074	0.020	-3.684	0.001
LFDI(-1)	-1.259	0.398	-3.166	0.003
LCWI(-1)	0.224	0.081	2.784	0.009
LPTA(-1)	0.199	0.073	2.712	0.011
LCONIV	0.004	0.008	0.447	0.658
LOPNT	-0.262	0.113	-2.313	0.027
C	3.534	0.820	4.311	0.000

Source: Author Calculations (EViews 14)

In contrast to FDI, worker compensation from employment in Israel exhibits a positive and significant correlation with unemployment ($r = 0.224$, $p = 0.009$), reinforcing concerns that Palestinian labor's dependence on the Israeli market reduces local employment opportunities. Studies indicate that higher wages in Israel attract Palestinian workers, leading to labor shortages in domestic industries and reinforcing external dependency (Farsakh, 2005; Miaari & Sauer, 2011). Over-reliance on foreign labor creates a vicious cycle in which Israeli policies, visa policies, and border closures have a direct impact on Palestinian labor market levels. The uneven growth paradigm reinforces that sectors such as construction and low-skill services thrive owing to overseas labor demand. In contrast, local productive sectors suffer, again driving unemployment.

Private sector transfers (LPTA) are also positively associated with unemployment (0.199, p = 0.011), suggesting remittance inflows decrease labor market participation. Following research, remittances are not a tool for investment but a source of a social buffer stock, permitting individuals to leave the labor market and not participate in labor market activities (Chami et al., 2005; Ratha, 2003; Ogujiuba & Eboreime, 2024). Unlike productive investment, which generates economic growth, remittances are primarily spent on consumption, exacerbating economic imbalances and fostering dependence on external income streams (Chami et al., 2005). The hypothesis of unbalanced growth suggests that financial inflows in the diaspora maintain family income but do not balance expansion across sectors, long-term labor market employment, and the widening of labor market participation gaps.

Trade openness (LOPNT) is a significant determinant of unemployment, playing a negative role (-0.262, p = 0.027), in line with the hypothesis that trade creates jobs through the expansion of sectors with a trade-oriented character and market efficiency (Asiedu, 2006). In Palestine, trade liberalization remains hindered by restrictions on trade imposed by Israel, access limitations to external markets, and a reliance on imports of essential products (PCBS, 2023; UNCTAD, 2020). The selective expansion of trade benefits a specific segment, while other sectors stagnate, consolidating sectoral imbalances and hindering the generation of broad employment opportunities. In the context of unbalanced growth, this illustrates how trade openness alone cannot ensure broad-based employment without complementary policies in the industrial sector that induce expansion across a wide variety of sectors, rather than focusing on a specific type of business (Hirschman, 1958).

Conflict intensity (LCONIV) is not statistically significant in influencing unemployment (p = 0.658), contrary to other economies in conflict, where instability is often associated with massive job losses (Justino, 2012; Collier & Hoeffler, 2004). The finding suggests that external financial inflows, such as remittances and aid, mitigate labor market volatility in the short term caused by conflict. In the longer run, however, implications are still a cause for concern because ongoing economic fragility is inimical to structural employment expansion. In the unbalanced growth paradigm, this reinforces the perception that the performance of some sectors is insulated against the disruptive effects of conflict,

owing to the financial buffer stock provided by external finance. Others are brutal hits, and there is increased segmentation and labor market divergence (Williamson, 2003).

These results highlight the Palestinian economy's structural imbalances, where inflows of external finance have led to uneven concentration in specific sectors without generating broad-based employment opportunities. The theory of unbalanced growth is a helpful tool in explaining these results within the context of the need for targeted policies to ensure that expansion in a specific sector results in broader growth throughout the entire economy (Hirschman, 1958; Ranis & Fei, 1961). Without a strategy for labor market development, external finance sources will continue to perpetuate sectoral differences and fail to foster comprehensive and sustainable employment expansion.

While the Unbalanced Growth Theory remains central to explaining labor market segmentation and the uneven impact of external financial flows on unemployment in Palestine, complementary theoretical frameworks offer additional insights. Dual Labor Market Theory posits that external employment opportunities, such as work in Israel, perpetuate the division between a small formal sector and a larger informal or precarious labor market, thereby limiting the creation of stable domestic jobs (Doeringer & Piore, 1971). Moreover, Dependency Theory emphasizes that reliance on external labor markets and remittance flows creates systemic vulnerabilities, preventing the development of robust internal employment structures (Frank, 1967; Dos Santos, 1970). The Endogenous Growth Theory also emphasizes that sustainable employment generation necessitates long-term investments in education, innovation, and institutional capacity, as chronic underinvestment constrains Palestine’s labor market potential (Romer, 1986; Aghion & Howitt, 1992). These complementary perspectives suggest that without structural reforms focused on strengthening domestic job creation and reducing external labor dependency, external financial inflows alone cannot sustainably address unemployment challenges in the Palestinian economy.

4.3.4 Error Correction and Short-Run Estimation Results for the Unemployment Rate Function

The error correction term (ECM(-1)) in the unemployment equation is highly significant (-0.832, $p < 0.01$), confirming the presence of a long-run equilibrium relationship

between unemployment and its explanatory variables. The coefficient -0.832 suggests a high adjustment rate such that approximately 83.2% of every deviation from unemployment equilibrium is met in the long run in every period. It suggests a high adjustment rate in Palestine's labor market to absorb shocks and unemployment policies. The high adjustment rate suggests a high rate of correcting deviations in the short term, particularly concerning other macroeconomic indicators within the volatility structure of Palestine's labor market. Financial inflows and outflows, political instability, and structural imbalances are the primary forces driving labor market dynamics.

While the model confirms that the labor market is responsive and rapidly adjusts in the presence of deviations, such a sudden adjustment is not necessarily favorable. The elasticity of labor to external forces reflects a vulnerable labor structure where production is not on a productive and generating industrial basis, but on variable income-generating forces such as transfers, remittances, and working in Israel. The above propositions in the hypothesis on unbalanced growth state that economies with a structurally flawed character are prone to expand unevenly, with a skewed contribution to labor in particular sectors, while other sectors stagnate and remain underdeveloped (Hirschman, 1958; Rostow, 1960). The results confirm that Palestine's economic expansion and labor trends are primarily determined by a limited number of dominant sectors, namely labor emigration and external transfers, rather than balanced and comprehensive economic progress.

The short-run analysis reveals mixed implications of external finance sources on unemployment. The unemployment lags (D(LUEMR(-1)) and D(LUEMR(-2))) reveal that unemployment in the recent past has a significant contribution to labor conditions today, with the second-order coefficient (0.339, $p = 0.001$) confirming unemployment persistence as a characteristic of the economy's structure. In developing economies with rigid labor markets, unemployment often recovers slowly due to external dependence and low internal diversification within the economy (World Bank, 2022; UNCTAD, 2020).

Foreign aid (D(LFGA)) makes a modest but substantial contribution to unemployment (-0.035, $p < 0.01$), suggesting that aid inflows are effective in reducing unemployment through state jobs and protection programs. The low impact supports criticism that aid does not generate permanent jobs but keeps state-dependent and transient sectors afloat (Easterly,

2006). The finding is consistent with other research implying that dependence on aid distorts labor market functioning in a way that produces inefficient jobs, but not in the private sector (Collier & Dollar, 2002; Keita, 2021).

Foreign direct investment (D(LFDI)) makes a much more significant negative contribution to unemployment (-0.812, p = 0.004), attesting that investment inflows directly contribute to creating jobs, particularly in capital-intensive sectors. Notwithstanding this, however, FDI inflows remain uncertain due to political and economic uncertainty, which restricts their contribution to creating steady jobs (Mucuk & Demirsel, 2013; Wildeman & Tartir, 2021). The high contribution of FDI implies that even low investment conditions can yield substantial benefits in employment, and there is a need for stable policies that encourage foreign investment.

Table 4.10. Error-Correction Estimation Result for the Unemployment Rate Function Using the ARDL (3,1,1,2,4,0,0) Model

Cointegrating Form				
Variable	Coefficient	Std.	t-Statistic	Prob.
Linear Dependent				
D(LUEMR(-1))	0.060	0.134	0.443	0.660
D(LUEMR(-2))	0.339	0.093	3.641	0.001
Linear Independent				
D(LFGA)	-0.035	0.008	-4.619	0.000
D(LFDI)	-0.812	0.263	-3.085	0.004
D(LCWI)	0.026	0.047	0.557	0.581
D(LCWI(-1))	-0.309	0.048	-6.417	0.000
D(LPTA)	0.155	0.030	5.254	0.000
D(LPTA(-1))	-0.040	0.050	-0.802	0.428
D(LPTA(-2))	-0.129	0.043	-3.028	0.004
D(LPTA(-3))	-0.121	0.033	-3.679	0.001
DUMEXT	0.043	0.009	4.683	0.000
ECM(-1)	-0.832	0.112	-7.446	0.000
R-squared	0.807		Mean dependent var	0.000
Adjusted R-squared	0.752		S.D. dependent var	0.038
S.E. of regression	0.019		Akaike info criterion	-4.889
Sum squared resid	0.014		Schwarz criterion	-4.435
Log-likelihood	136.673		Hannan-Quinn criteria.	-4.715
F-statistic	14.785		Durbin-Watson stat	2.173
Prob(F-statistic)	0.000			

Source: Author Calculations (EViews 14)

Worker remittances in Israel do not directly contribute to unemployment ($p = 0.581$). The value of its lagged variable (D(LCWI(-1))), however, is significant and negative (-0.309, $p < 0.01$), indicating that remittances have a stabilizing effect on labor. This implies that while remittances do not immediately alleviate unemployment, they stabilize the economy by bolstering family incomes. However, dependence on Israeli labor markets is a double-edged sword, exposing Palestinian labor to external shocks such as border closures and permit restrictions that can drive unemployment upward abruptly (Farsakh, 2005; Miaari & Sauer, 2011). The finding is a testament to a fundamental tenet of unbalanced growth theory, which posits that dependence on a particular sector (in this instance, external labor markets) creates systemic fragilities, thereby curbing broader industrial expansion in the economy.

Private transfers (D(LPTA)) have a dual role in unemployment. They increase unemployment in the short run (0.155, $p < 0.01$), suggesting that households leave the labor market with increased financial security. However, in the longer run, the lagged observations turn negative (-0.129, $p = 0.004$ and -0.121, $p = 0.001$), revealing that remittances ultimately lead to job generation through investments in entrepreneurial and business ventures. These findings align with global remittance studies, suggesting that while they initially reduce labor force participation, they can stimulate self-employment and economic diversification (Ogujiuba & Eboreime, 2024; Ratha, 2003). This again supports the unbalanced growth theory, where remittances disproportionately benefit some sectors (such as consumption and real estate) while failing to stimulate a broad-based industrial transformation.

External shocks play a significant role in unemployment trends. The dummy variable representing external shock (DUMEXT, 0.043, $p < 0.01$) confirms the direct and substantial impact of political and economic crises on unemployment. It underscores the vulnerability of the Palestinian labor market to regional tensions, geopolitical events, and economic blockades. The results underscore the need for diversification in labor sources and a reduction in reliance on politically unstable sectors.

Model diagnostics confirm the validity of ARDL estimation. High R-squared (0.807) indicates high explanatory power, and the F-statistic (14.785, $p < 0.01$) confirms the significance of the model. The absence of autocorrelation issues, as indicated by the Durbin-Watson statistic (2.173), ensures the validity of the findings.

In conclusion, the long- and short-run results consistently indicate that foreign aid and FDI substantially reduce unemployment. Concurrently, compensation paid to employees in Israel and transfers in the private sector are associated with an increase in unemployment in the short run but with a stabilizing or even decreasing trend in unemployment in the long run. The results reinforce important lessons from unbalanced growth theory, highlighting how particular sectors disproportionately impact employment and generate imbalances in labor market structure. The high elasticity of unemployment in response to external shocks and financial inflows implies a need for structural adjustment policies to induce balanced and diversified economic growth. Due to external constraints, openness in trade is a key yet underdeveloped vehicle for generating employment. The level of conflict intensity is not observed to directly impact unemployment, implying that external financial inflows stabilize labor market conflicts. Economic policies must prioritize domestic job creation, reducing external dependence, and investment-driven employment growth.

While the ARDL estimation for the unemployment rate function demonstrates a statistically sound long-run relationship, no sensitivity analysis has been conducted using alternative cointegration techniques such as FMOLS or DOLS. Given the dynamic and fragile nature of labor market conditions in Palestine, applying such methods in future research would validate the estimated long-run coefficients and reinforce the reliability of policy recommendations derived from the model.

4.3.5 Diagnostic and Stability Testing for the Unemployment Rate Function

The diagnostic tests in Table 4.11 confirm the efficiency and accuracy of the ARDL model for estimating the unemployment function. Heteroscedasticity testing yields a value of 0.868 with a p-value of 0.616, which is significantly larger than the conventional 5% significance level. Consequently, it cannot reject the homoscedasticity null hypothesis, and the variance in residuals is constant over observations. With no sign of heteroscedasticity, efficient coefficients have been produced, and inferences drawn through the model will be reliable.

The serial correlation value is 2.318, and the p-value is 0.116, both larger than 5%. Therefore, no rejection of serial correlation under the null hypothesis can occur. Hence, it can be confirmed that residuals lack autocorrelation. There is no serial correlation, which is

significant in offering reliable standard errors, preventing biased statistical inferences, and enhancing confidence in an estimated model.

According to the Kurtosis test, the normality test yields a value of 2.608 and a p-value of 0.606, confirming that the residuals are normally distributed. The normality of residuals is a crucial assumption for the validity of confidence intervals and hypothesis testing, and it contributes to the validity of model results.

Table 4.11. Diagnostic test results for the Unemployment Rate Function

Test	Statistics	Probability	Decision
Heteroscedasticity	0.868	0.616	No heteroscedasticity
Serial correlation	2.318	0.116	No serial correlation
Normality (Kurtosis)	2.608	0.606	Residuals are normally distributed.

Source: Author Calculations (EViews 14)

These diagnostic tests confirm that the ARDL model for unemployment is free of any significant econometric issues and well-specified. Stable variance is confirmed through a lack of heteroscedasticity, independence of residuals through a lack of serial correlation, and suitability for statistical inference through residuals' normality. All these validate that the model is reliable in analyzing the role played by external funding sources in driving unemployment in Palestine.

4.3.6 Testing the Structural Stability of the Model for the Unemployment Rate Function

The results of the CUSUM and CUSUM of Squares tests in Figure 4.2 provide significant information about the structural stability of the ARDL model for estimating the unemployment function. CUSUM tests for the stability of model coefficients over a period by checking the cumulative sums of recursive residuals. CUSUM of Squares tests for variance stability by testing for squared residuals for any break in the structure.

The graph indicates that the CUSUM remains firmly within the critical bounds at the 5% level throughout the sample period, suggesting that the coefficients have been consistently estimated. This revalidates confidence in the long-run relation between unemployment and its factors. Likewise, the CUSUM of Squares test reveals that the

residuals squared fall within the critical bounds, indicating no significant structural break or variance instability.

These findings validate the robustness of the ARDL model in its capacity to model unemployment behavior in Palestine. The long-run stability of the model validates its reliable policy implications, and it can therefore be utilized to explain the impact of external financing, trade openness, and economic shocks on shaping labor market performance. With such robustness, policymakers can have confidence in knowing that these estimates will not vary, and therefore, make for wiser decision-making regarding employment policies and economic stability.

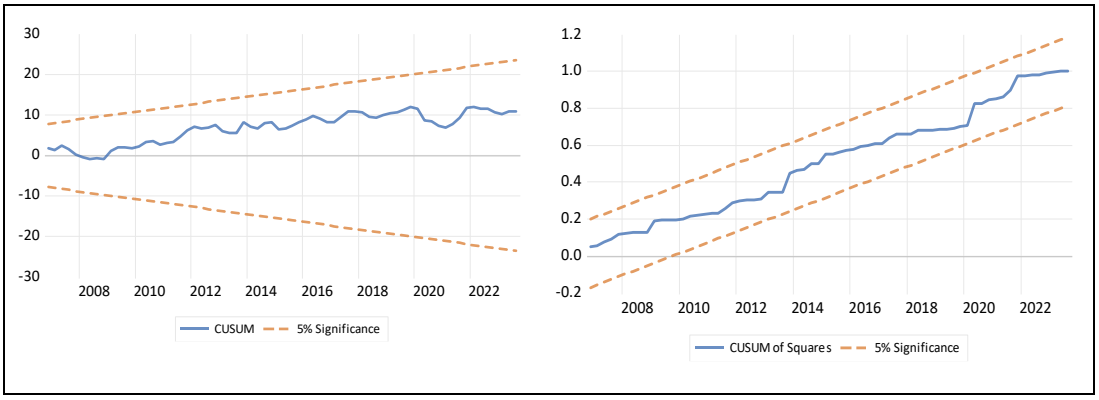


Figure 4.2. Stability of the Estimated Model for the Unemployment Rate Function

4.4 Estimation of the Poverty Rate (LPVTR) Function

It is critical to understand the determinants of poverty in order to craft effective policy interventions against poverty. It estimates the equation of the Poverty Rate (LPVTR) considering the long-run and short-run relationships between the economic factors of foreign aid, foreign direct investment, remittances from workers, inflation, and conflict intensity. Through rigorous macroeconomic analysis employing higher-order econometric methods, such as cointegration tests, the ARDL Bounds Test, and error correction modeling, this analysis estimates the impact of macroeconomic factors and foreign financial inflows on the dynamics of poverty in Palestine. The estimates have significant implications for policymakers seeking to design effective economic interventions to alleviate poverty in fragile and conflict-affected economies.

4.4.1 Cointegration Tests for the Poverty Rate Function

The results in Table 4.12 confirm the presence of long-run relationships between poverty and its explanatory variables. The Trace test identifies four cointegrating equations, while the Max-Eigenvalue test also confirms four cointegrating relationships at the 5% significance level. Given that the Trace test is generally considered a more reliable criterion for determining the number of cointegrating equations, these findings prove that poverty and its main economic determinants exhibit stable long-term linkages.

Table 4.12. Long Run Cointegration Results for the Poverty Rate Function

Hypothesized No. of CE(s)	Trace			Maximum Eigenvalue		
	Trace statistic	0.05 Critical Value	*p*-value**	Max-Eigen Statistic	0.05 Critical Value	*p*-value**
None *	217.611	125.615	0.000	61.325	46.231	0.001
At most 1 *	156.286	95.754	0.000	55.404	40.078	0.000
At most 2 *	100.882	69.819	0.000	44.678	33.877	0.002
At most, 3*	56.204	47.856	0.007	32.441	27.584	0.011
At most 4	23.763	29.797	0.211	16.735	21.132	0.185
At most 5	7.028	15.495	0.574	5.241	14.265	0.711
At most 6	1.787	3.841	0.181	1.787	3.841	0.181

The Trace and Max-eigenvalue tests indicate four cointegrating equations at the 0.05 level. * Denotes rejection of the hypothesis at the 0.05 level. **MacKinnon-Haug-Michelis (1999) *p*-values.

The presence of multiple cointegrating relationships suggests that structural economic factors, external funding inflows, and broader macroeconomic conditions have a profound influence on poverty in Palestine. The rejection of the null hypothesis of no cointegration at the first four levels ($p = 0.000$ for the first three equations and $p = 0.007$ for the fourth) highlights the persistent interaction between poverty and variables such as foreign direct investment (FDI), worker remittances, foreign aid, and inflation. This implies that any change in these factors will have lasting effects on poverty rates rather than short-term, transitory fluctuations.

4.4.2 Autoregressive Distributed Lag Bound Test for the Poverty Rate Function

The results of the ARDL Bounds Test, presented in Table 4.13, confirm the existence of a long-run relationship between the explanatory factors and the poverty level. The computed value of 7.11644 for the F-statistic is far more than its upper critical value at 1% (4.880), and hence, the null hypothesis of no long-run relations is not supported. There is strong empirical evidence to support the conclusion that macroeconomic and external funding factors largely determine poverty in Palestine in the long run.

The rejection of the null hypothesis confirms that not only is poverty changing in reaction to transitory economic fluctuations, but it is also guided by deeper factors controlling its long-run equilibrium level. This confirms the earlier cointegration test results, which indicated the presence of a long-run equilibrium relationship of greater than one. A significant long-run relation indicates that changes in external sources of financing, such as foreign aid, workers' remittances, and FDI, as well as macroeconomic policies, will have lasting, rather than transitory, effects on the poverty level.

Table 4.13. Autoregressive Distributed Lag Bounds Test for the Poverty Rate Function

Null Hypothesis: No Long-Run Relationships Exist		
Test Statistics	**Value**	
F-statistics	**7.116440**	
	Critical Value Bounds	
Significance	Lower Bound I(0)	Upper Bound I(1)
10%	2.170	3.220
5%	2.550	3.708
1%	3.424	4.880

Source: Author Calculations (EViews 14)

4.4.3 Estimated Long-run Coefficients for The Poverty Rate Function

The long-run coefficients in Table 4.14 provide significant insights into the structural determinants of poverty in Palestine, emphasizing the roles of external funding, inflation, and labor market dynamics. The significant and negative LPVTR(-1) coefficient of -0.481, along with a p-value less than 0.01, confirms high persistence in poverty over time. It shows how heavily a country's rate in the previous year contributed to the level of poverty, underpinning the institutionally and structurally entrenched state of poverty in Palestine. The fact that the coefficient is high in value indicates that approximately 48.1% of conditions in a state of poverty are transmitted in the following period, representing how slow and complex the process is in removing poverty in the country without macroeconomic interventions.

The results are based on the Theory of Unbalanced Growth, which advocates that economic progress is not uniform across all areas but instead occurs in select, leading sectors that drive aggregate progress (Hirschman, 1958). The results indicate that Palestine’s poverty is closely linked to sectoral imbalances, where financial inflows are concentrated in a specified area, while other sectors remain underdeveloped. The reliance on external finance channels without targeted structural change leads to an uneven distribution of benefits in the

economy, hindering efforts to alleviate poverty. The above confirms the imperative need to invest in productive sectors, creating sustainable jobs and not relying on short-term solutions.

Foreign grant and aid (LFGA) are statistically insignificant in poverty alleviation (-0.015, p = 0.576), indicating that external assistance has had little impact on reducing poverty in Palestine over the long term. Several Palestinian-specific variables contribute to this phenomenon. First, a significant majority of past aid was used to finance recurrent government expenditure rather than productive investment. The Palestinian Ministry of Finance reports have evidence that the aid was primarily diverted into budget support, primarily for wages and operational costs. In contrast, little funding was allocated to ongoing development projects (PMA, 2022). Secondly, Israeli-imposed restrictions on travel, trade, and investment have significantly constricted the space in which initiatives are being facilitated by aid work (World Bank, 2022). Thirdly, the decades-long political split between the West Bank and the Gaza Strip has eroded governing institutions, diluting the effectiveness of aid and its potential to eradicate poverty (UNCTAD, 2021).

Table 4.14. Estimated Long-Run Coefficients Using the ARDL (4,0,0,3,4,1,3) Model for the Poverty Rate Function

Variable	Coefficient	Std. Error	t-Statistic	Prob.
Linear Dependent				
LPVTR(-1)	-0.481	0.079	-6.099	0.000
Linear Independent				
LFGA	-0.015	0.026	-0.565	0.576
LFDI	-0.904	0.477	-1.896	0.067
LCWI(-1)	-0.259	0.112	-2.324	0.027
LPTA(-1)	-0.694	0.187	-3.708	0.001
LCONIV(-1)	-0.007	0.020	-0.357	0.724
LINF(-1)	7.691	1.664	4.622	0.000
C	-10.850	2.750	-3.946	0.000

Source: Author Calculations (EViews 14)

The discovery aligns with the Unbalanced Growth Theory (Hirschman, 1958), which posits that sectoral imbalances hinder balanced growth, and the Dependency Theory (Prebisch, 1950; Dos Santos, 1970). The dependency theorists' argument—that persistent dependency on foreign aid provokes economic systems focused on the consumption of aid rather than endogenous development—holds as a thesis. The flow of aid has only maintained living standards in Palestine, but has not initiated the comprehensive economic

transformation necessary to reduce poverty in the long term. Unless a significant investment in productive sectors, such as industry, agriculture, and technology, is initiated, the aid can exacerbate economic weaknesses rather than alleviate them.

Foreign direct investment (LFDI) significantly contributes to poverty reduction (-0.904, p = 0.067), although at a marginal significance level. However, FDI effectiveness remains constrained by structural impediments, including political instability, limited access to markets and resources, legal ambiguity, and risks associated with military occupation (World Bank, 2022; UNCTAD, 2021). Such factors deter productive foreign investment and curb technology transfers and employment opportunities for Palestine.

This limited effect of FDI aligns with the Big Push Theory (Rosenstein-Rodan, 1943), which emphasizes that dispersed, small-scale investments are insufficient to spur economic transformation in underdeveloped economies. Foreign investment alone cannot significantly reduce poverty without a joint plan for attracting and focusing FDI on lucrative sectors such as manufacturing, ICT, and renewable energy. The Unbalanced Growth Theory and Big Push Theory emphasize the need for sector-driven, extensive intervention to utilize Foreign Direct Investment (FDI) for sustainable economic and social development.

Labor compensation received in Israel (LCWI) exerts a considerable anti-poverty effect (-0.259, p = 0.027), underpinning the central role Palestinian workers deployed in Israel have in the maintenance of household welfare. Empirical evidence has shown that the income received as a return for work in Israel represents a crucial economic lifeline for Palestinian households, ensuring minimal consumption and economic resilience in the face of domestic economic deprivation (Farsakh, 2005; Miaari & Sauer, 2011). The Palestinian Central Bureau of Statistics (PCBS, 2023) stated that income received by Palestinian workers working within Israel represented about 14% of Palestinian national income by the year 2022, underscoring the macroeconomics of such dependency.

Private transfers from abroad (LPTA) have a statistically significant contribution to poverty reduction of -0.694 (p-value of 0.001), confirming the role of remittances in countering economic hardship. The evidence concurs that remittances enhance the household's welfare, offer protection against poverty, and fund health and educational investments (Ratha, 2003; Ogujiuba & Eboreime, 2024). Local evidence also corroborates

this finding. The Palestine Monetary Authority (PMA, 2023) reports that private remittances contributed approximately 17% to Palestine's GDP in 2022 and were a significant driver of household consumption and resilience, particularly during economic recessions and conflicts. Households receiving remittances are likelier to enjoy improved health and education outcomes than non-remittance households, particularly within Gaza and the northern West Bank (Saad, 2023; PCBS, 2023).

However, the long-term contribution of remittances to development hinges on how they are utilized. Their development contribution will be limited if remittances primarily fund consumption instead of investment in productive sectors. Unbalanced Growth theories suggest that remittance-based economies, which lack investments of equal value in productive industries, are susceptible to chronic underdevelopment and structural imbalances (Murphy, Shleifer, & Vishny, 1989). Without channeling remittance flows into productive sectors, such as manufacturing or technology, the potential for remittances to initiate a growth process driven by a multiplier is sharply curtailed.

Conflict intensity (LCONIV) is not a significant determinant of poverty in the long run (-0.007, $p = 0.724$), unlike other economies with conflicts where long-run instability is a cause of increased poverty (Justino, 2012; Collier & Hoeffler, 2004). The fact that there is no significant long-term impact implies that while conflicts are a source of interruption in economic activity in the short term, macroeconomic and labor market forces drive Palestine's long-term trends in poverty, rather than the direct effects of conflicts. The Unbalanced Growth Theory posits that resilience in economies with conflicts hinges on the establishment of shock-resistant sectors that play a pivotal role in development, rather than relying solely on external financial inflows without direct attention to addressing fundamental vulnerabilities (Hirschman, 1958; Aghion & Howitt, 1998).

Inflation (LINF) is the most substantial and significant determinant, with a high and significant positive coefficient (7.691, $p < 0.01$). It reflects how growing inflation erodes purchasing power and real incomes, hurting low-income groups who spend a significant portion of their income on necessities (World Bank, 2011; Babajić et al., 2022). Inflationary pressure drives up the prices of necessities, increasing financial burdens on the poor and hindering efforts to alleviate poverty.

The constant is substantially negative (-10.850, $p < 0.01$), implying deep structural forces are driving ongoing poverty in Palestine, even in the presence of external financial inflows. It highlights the need for comprehensive economic reform through job creation policies, expanded financial access, and diversification to address the fundamental forces driving poverty. The Unbalanced Growth Theory supports the thesis that economic progress depends on targeted sectoral investments, rather than indiscriminate financial inflows without a corresponding stimulation of long-run expansion (Hirschman, 1958; Murphy, Shleifer, & Vishny, 1989).

The long-run implications highlight labor income and remittances from Israel as the most effective in alleviating poverty, while inflation remains a significant source of economic hardship. The ineffectiveness in alleviation in the presence of foreign aid validates fears about the ineffectiveness of utilizing aid, while unfavorable macroeconomic conditions hinder the potential of FDI. The observation that there is no significant relationship between war and poverty is a pointer that efforts to alleviate poverty require a greater concentration on long-run macroeconomic policies rather than war reduction. These implications emphasize the need for policies that promote productive investment in remittance, inflation-combating tools, and the development of lasting economic opportunities to maintain alleviation in the long run.

4.4.4 Error Correction and Short-Run Estimation Results for the Poverty Rate Function

The short-run estimation results presented in Table 4.15 provide critical insights into the dynamic relationships between poverty, external financial inflows, and macroeconomic conditions in Palestine. The error correction term (ECM(-1)) is highly significant (-0.481, $p < 0.01$), confirming the existence of a long-run equilibrium relationship between poverty and its determinants. The magnitude of the coefficient suggests that approximately 48.1% of deviations from the long-run poverty equilibrium are corrected each period, implying a relatively moderate speed of adjustment. This reflects the structural rigidities in the Palestinian economy, where poverty persists due to economic dependencies and an imbalanced sectoral development strategy. The moderate adjustment speed aligns with

findings in economies with unbalanced growth structures, where targeted sectoral investments are required to correct long-term imbalances (Hirschman, 1958; Lin, 2012).

In the short term, past poverty levels significantly influence current poverty trends, as indicated by the positive and significant coefficients of D(LPVTR(-1)) (0.360, $p < 0.01$) and D(LPVTR(-2)) (0.214, $p = 0.011$). However, the negative coefficient of D(LPVTR(-3)) (-0.222, $p = 0.003$) suggests a delayed adjustment effect, reinforcing the idea that poverty reduction requires sustained structural transformation rather than short-term interventions**.** The persistence of poverty reflects an economic model where growth is concentrated in specific sectors without a balanced expansion across all productive activities, a key feature of unbalanced growth theory (Hirschman, 1958; Rostow, 1960).

Table 4.15. Error-Correction Estimation Result for the Poverty Rate Function Using the ARDL (4,0,0,3,4,1,3) Model

Variable	Cointegrating Form Coefficient	Std.	t-Statistic	Prob.
Linear Dependent				
D(LPVTR(-1))	0.360	0.088	4.101	0.000
D(LPVTR(-2))	0.214	0.080	2.659	0.011
D(LPVTR(-3))	-0.222	0.069	-3.200	0.003
Linear Independent				
D(LCWI)	-0.193	0.071	-2.705	0.010
D(LCWI(-1))	0.209	0.095	2.203	0.034
D(LCWI(-2))	0.544	0.073	7.407	0.000
D(LPTA)	-0.219	0.069	-3.161	0.003
D(LPTA(-1))	0.436	0.088	4.943	0.000
D(LPTA(-2))	0.280	0.122	2.302	0.027
D(LPTA(-3))	0.294	0.081	3.644	0.001
D(LCONIV)	-0.035	0.011	-3.230	0.003
D(LINF)	4.888	1.604	3.047	0.004
D(LINF(-1))	-6.443	1.229	-5.242	0.000
D(LINF(-2))	-2.602	1.282	-2.030	0.049
DUM_PVRT	0.087	0.017	5.074	0.000
ECM(-1)	-0.481	0.063	-7.669	0.000

R-squared	0.742	Mean dependent var	0.004
Adjusted R-squared	0.643	S.D. dependent var	0.049
S.E. of regression	0.029	Akaike info criterion	-3.973
Sum squared resid	0.034	Schwarz criterion	-3.389
Log-likelihood	125.270	Hannan-Quinn criteria.	-3.748
F-statistic	7.493	Durbin-Watson stat	2.052
Prob(F-statistic)	0.000		

Source: Author Calculations (EViews 14)

Israeli workers' compensation from Israel (D(LCWI)) has a multifaceted role to play in short-run poverty dynamics. The adverse, significant initial effect (-0.193, $p = 0.010$) indicates that compensation earned by Palestinian workers in Israel contributes to short-run poverty alleviation by financing consumption expenditures and financial buffers in the face of economic vulnerability. Nevertheless, the significant, positive coefficients of D(LCWI(-1)) (0.209, $p = 0.034$) and D(LCWI(-2)) (0.544, $p < 0.01$) indicate that workers' compensation may reduce its initial alleviating poverty effect over time, perhaps revealing a reliance on international labor markets.

However, these results do not directly address the decline in the labor force share of compensation among workers in Israel. Such a pattern corresponds well with similar findings in larger economic contexts, where foreign labor earnings-dependent economies lead to labor market structure distortions and postponed structural change (Farsakh, 2005; Ratha, 2003). Such patterns are compatible with the unbalanced growth formulation, where employment in foreign labour markets may exceed employment generation in domestic labour markets and employment diversification (Lin, 2012; Ogujiuba & Ebereime, 2024). However, more work would be necessary to validate the direct impact of the labour force on the Palestinian context.

Private transfers from abroad (D(LPTA)) have differing short-run impacts. Its first-order negative and significant (-0.219, $p = 0.003$) confirms remittances are pivotal in alleviating short-run poverty. The positive and significant coefficients of D(LPTA(-1)) (0.436, $p < 0.01$), D(LPTA(-2)) (0.280, $p = 0.027$), and D(LPTA(-3)) (0.294, $p = 0.001$) further show remittances, in the longer run, contribute towards increased persistence in poverty, presumably resulting from lower labour market activities and inefficiency in investments. The pattern is typical in economies where remittances promote short-run consumption at the expense of productive sector growth (Chami et al., 2005; Ogujiuba & Eboreime, 2024). In unbalanced growth, an economy that is primarily dependent on remittance inflows without concurrent expansion in industries or agriculture remains vulnerable to poverty traps (Hirschman, 1958; McMillan et al., 2017).

Conflict intensity (D(LCONIV)) is revealed to have a significant and negative short-run effect on poverty (-0.035, $p = 0.003$), implying that greater instability in such times is associated with more significant economic distress and poverty. The fact that conflict

intensity is not significant in the longer run, based on results in Table 4.14, implies that macroeconomic and structural forces supplant direct effects on conflicts in driving trends in poverty. This finding is consistent with other research suggesting that conflicts can negatively impact short-term performance, but it is a function of how institutions and restructuring efforts mitigate them in the long run (Justino, 2012; Collier & Hoeffler, 2004).

In the Palestinian context, multiple studies have confirmed the strong relationship between conflict and poverty. For example, the United Nations Conference on Trade and Development (UNCTAD, 2021) reported that the Israeli occupation and ongoing military operations have entrenched poverty by distorting labor markets, restricting mobility, and systematically destroying productive infrastructure in the West Bank and Gaza. Similarly, data from the Palestinian Central Bureau of Statistics (PCBS, 2022) show that areas experiencing higher conflict intensity, particularly Gaza, consistently suffer from significantly higher poverty rates compared to relatively more stable regions. These local findings reinforce the broader argument that although macroeconomic reforms and institutional resilience can moderate the longer-term impacts, the persistent conflict environment remains a critical and direct factor influencing short-run poverty dynamics in Palestine.

From a perspective grounded in unbalanced growth, conflicts often exacerbate sectoral imbalances in investment in productive sectors and contribute to economic fragmentation, particularly in vulnerable economies (McMillan et al., 2017; UNCTAD, 2020).

Inflation (D(LINF)) is a significant determinant of poverty trends, with a positive coefficient of 4.888 ($p = 0.004$). The significant and negative lagged coefficients D(LINF(-1)) (-6.443, $p < 0.01$) and D(LINF(-2)) (-2.602, $p = 0.049$), however, signify that in the longer run, inflation pressure brings about corrective adjustment in the economy and partly negates their initial effects. It is a testament that inflation disproportionately affects low-income groups, reduces wages in absolute terms, and increases their susceptibility to falling into poverty (World Bank, 2011; Babajić et al., 2022). Inflation disrupts equilibrium in the sectors of the paradigm of unbalanced growth, leading to stagnation in sectors that would otherwise absorb labor and reduce poverty (Hirschman, 1958; Lin, 2012).

External shocks play a significant role in influencing poverty (DUM_PVRT = 0.087, $p < 0.01$), supporting the notion that global financial volatility, geopolitical tensions, and sudden reductions in aid are direct causes of rising poverty. It highlights the vulnerability of a finance-driven economy, rather than internally driven policies (Collier & Dollar, 2002; Keita, 2021). The finding supports the hypothesis that uneven growth in that economy, characterized by a high concentration in sectors and external dependence, makes it highly vulnerable to instability (Hirschman, 1958; McMillan et al., 2017).

The diagnostic tests confirm the adequacy of the ARDL model. The R-squared is high at 0.742, and the F-statistic ($p < 0.01$) confirms the general model significance. The Durbin-Watson statistic (2.05) suggests no significant presence of autocorrelation issues, ensuring the validity of the estimates.

In summary, Palestine's short-run poverty dynamics are underpinned by the hypothesis of unbalanced growth, where external inflows temporarily mitigate but do not address the deep-seated macroeconomic imbalances. Workers' compensation and payments made in remittance lower initial poverty but ultimately underlie labor market inefficiencies and consumption-driven dependencies. War and inflation cause near-run dislocations in the economy, while macroeconomic conditions and external financial inflows shape longer-run tendencies in poverty. Reducing Palestine's poverty accordingly involves targeted investments in sectors, a reduction in inflation, and a transition toward internally driven, sustainable macroeconomic expansion to address prevailing macroeconomic imbalances (Hirschman, 1958; Lin, 2012; McMillan et al., 2017).

The ARDL-based poverty rate function yields important findings regarding the relationship between poverty and external financial flows; however, this analysis did not incorporate robustness checks using alternative long-run estimators, such as FMOLS or DOLS. Given the critical importance of understanding poverty dynamics in fragile economies, future research could employ these methodologies to corroborate the long-run results and enhance the empirical robustness of poverty-related policy insights.

4.4.5 Diagnostic and Stability Testing for the Poverty Rate Function

The diagnostic tests for the poverty rate function confirm the efficiency and accuracy of the estimation model with the ARDL model. Heteroscedasticity tests yield a value of 0.905

with a p-value of 0.590. Since the p-value is more significant than 0.05, homoscedasticity cannot be rejected, indicating that the variance in the error terms is constant across observations. It confirms that the model is homoscedastic and that the coefficients are efficient, allowing them to be safely interpreted.

The serial correlation test generates a value of 0.203 with a p-value of 0.818. Because the p-value is well more than 0.05, no rejection of the null hypothesis of no serial correlation can occur, and residuals can be guaranteed not to be correlated over time. That residuals will not be correlated over time will mean that model estimates will not be biased, and inferences drawn from them will be statistically valid.

The test for normality, based on kurtosis, yields a value of 2.861 and a p-value of 0.863, proving that residuals follow a normal distribution. Residual normality is a key assumption in hypothesis testing and confidence interval estimation, and it helps to validate the model's statistics.

These diagnostic checks ensure that the ARDL model of the poverty rate function is well-specified and devoid of major econometric issues. The absence of heteroscedasticity, serial correlation, and non-normality ensures that the model's estimates are valid and can inform policy interventions aimed at poverty elimination in Palestine usefully.

Table 4.16. Diagnostic Test Results for the Poverty Rate Function

Test	Statistics	Probability	Decision
Heteroscedasticity	0.905	0.590	No heteroscedasticity
Serial correlation	0.203	0.818	No serial correlation
Normality (Kurtosis)	2.861	0.863	Residuals are normally distributed.

Source: Author Calculations (EViews 14)

4.4.6 Testing the Structural Stability of the Model for the Poverty Rate Function

The stability testing for the model of the poverty rate, as shown in Figure 4.3, examines whether the model's coefficients remain constant over the observation period. CUSUM and CUSUM of Squares tests can generally expose any structural break and model underestimation parameter instability.

The results validate that the cumulative sum of residuals remains in the critical region at the 5% level over the observation period. Thus, one can conclude that coefficients have no structural instability, which validates the model's robustness in explaining the relation between poverty and its explanatory factors over time.

Similarly, the CUSUM of Squares checks for stability in residual variance. The fact that the squared residuals lie within critical values indicates that the residual variance does not exhibit sharp changes, testifying to the constancy of model error variance over time. This demonstrates the validity of the derived relationships and prevents model degradation due to large-scale structural changes.

The stability of the ARDL estimation model enhances confidence in both the long-run and short-run estimates, suggesting that the model-implied relationships among poverty, financial inflows, inflation, and other macroeconomic variables are reliable. The estimates confirm the validity of policy inferences made from the model because they are based on a statistically reliable model.

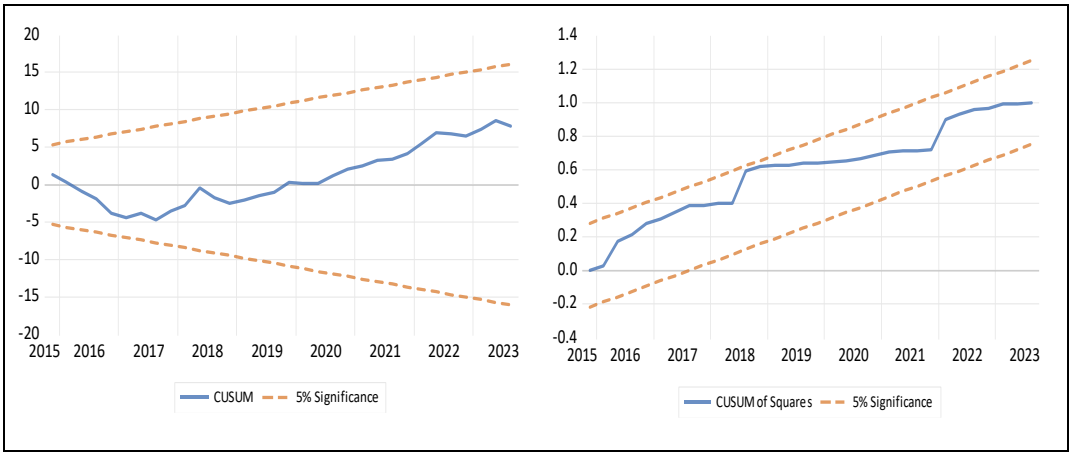


Figure 4.3. Stability of the Estimated Model for the Poverty Rate Function

Chapter Five: Discussion of Results and Recommendations

5. Introduction

This chapter provides a comprehensive explanation of the study's principal findings, relating them to the research questions, the theoretical framework, and previous writings. The chapter interprets the results from the empirical work, clarifies their policy and broader economic implications, and illustrates how they enhance knowledge about the Palestinian case. The chapter also provides pragmatic policy suggestions on how the better use of external finance flows can be achieved. It suggests avenues for future work to examine further the issues and potential gains identified in this study.

5.1 Discussion of Key Findings

5.1.1 Foreign Grants and Aid

Aid has been found to have statistically significant and positive effects on GDP per capita in both the short and long term, thereby revealing a stabilizing function in the Palestinian economy. According to Table 4.4, the long-run estimation reveals that the coefficient of lagged foreign aid (LFGA) is positive and statistically significant, reaffirming its contribution to growth in GDP per capita. Likewise, in the short-run dynamics in Table 4.5, we find some of the lagged changes in foreign aid having a significant effect, further affirming its supporting function for economic activity during volatile times. These findings suggest that aid has successfully maintained aggregate demand and cushioned macroeconomic shocks over time.

Furthermore, Tables 4.9 and 4.10 confirm that aid contributes to reducing unemployment both in the long and short term. Aid’s impact on unemployment reduction, reflected in the negative and statistically significant coefficients, implies that external financial support has been instrumental in preserving jobs, particularly in the public sector and donor-funded programs. This further validates the argument that aid has functioned as a stabilizing mechanism in the labor market, though primarily through consumption and wage channels.

However, as demonstrated by Tables 4.14 and 4.15, its poverty effect is statistically insignificant both in the short-run and long-run models. These findings suggest that although

foreign aid contributes to stability in the macroeconomy and helps keep people employed, it does not translate into observable poverty reduction.

This observation reveals a structural disparity in the Palestinian development framework, in which GDP and employment gains are not inclusive enough to elevate low-income families above the poverty threshold. This imbalance in economic growth and overall development results is in line with the unbalanced growth theory (Hirschman, 1958), which suggests that exogenous finance flows tend to favor particular sectors or aggregate indicators, and rarely trigger economy-wide structural change. In Palestine, aid has primarily been allocated to the administration, service delivery, and current expenditures, with minimal investment in productive areas (In'airat, 2009; Abu Ouda, 2015). Such an expenditure pattern, although it avoids budgetary collapse, hardly addresses the drivers of poverty or fosters sustainable livelihoods.

The results thus partially confirm the first hypothesis of the study, about both GDP growth and the reduction in unemployment, yet raise key issues with the inclusivity of this growth. Turner and Shweiki (2014) posit that Palestinian aid has helped to arrest economic collapse and facilitate the continuity of basic services. However, with persistent and rising poverty levels, evidence still suggests that aid has not yet delivered social mobility or structural resilience.

A large majority of the aid is allocated to operational expenditures, salaries, and basic services, with relatively little spent on capital formation or enterprise development, as noted by Badwan and Atta (2020). The structure of aid, despite being in a situation of occupation and conflict, undermines its potential for long-term development. Justino (2012) and Keita (2021) posit that inclusive and sustainable development demands a redistribution of aid towards infrastructure, manufacturing, and activating the private sector, sectors where the effects on employment and income are most potent.

Policy-wise, these findings re-emphasize the boundaries of growth through aid in the absence of institutional reform and deliberate targeting. Foreign aid has helped stabilize the Palestinian economy in both fiscal and labor market senses, yet it has failed to bring about meaningful structural change. Collier and Dollar (2002) insist that the developmental value of aid depends on the quality of governance, planning ability, and transparency—all of which

are still poor in Palestine as a consequence of administrative dualism and fragmentation in government.

In conclusion, exogenous restraints, including movement controls by Israel, customs obstructions, and conditionalities imposed by donors, further hinder the effectiveness of aid in driving structural progress (OECD, 2016; UNCTAD, 2020). Such institutional hindrances necessitate a shift in aid planning strategy, from short-term relief to long-term productivity, private sector investment, and resilience-led approaches, thereby enhancing consistency with national development ambitions.

5.1.2 Foreign Direct Investment (FDI)

The results indicate that FDI exhibits a dual and limited developmental role in the Palestinian economy. As shown in Tables 4.4 and 4.5, foreign direct investment has no statistically significant long-run effect on per capita GDP. Additionally, short-run effects appear inconsistent, with some estimated coefficients showing negative impacts. These patterns suggest that FDI does not generate sustained gains in income or productivity.

In comparison, the effects on employment are more dramatic. As Tables 4.9 and 4.10 document, FDI has a strong downward effect on unemployment in the long and short term. The implication of this is that foreign investment can temporarily absorb labor and relieve labor market pressures. However, the effect is likely underpinned by low-productivity, services-based investment rather than by growth-oriented, transformational investors.

Therefore, the second hypothesis — that FDI leads to economic development in Palestine —is partially supported. While the conclusions indicate a statistically significant decline in the unemployment rate, they do not establish an increase in GDP per capita or any direct impact on poverty. These are visible in Tables 4.14 and 4.15, which show that FDI has no statistically significant relation with decreasing poverty in both short-term and long-term perspectives. These are the consequences of persistent institutional and structural weaknesses in the Palestinian investment environment, specifically the movement and governance constraints imposed by the occupation, a lack of regulatory capacity, and decentralized governance (Shikaki, 2023). These hinder extensive, high-benefit investments, primarily in manufacturing, green technologies, and export activities, and redirect foreign capital into low-risk, low-benefit activities.

These trends are further corroborated by official data, which indicates that. By way of comparison, FDI in resident businesses amounts to a total of 56%, with the majority of it concentrated in the financial intermediation sector, reflecting minimal investment in productive sectors, such as manufacturing or infrastructure (PCBS & PMA, 2024). These trends are corroborated by research from Justino (2012) and Keita (2021), which suggests that capital inflows into conflict-affected areas are often superficial and do not yield long-term development benefits.

The type of FDI is also a critical factor. The bulk of incoming foreign capital is in the form of brownfield investment in finance, commerce, and basic services, which are low-developmental-spillover areas. Greenfield investment, which tends to establish new productive capacity, has more effective labor multipliers and the potential for greater technology transfer, but this is not prevalent. Such long-term investment is discouraged by weak legal safeguards, subpar infrastructure, and logistical difficulties.

This confirms Hirschman's theory of unbalanced growth, which emphasizes the importance of investing in sectors with strong backward and forward linkages. In Palestine, development is hindered due to externally imposed limitations and local fragmentation (Morrar et al., 2022; World Bank, 2017). Consequently, absorptive capacity for transformative FDI is low, and the developmental returns are marginal and uneven.

To reverse this dynamic, structural reforms are necessary to address political and regulatory risks, enhance coordination among investment authorities and line ministries, and strengthen investor protection mechanisms. Lacking these institutional advances, FDI will not extend beyond providing short-term jobs and contribute, at best, marginally to long-term development and poverty reduction.

5.1.3 Compensation of Workers in Israel

Labor compensation earned by Palestinian workers in Israel significantly increases long-run per capita GDP and contributes to poverty reduction. According to Table 4.4, labor compensation from Israel has a significant positive long-run effect on per capita GDP. Additionally, Tables 4.14 and 4.15 confirm that such income flows contribute to long-term poverty alleviation.

This finding is consistent with empirical evidence showing that labor income from Israel enables Palestinian households to maintain their consumption, meet essential needs, and improve their living standards despite economic instability and conflict (Farsakh, 2005; Eltalla, 2019). These welfare gains are particularly relevant in fragile settings where domestic employment opportunities are limited. Moreover, these outcomes align with remittance behavior theory, which views cross-border labor income as a household-level coping mechanism in contexts of systemic vulnerability, especially where institutions are weak and income sources are unpredictable (Chami et. al, 2005).

This outcome is consistent with the study's third hypothesis, which posits a link between labor income in Israel and economic betterment. With its persistent structural weaknesses, including poor private sector performance, underdeveloped manufacturing output, and long-term joblessness, as highlighted in UNCTAD (2023a), labor income in Israel is a significant source of income that enables households to withstand pecuniary issues. These compensations are essential to supplement the limited capacity of the Palestinian Authority to provide broad-based economic opportunities in a constrained fiscal and institutional environment.

Although the empirical analyses in the study establish that labor earnings from Israel are a positive contributor to household well-being and per capita GDP, they similarly imply an important structural issue. Based on Tables 4.9 and 4.10, the long-term dependence on foreign labor markets, particularly in Israel, can indirectly exacerbate domestic unemployment. Such an inference is based on the study's overall conceptual framework and corroborated by dual-sector growth models, in particular the Ranis and Fei framework.

Recent literature on the Palestinian labor market reiterates that extraterritorial employment lowers the incentives for job creation in the domestic sector by drawing labor away from local industries. The relatively better-paid jobs in Israel draw large numbers of the Palestinian labor force, often pushing workers away from local job opportunities.

According to the World Bank (2022), the average daily wage for Palestinians working in Israel was more than double that in the West Bank, which creates a labor market distortion that weakens domestic incentives for investment in productive sectors and job creation. This

dynamic contributes to structural dependency on external labor demand and hinders internal economic transformation.

This trend is also of concern, as posited by Chami et al. (2005), because dependency on foreign sources of income is likely to discourage work participation and entrepreneurship in the local market. In the Palestinian context, income from working in Israel is utilized for current consumption rather than for productive investment at home (Flassbeck et al., 2018). This, in effect, sustains a consumption-based growth with minimal long-term development effect (Habbas & Quzmar, 2022).

In terms of poverty, the long-run significance of labor income from Israel implies that these flows serve as a vital buffer for low-income households. Tables 4.14 and 4.15 confirm a statistically significant negative relationship between labor compensation and poverty rates in the long run only. This reflects the ability of such income to reduce material deprivation, support access to essential goods and services, and partially offset the weaknesses of domestic welfare systems. However, the fact that this effect stems from external labor, rather than endogenous job creation, highlights a critical vulnerability. Should access to the Israeli labor market be restricted, poverty levels could rise sharply in the absence of alternative income sources or social safety nets.

5.1.4 Private Sector Transfers from Abroad

Transfers from outside, primarily informal remittances and remittances from the diaspora, have a neutral impact on development. In the short term, these inflows are linked to low real GDP growth per capita (Tables 4.4 and 4.5) through an increase in household disposable income, which in turn leads to higher consumption, alongside a maintenance of low-level economic activity. Long-run coefficients from ARDL, however, are not significant, hence exert no permanent impact on GDP per capita.

Meanwhile, their impact on unemployment exhibits an asymmetric trend. Tables 4.10 indicate that private transfers' contemporaneous and lagged differenced coefficients are generally negative, i.e., transfers decrease unemployment in the short term. In contrast, Table 4.9 presents a positive long-run coefficient (0.199), i.e., transfers increase unemployment in the longer run—the reverse of what theories predict. A reasonable explanation is that remittances finance labour-intensive small business activities or alleviate liquidity shortages

initially. However, as inflows continue, they dilute incentives for job-seeking and formal employment, thereby increasing structural unemployment.

Regarding poverty, Tables 4.14 and 4.15 reveal a reverse time trend: private transfers initially deepen poverty in the short run (positive short-run coefficient) but ultimately reduce it in the long term (negative and significant long-term coefficient). A reasonable interpretation is one in which, in the short run, families consume a majority of the inflow. Still, in a longer perspective, they invest part of it in assets, education, or micro-enterprises, thereby enhancing their well-being. Most remittances in Palestine are consumed rather than being invested, thereby limiting their ability to make meaningful contributions to sustainable economic resilience (Saad, 2015; Hassouneh & Alrabadi, 2020). Lacking strong mechanisms for channeling such flows into productive areas, such as manufacturing, services, or finance, for small and medium-sized enterprises reduces their long-term developmental potential.

This detailed result partly validates Hypothesis 4. The ARDL model suggests a short-term increase in GDP, accompanied by a long-term decrease in poverty, while also acknowledging the failure to reduce unemployment levels or achieve consistent growth in per capita GDP. The positive relationship between remittances and greater unemployment probably captures a substitution effect: receipts from unearned income can decrease incentives for participating in the labour market or investing in productive processes. Consistent with Chami et al. (2005), remittance windfalls, in the absence of strong institutions, can erode labour effort in weak economies.

In general, the results confirm remittance-behaviour theory and Hirschman's unbalanced-growth theory. Inflows contribute to smoothing short-term welfare, but, absent policy intervention mechanisms, serve only to reinforce consumerist industries instead of establishing the structural linkages required for widespread development. Remittance-behaviour theory observes that, in most low-income economies, remittance inflows are primarily spent on current consumption rather than saving or investment (Chami et al., 2005; Ratha, 2003).

Similarly, the unbalanced-growth theory (Hirschman, 1958) posits that in the absence of institutional planning and explicit investment, external resources tend to expand low-productivity enclaves rather than induce structural change. In line with these theories, several

analyses (Chami et al., 2005; Ratha, 2003; Ogujiuba & Eboreime, 2024) have found that remittances are unable to bring about structural change, even as they can stabilize aggregate demand, unless accompanied by more robust institutions, investment infrastructure, and financial literacy initiatives.

5.1.5 Conflict Intensity

Conflict intensity proved to be significant in affecting the long-term efficacy of external financial flows, specifically through its statistically substantial adverse effect on per capita GDP. This is evidenced through the ARDL long-run estimates in Table 4.4. The short-run impact of conflict, however, is statistically insignificant, evidenced by the error-correction model results in Table 4.5. The findings partly validate the study's fifth hypothesis that foreign funding is limited by political instability because the latter impacts economic growth, but has no significant effect on unemployment and poverty rates.

As revealed through Tables 4.9 and 4.10, the intensity of conflict has no statistically significant impact on unemployment in the short or long term. One possible reason is the dual character of the Palestinian labor market. A substantial segment of workers is employed in Israel with permit regimes, thereby insulating the domestic labor market from the immediate impacts of conflict. Another factor is the employment programs of the Palestinian Authority, as well as donor-financed humanitarian programs, particularly in the West Bank, which have previously absorbed labor and mitigated the immediate labor market impacts of political instability. Such institutional interventions reduce the elasticity of unemployment in response to shocks associated with conflict.

Concerning poverty, the intensity of conflict has no statistically significant long-term effect, as indicated in Table 4.14. However, it has a statistically significant and adverse short-term impact, as shown in Table 4.15. The result is counterintuitive and could be explained by short-term mitigation effects of emergency relief and humanitarian intervention during the periods of intense conflict, as opposed to long-term gains in structural living standards. The trend in long-term poverty remains unchanged due to underlying structural constraints, such as low levels of economic opportunity and inadequate social protection systems.

On the whole, the long-term effects of war are primarily realized through their impact on production levels and institutional weakening, rather than through immediate effects on

the labor market or household well-being indicators. The decline in GDP per capita is a reflection of how longer-term instability erodes productive capability, discourages private investment, and hampers the practical application of external resources. Even in times of lower levels of violence, the specter of possible subsequent escalation creates uncertainty that deters long-term planning and investment.

These patterns are consistent with Hirschman's (1958) theory of unbalanced growth, which emphasizes the role of catalytic sectors and the coherence of institutions in channeling external resources into development. In war-torn Palestine, these mechanisms are heavily restricted, reducing the marginal productivity of aid and investment. The findings are also consistent with the general literature on conflict and development (Justino, 2012; Collier & Hoeffler, 2004), which views war as impairing the institution's capacity, thus weakening the impact of financial flows on development.

To conclude, hypothesis five is supported only in part: intensity of conflict is negatively affecting long-run GDP per capita, but has no statistically significant effect on unemployment or long-run poverty. This is taken as evidence that the impact of conflict is structurally filtered, affecting growth and institutional quality primarily, but not directly influencing labor market performance or household well-being.

5.2 Policy Recommendations

The study highlights the need for a reorientation of how Palestinian external financial flows are managed and utilized. Grounded in evidence and the politico-economic realities, the policy options below are formulated as realistic and actionable under occupation, mobility controls, and institutional fragmentation:

- **Reallocate Aid to Productive and Resilient Sectors**

To maximize returns on development, funding should be allocated to areas with strong employment multipliers and resilience to both logistical and political disruptions. These are small-scale industrialization, clean energy, local infrastructure, and service delivery in low-penetration areas. Decentralized initiatives, such as solar mini-grids, local health services, and rural transportation systems, can create sustainable jobs and operate independently of centralized systems that are susceptible to Israeli blockade. A preference should be given to labor-intensive projects that hire unemployed youth, women, and informal sector workers,

particularly in regions experiencing armed conflicts. Donor-funded projects require performance-based disbursement mechanisms that are independently verified to be compatible with quantifiable results. Institutional strengthening is necessary for aid to become transformative. It includes enhancing ministry coordination, eliminating political fragmentation, and promoting local governments' capacity to design, implement, and monitor development projects. In the absence of structural and governance reforms, the long-term effectiveness of aid will be limited, especially in reducing poverty and institutional fragility.

- **Channel FDI into Feasible Value-Added Sectors**

As shown above, FDI exerts a statistically significant short-run effect, although not a long-run effect, on per capita GDP and poverty. This indicates short-run labor absorption with limited transformation value. FDI promotion agencies need to prioritize attracting high-quality Foreign Direct Investment (FDI) into sectors such as Information and Communication Technology (ICT), agritech, and renewable energy. Creating secure areas for investment in accessible venues (i.e., Area A), streamlining regulatory procedures, and providing legal assurances are essential in lessening investor risk and achieving maximum developmental impact.

- **Transform Remittances into Long-Term Capital**

Private diaspora and remittances need to be redirected away from short-term consumption support and into long-term development impact. In the case of the West Bank and Gaza, where the tendency is for remittances to be directed into immediate expenditure, policy design needs to target channeling flows into productive and job-generating streams. This encompasses the establishment of bespoke financial instruments, such as diasporic bonds, matched savings accounts, and micro-equity finance, targeting small and medium-sized enterprises (SMEs), particularly in areas of the economy that are weaker. Improvements in financial literacy, along with encouraging collaboration with local financial institutions, can enhance households' capacity to convert remittance flows into sustainable economic assets.

Nonetheless, there is evidence that remittances do not have any significant long-term impact on GDP per capita and are linked with long-term rising unemployment. They have adverse short-run effects on poverty, but statistically significant long-run effects that are positive, implying persistent but significant gains in welfare. This contradicts traditional assumptions

and highlights the need for institutional mechanisms that mitigate the unintended labor market impacts while enhancing the poverty-fighting capacity of long-term remittances.

Microfinance and development banking can be instrumental in ensuring that households receiving remittance flows gain access to credit, entrepreneurial support services, and savings and investment planning. Cooperative frameworks—by pooling diaspora resources to invest in community initiatives such as schools, health centers, and renewable energy projects—can help foster more inclusive, spatially centered growth.

However, without structural reforms aimed at addressing movement constraints, regulatory uncertainties, and disjointed governance, even the most creative tools will prove inadequate. Israeli-imposed restrictions, inconsistent enforcement of property and business rights, and lack of integrated development planning remain discouraging for long-term investment. For private transfers to drive development, they must operate within a stable and transparent institutional framework that links financial innovation with broader political and regulatory changes.

- **Leverage Informal Private Transfers through Innovation**

Incorporate informal flows into formal development planning using fintech solutions. Fintech products, including digital investment platforms, mobile finance, and diaspora co-investing platforms, will facilitate the flow of resources towards underserved regions. Donor guarantees and tax incentives will stimulate participation.

- **Integrate Conflict Sensitivity into Economic Planning**

As shown in Table 4.5, the intensity of conflict lowers per capita GDP in the long term, though not directly on long-term unemployment or poverty. Conflict-resilient sector planning, including in agriculture, decentralized education, and digital services, should take precedence. Continuity during shocks can be assured through local services models and mobile infrastructure. Regulated cross-country labor agreements should also be extended to cushion local employment fragility.

- **Reallocate External Resources Toward Institutional and Structural Resilience**

The evidence suggests that a simple expansion of aid volume or FDI is insufficient to initiate long-term development in a conflict environment, including in the Palestinian context. External finance streams should be redirected to reinforce institutionally resilient capacity,

upgrade critical infrastructure, and address longer-term development strategies. These investments focus on institutional reform, judicial and regulatory strengthening, decentralization of services, and economic sector development in the event of a peace breakdown. Such a course of action is calculated to maximize the developmental dividend of aid and FDI by enhancing the absorptive capacity of institutions and avoiding the distortions created by years of insecurity and governance fragmentation.

- **Strengthen Institutional Capacity for Absorption and Reform**

Institutional reform is crucial for ensuring that aid and investment lead to sustainable development. This involves building the technical capacity of public institutions, reinforcing transparency, enforcing anti-corruption frameworks, and improving inter-agency coordination. In contexts where central authority is weak, delegating implementation to local governments or independent agencies can enhance accountability and delivery efficiency.

5.3 Suggestions for Future Research

- Sectoral Impact Analysis: Future studies should analyze the differential effect of funding by sector (e.g., health, education, agriculture).
- Institutional Effectiveness: Examine how the institutional quality modifies the impact of remittance, FDI, and aid on growth
- Political Economy of Aid: Analyze donors' motives, conditionalities, and uneven power in providing aid.
- Comparative Analysis: To establish cross-country differences in the effectiveness of aid, compare Palestine with other economies affected by war.
- Dynamic Interaction Modeling: Use dynamic econometric models in the form of Vector Autoregression (VAR) or Vector Error Correction Models (VECM) in order to describe the interdependencies and long-run feedback mechanisms between the external financial flows and the macroeconomic indicators.
- Geographic and Regional Disaggregation: Perform spatially disaggregated analysis between the West Bank and Gaza to determine area-specific effects of international funding and intensity of conflict on development.

References

Abdel-Fattah, S., & Others. (2001). *Foreign aid and development in the Arab world: A vision from an Arab-Islamic perspective*. Amman: The Higher Center for Political Studies.

Abdelhadi, S., Bashayreh, A., & Alomari, M. W. (2022). The effect of fragility on foreign direct investment deterioration: The case of MENA countries. *Journal of Sustainable Finance & Investment, 12*(4), 1232–1240. https://doi.org/10.1080/20430795.2020.1857636

Abdelkarim, N. (2021). *The role of the state, investment reality, and development challenges in Palestine*. Arab NGO Network for Development. Retrieved from https://annd.org/ar

Abdelkarim, N. (2024). *The effects of the war on the Palestinian economy with emphasis on Gaza's economy*. Policy Papers. Institute for Palestine Studies. https://www.palestine-studies.org/en/node/1655265

Abdih, Y., Chami, R., Dagher, J., & Montiel, P. (2012). Remittances and institutions: Are remittances a curse? *World Development, 40*(4), 657–666. https://doi.org/10.1016/j.worlddev.2011.09.014

Abdulaziz, S. M. (1998). *Al-madakhel al-haditha fi tamweel al-tanmiyah [Modern approaches in development financing]*. Dar Al-Nahda Al-Arabiya.

Abebe, G., McMillan, M. S., & Serafinelli, M. (2020). Foreign direct investment and knowledge diffusion in poor locations: Evidence from Ethiopia. *National Bureau of Economic Research*. https://doi.org/10.3386/w24461

Abu Ajwa, N. (2011). *Effect of international aid in achieving economic development in the Palestinian territories* [Master's thesis, Islamic University]. Gaza, Palestine.

Abu Jamie, A., & Abu Jamie, N. (2017). Analytical study of the impact of European aid and loans on the Palestinian economy. *Jordan Journal of Economic Sciences, 4*(1), 35–55.

Abu Ouda, O. (2015). The impact of external grants and aids on the Palestinian macroeconomic indices: An econometric study of the period (1994–2013). *Arab Journal of Administrative Sciences, 22*(2), 165–198. https://doi.org/10.34120/ajas.v22i2.913

Abu-Eideh, O. M. (2014). Impact of foreign direct investment on economic growth in Palestine: An econometric study of the period (1994–2013). *European Journal of Business and Management, 6*(21), 61–68. https://core.ac.uk/download/pdf/234625675.pdf

Abu-Salmia, N. M. M. (2018). *The impact of workers' remittances on the performance of the Palestinian economy for the period 1996–2016* (Master's thesis, Islamic University, Gaza). Retrieved from https://search.mandumah.com/Record/1014579

Acemoglu, D., & Robinson, J. A. (2013). Why nations fail: The origins of power, prosperity, and poverty. Crown Business.

Adams, R., & Cuecuecha, A. (2010). Remittances, household expenditure and investment in Guatemala. *World Development, 38*(11), 1626–1641. https://econpapers.repec.org/RePEc:eee:wdevel:v:38:y:2010:i:11:p:1626-1641

Adams, R. H., Jr., & Cuecuecha, A. (2013). The impact of remittances on investment and poverty in Ghana. *World Development, 50*, 24–40. https://doi.org/10.1016/j.worlddev.2013.04.009

Addison, T., Le Billon, P., & Murshed, S. M. (2002). Conflict in Africa: The cost of peaceful behaviour. Jornal of African Economies, 11(3), 365–386. https://doi.org/10.1093/jae/11.3.365

Adelman, I. (2000). Fifty years of economic development: What have we learned? In *Annual Bank Conference on Development Economics in Europe Proceedings: 1999–2000; Conference governance, equity and global markets; Conference development thinking at the millennium* (pp. 105–137). Documentation Française. https://api.semanticscholar.org/CorpusID:14655053

Adnan, W., & Etkes, H. (2021). *The reform of the permit regime for Palestinian workers in Israel: A preliminary evaluation*. Institute for National Security Studies. Retrieved from https://www.inss.org.il/wp-content/uploads/2021/11/no.-1533.pdf

Adusei, E. (2020). *The impact of foreign aid on economic growth in Sub-Sahara Africa: The mediating role of institutions*. MPRA Paper No. 104561. Retrieved from https://mpra.ub.uni-muenchen.de/104561/

Ahmed, H., Hamada, K., Abdulrahman, N., Al-Mutawalli, N., & Abdulaziz, H. (2023). The role of external financing in funding the process of sustainable development in Egypt. *Journal of Strategic, Political and Economic Studies*. Arab Democratic Center, Cairo.

Ajami, M. (2011). *Economic aid as a tool of Kuwaiti foreign policy (1980–2010)* (Published master's thesis). Middle East University, Kuwait.

Ajamiya, M. A., Nasif, I. A., & Naga, A. A. W. (2007). *Economic development between theory and practice: Theories, strategies, financing*. Alexandria, Egypt: Al-Dar Al-Jami'ya.

Ajamieh, Y., Bassanetti, A., Laursen, T., & Qass, H. (2023). *West Bank and Gaza: Selected issues*. International Monetary Fund.

Agenor, P.-R. (2002). *Macroeconomic adjustment and the poor: Analytical issues and cross-country evidence* (Policy Research Working Paper No. 2788). The World Bank. https://ideas.repec.org/p/wbk/wbrwps/2788.html

Aghion, P., & Howitt, P. (1992). A model of growth through creative destruction. *Econometrica, 60*(2), 323–351. https://doi.org/10.2307/2951599

Aghion, P., & Howitt, P. (1998). *Endogenous growth theory*. MIT Press. https://mitpress.mit.edu/books/endogenous-growth-theory

Akyüz, Y., & Cornford, A. (1999). *Capital flows to developing countries and the reform of the international financial system* (UNCTAD Discussion Paper No. 143). United Nations Conference on Trade and Development.

Alemu, A., Aye Mengistu, & Lee, J.-S. (2015). Foreign aid on economic growth in Africa: A comparison of low and middle-income countries. *South African Journal of Economic and Management Sciences, 18*(4), 449–462. https://dx.doi.org/10.17159/2222-3436/2015/V18N4A1

Alfaro, L. (2003). *Foreign direct investment and growth: Does the sector matter?* Harvard Business School Working Paper No. 03-118.

Alfaro, L., Kalemli-Ozcan, S., & Volosovych, V. (2008). Why doesn't capital flow from rich to poor countries? An empirical investigation. *The Review of Economics and Statistics, 90*(2), 347–378. https://doi.org/10.1162/rest.90.2.347

Ali, H. E. (2012). Estimate of the economic cost of armed conflict: A case study from Darfur. *Defence and Peace Economics, 24*(6), 503–519. https://doi.org/10.1080/10242694.2012.723154

Ali, M., & Ashry, A. (2018). Worker remittances and their impact on monetary policy: The case of Egypt. *The Scientific Journal of Economics and Commerce, 48*(2), 177–221. https://doi.org/10.21608/jsec.2018.39069

Aliemat, K. A. N. (2015). *The impact of corruption on economic development: A case study of Jordan* (Doctoral dissertation). University of Algiers, Faculty of Economic, Commercial, and Management Sciences.

Al-Thalabi, S. H. Z., & Al-Thalabi, S. J. F. (2015). The impact of foreign direct investment on economic growth in the State of Qatar during the period (1989–2013). *Cooperation Journal, 29*(88), 95–142. http://search.mandumah.com.ezproxy.aaup.edu/Record/714022

AMAN. (2020). *A study on the reality of foreign grants and aid to the public budget (2010–2019)* (Report No. 164). Retrieved from https://www.aman-palestine.org/cached_uploads/download/2020/12/23/grants-and-aid-web-1-1608731060.pdf

Amsden, A. H. (1989). *Asia's next giant: South Korea and late industrialization*. Oxford University Press.

Al-Badrawi, A. M., & Al-Azzawi, F. J. M. (1991). *Development and regional planning*. Dar Al-Kutub Printing and Publishing, University of Mosul.

Al-Deeb, K. (2022). *International finance*. King Abdulaziz University, Faculty of Economics and Administration.

Al-Fahdawi, K., & Al-Sheikh Radi, M. (2000). *Economic development*. Baghdad, Iraq.

Al-Haq. (2013, September 3). *Israel's unlawful exploitation of natural resources in the occupied Palestinian territory*. Retrieved from https://www.alhaq.org/publications/6836.html

Al-Momani, A. W. H., & Al-Ghazo, A. M. (2022). *The impact of workers' remittances on financial development in Jordan 2000–2020* (Master's thesis). Al al-Bayt University, Mafraq. https://search.mandumah.com.ezproxy.aaup.edu/Search/Results?lookfor=

Al-Muhammadi, N., & Ta'ma, S. (2011). The use of seasonal time series models to forecast energy consumption in the city of Fallujah. *Anbar University Journal of Economic and Administrative Sciences, 4*(7).

Al-Wawi, A. R. (2022). The impact of international external financing on poverty rates in Palestine: An econometric study for the period (1994–2019). *Revue Roaa Iqtisadia, 12*(01), 96–120. University of El Oued, Algeria.

Al-Zaytouna Center for Studies and Consultations. (2007). *The Palestinian strategic report*. Beirut.

Al-Zein, I. (2013). *Foreign direct investment in the Palestinian territories and its impact on economic development during the period (1995–2010)* [Unpublished master's thesis]. Islamic University, Gaza.

Amnesty International. (2022). *Israel's apartheid against Palestinians: Barrier and settlement policies*. Retrieved from https://www.amnesty.org

Amodio, F., Baccini, L., & Di Maio, M. (2018). *How conflict disrupts the economy: New evidence from the West Bank and Gaza*. Retrieved from https://cepr.org/voxeu/columns/how-conflict-disrupts-economy-new-evidence-west-bank-and-gaza

Arafeh, N. (2018). *How the Oslo Accords stunted Palestinian economic growth*. Institute for Palestine Studies. https://www.palestine-studies.org

Arcand, J.-L., & Chauvet, L. (2001). *Foreign aid, rent-seeking behavior, and civil war*. Paper presented at Understanding Poverty and Growth in Sub-Saharan Africa, Oxford.

Areskoug, K. (1969). *External public borrowing: Its role in economic development*. New York, NY: Praeger.

Arikat, H. M. M. (1997). *Introduction to development and economic planning* (2nd ed., pp. 56–57). Dar Al-Karmel.

Arnon, A. (2007). Israeli policy towards the occupied Palestinian territories: The economic dimension 1967–2007. *The Middle East Journal, 61*(4), 573–595. https://doi.org/10.3751/61.4.11

Arnon, A., & Weinblatt, J. (2001). Sovereignty and economic development: The case of Israel and Palestine. *Economic Journal, 111*(472), 291–308. https://doi.org/10.1111/1468-0297.00644

Arnon, A., Luski, I., Spivak, A., & Weinblatt, J. (1997). *The Palestinian economy: Between imposed integration and voluntary separation*. Leiden, Netherlands: Brill. https://merip.org/1999/03/the-palestinian-economy-between-imposed-integration-and-voluntary-separation/

Arrow, K. (Ed.). (1988). *The balance between industry and agriculture in economic development*. Palgrave Macmillan. https://doi.org/10.1007/978-1-349-10271-6

Asiedu, E. (2002). On the determinants of foreign direct investment to developing countries: Is Africa different? *World Development, 30*(1), 107–119.

Asiedu, E. (2006). Foreign direct investment in Africa: The role of natural resources, market size, government policy, institutions, and political instability. *World Economy*, *29*(1), 63–77. https://doi.org/10.1111/j.1467-9701.2006.00758.x

Atiyah, A. A. (2000). *Modern trends in development*. University Publishing House, Alexandria, pp. 13–52.

Attar, A. (2005). *Economic and human development* (1st ed.). Arab Science Publishers.

Ayyash, M., Siok Kun, S., & Sadeq, T. (2020). Income and consumption inequalities in Palestine: A regression-based decomposition approach. *Statistika: Statistics and Economy Journal*, *100*(1), 70–86.

Azam, J.-P. (1995). How to pay for the peace? A theoretical framework with references to African countries. *Public Choice*, *83*(1/2), 173–184.

Babajić, A., Suljić, M., & Halilbegović, S. (2022). Economic growth, economic development, and poverty: A bibliometric analysis. *Journal of Economic and Social Studies*, *8*. https://doi.org/10.14706/JECOSS21814

Bacha, E. L. (1990). A three-gap model of foreign transfers and the GDP growth rate in developing countries. *Journal of Development Economics*, *32*(2), 279–296. https://doi.org/10.1016/0304-3878(90)90039-E

Badwan, N. (2021). The relationship of economic growth and foreign direct investment on financial development: Empirical evidence from Palestine. *Asian Journal of Economics, Business and Accounting*, *21*(20), 14–35. https://journalajeba.com/index.php/AJEBA/article/view/621

Badwan, N., & Atta, M. (2020). The impact of international capital flows on economic growth in Palestine. *British Journal of Economics, Management & Trade*, *26*(1), 23–37. https://doi.org/10.9734/JEMT/2020/v26i1130307

Baldwin, J. (1966). A report from occupied territory. *The Nation*, *203*(6), 76–84. https://www.thenation.com/article/culture/report-occupied-territory/

Baldwin, R. E. (2021). *Economic development and export growth: A study of Northern Rhodesia, 1920–1960*. University of California Press. https://books.google.ps/books?id=rq_oDwAAQBAJ

Bakri, K. (1988). *Economic development*. University Youth Foundation, Alexandria, Egypt, pp. 71–74.

Banerjee, A., Dolado, J. J., Galbraith, J. W., & Hendry, D. F. (1993). *Co-integration, error correction, and the econometric analysis of non-stationary data*. Oxford University Press.

Bani Fadl, I. (2009). *The role of the European Union in political development towards the Palestinians* (Unpublished master's thesis, An-Najah National University, Nablus).

Barajas, A., Chami, R., Fullenkamp, C., Gapen, M., & Montiel, P. (2009). Do workers' remittances promote economic growth? *IMF Working Papers*, *09*. https://doi.org/10.5089/9781451873009.001

Barro, R. J. (1991). Economic growth in a cross section of countries. *The Quarterly Journal of Economics, 106*(2), 407–443. https://doi.org/10.2307/2937943

Batu, M. (2019). Can remittances buy peace? *Economics of Transition and Institutional Change, 27*(4), 891–913. https://doi.org/10.1111/ecot.12219

Baum, C. F., Schaffer, M. E., & Stillman, S. (2003). Instrumental variables and GMM: Estimation and testing. *Stata Journal, 3*(1), 1–31. https://doi.org/10.1177/1536867X0300300101

Beyene, H. G. (2015). Are African diasporas development partners, peace-makers or spoilers? The case of Ethiopia, Kenya, and Nigeria. *Diaspora Studies, 8*(2), 145–161. https://doi.org/10.1080/09739572.2015.1029714

Blomström, M., & Kokko, A. (1998). Multinational corporations and spillovers. *Journal of Economic Surveys, 12*(3), 247–277. https://doi.org/10.1111/1467-6419.00056

Blomström, M., & Kokko, A. (2003). *Human capital and inward FDI* (CEPR Discussion Paper No. 3762). Centre for Economic Policy Research. https://cepr.org/publications/dp3762

Borensztein, E., De Gregorio, J., & Lee, J.-W. (1998). How does foreign direct investment affect economic growth? *Journal of International Economics, 45*(1), 115–135. https://doi.org/10.1016/S0022-1996(97)00033-0

Bose, I. (2023). *Growth, poverty trap and escape*. Retrieved from https://arxiv.org/pdf/2310.09098

Boudeville, J. R. (1966). *Problems of regional economic planning*. Edinburgh University Press.

Bourahli, A. (2020). The impact of international finance on economic development in light of declining local resources: An empirical study of Algeria compared to Egypt and Tunisia during the period (1990–2017). *Economic Studies, 20*(1), 150–168. https://www.asjp.cerist.dz/en/article/120497

Brautigam, D. A., & Knack, S. (2004). Foreign aid, institutions, and governance in Sub-Saharan Africa. *Economic Development and Cultural Change, 52*(2), 255–285. https://doi.org/10.1086/380592

Brealey, R. A., Myers, S. C., & Allen, F. (2020). *Principles of corporate finance* (13th ed.). McGraw-Hill Education.

Brown, R. L., Durbin, J., & Evans, J. M. (1975). Techniques for testing the constancy of regression relationships over time. *Journal of the Royal Statistical Society: Series B (Methodological), 37*(2), 149–163. https://doi.org/10.1111/j.2517-6161.1975.tb01532.x

Brynen, R. (2000). A very political economy: Peacebuilding and foreign aid in the West Bank and Gaza. *Digest of Middle East Studies, 9*, 108–110. https://doi.org/10.1111/j.1949-3606.2000.tb01098.x

Bukhari, A. A. (2017). *Economic development and planning: Theories of growth and economic development* (Vol. 3, pp. 34–35). Retrieved from www.faculty.mu.du.sa

Burnside, C., & Dollar, D. (2000). Aid, policies, and growth. *American Economic Review, 90*(4), 847–868.

Busse, M., & Hefeker, C. (2007). Political risk, institutions, and foreign direct investment. *European Journal of Political Economy*, *23*(2), 397–415.

Bussmann, M. (2010). Foreign direct investment and militarized international conflict. *Journal of Peace Research, 47*(2), 143–153. https://doi.org/10.1177/0022343309356482

Byman, D. (2018). The Oslo Accords at 25, the Second Intifada at 18. *Brookings Institution.* https://www.brookings.edu/articles/the-oslo-accords-at-25-the-second-intifada-at-18/

B'Tselem. (2012, October). *Arrested development: The long-term impact of Israel's separation barrier in the West Bank.* https://www.btselem.org

B'Tselem. (2017). *The separation barrier: Impacts on agriculture.* The Israeli Information Center for Human Rights in the Occupied Territories. Retrieved from https://www.btselem.org

B'Tselem. (2019). *Land expropriation and settlements.* The Israeli Information Center for Human Rights in the Occupied Territories. Retrieved from https://www.btselem.org

Calderón, C., & Servén, L. (2010). Infrastructure and economic development in Sub-Saharan Africa. *Journal of African Economies, 19*(suppl_1), i13–i87. https://doi.org/10.1093/jae/ejp022

Calero, C., Bedi, A. S., & Sparrow, R. (2009). Remittances, liquidity constraints and human capital investments in Ecuador. *World Development*, *37*(6), 1143–1154.

Cali, M., Nasser Eddin, N., & Niksic, O. (2013). *Area C and the future of the Palestinian economy.* World Bank Group. http://documents.worldbank.org/curated/en/257131468140639464/Area-C-and-the-future-of-the-Palestinian-economy

Cardoso, F. H., & Faletto, E. (1979). *Dependency and development in Latin America.* University of California Press.

Chea, V. (2023). Effects of remittances on household poverty and inequality in Cambodia. *Journal of the Asia Pacific Economy*, *28*(2), 502–526.

Coccia, M. (2019). Theories of development. In A. Farazmand (Ed.), *Global encyclopedia of public administration, public policy, and governance.* Springer, Cham. https://doi.org/10.1007/978-3-319-31816-5_939-1

Chami, R., Fullenkamp, C., & Jahjah, S. (2003). *Are immigrant remittance flows a source of capital for development?* (IMF Working Paper No. WP/03/189). International Monetary Fund, IMF Institute. https://doi.org/10.5089/9781451859552.001

Chami, R., Fullenkamp, C., & Jahjah, S. (2005). Are immigrant remittance flows a source of capital for development? *IMF Staff Papers, 52*(1), 55–81. https://www.imf.org/external/pubs/ft/wp/2003/wp03189.pdf

Chang, H.-J. (2003). *Globalisation, economic development and the role of the state*. Third World Network and Zed Books.

Chenery, H. B. (1961). Comparative advantage and development policy. *American Economic Review, 51*(1), 18–51. https://www.jstor.org/stable/1818257

Chenery, H. B., & Bruno, M. (1962). Development alternatives in an open economy: The case of Israel. *Economic Journal, 72*, 97–103.

Chenery, M., & Strout, M. (1966). Foreign assistance and economic development. *American Economic Review, 56*(4), 679–733.

Chenery, H. B., & Taylor, L. (1968). Development patterns among countries and over time. *Review of Economics and Statistics, 50*(4), 391–416. https://doi.org/10.2307/1926806

Chenery, H. (1979). *Structural change and development policy*. Published for the World Bank by Oxford University Press.

Chenery, H., & Srinivasan, T. N. (Eds.). (1988). *Handbook of development economics* (1st ed.). Elsevier.

Collier, P., & Dollar, D. (2002). Aid allocation and poverty reduction. *European Economic Review, 46*(8), 1475–1500. https://doi.org/10.1016/S0014-2921(01)00187-8

Collier, P., & Hoeffler, A. (2002). Aid, policy, and peace: Reducing the risks of civil conflict. *Defence and Peace Economics, 13*(6), 435–450. https://doi.org/10.1080/10242690214335

Collier, P., & Hoeffler, A. (2004). Greed and grievance in civil war. *Oxford Economic Papers, 56*(4), 563–595. https://doi.org/10.1093/oep/gpf064

Cornia, G. A. (2020). External financing, gap models of growth, and the macroeconomics of relying on foreign resources. In *The macroeconomics of developing countries: An intermediate textbook* (online ed.). Oxford Academic. https://doi.org/10.1093/oso/9780198856672.003.0010

Cypher, J. M., & Dietz, J. L. (2014). *The process of economic development*. Routledge.

Dahmani, A., & Nasour, A. Q. (2013, March 1). An econometric study of the determinants of private investment in Algeria using the autoregressive distributed lag (ARDL) model. *Proceedings of the International Conference, Faculty of Economic, Commercial and Management Sciences, Setif University.*

Dang, G., & Sui Pheng, L. (2015). Theories of economic development. In *Infrastructure investments in developing economies*. Springer, Singapore. https://doi.org/10.1007/978-981-287-248-7_2

Daoudi, H., & Khalidi, R. (2008). The Palestinian war-torn economy: Aid, development and state formation. *A Contrario, 5*, 23–36. https://doi.org/10.3917/aco.052.0023

Daoudi, M. (2023). Does foreign direct investment contribute to reducing unemployment in Algeria? *Theoretical and Applied Economics, 0*(2), 211–230.

David, A. C., Gonçalves, C. E., & Werner, A. (2020). *Reexamining the national savings-investment nexus across time and countries* (IMF Working Paper No. WP/20/124). International Monetary Fund.

De Ree, J., & Nillesen, E. (2009). Aiding violence or peace? The impact of foreign aid on the risk of civil conflict in Sub-Saharan Africa. *Journal of Development Economics, 88*(2), 301–313.

Demirhan, E., & Masca, M. (2008). Determinants of foreign direct investment flows to developing countries: A cross-sectional analysis. *Prague Economic Papers, 17*(4), 356–369. https://doi.org/10.18267/j.pep.337

Dhahri, S., & Omri, A. (2020). Foreign capital towards SDGs 1 & 2—Ending poverty and hunger: The role of agricultural production. *Structural Change and Economic Dynamics, 53*, 208–221. https://doi.org/10.1016/j.strueco.2020.02.004

Dickey, D. A., & Fuller, W. A. (1979). Distribution of the estimators for autoregressive time series with a unit root. *Journal of the American Statistical Association, 74*(366), 427–431. https://doi.org/10.2307/2286348

Dickey, D. A., & Fuller, W. A. (1981). The likelihood ratio statistics for autoregressive time series with a unit root. *Econometrica, 49*(4), 1057–1072. https://doi.org/10.2307/1912517

Dollar, D., & Kraay, A. (2002). Growth is good for the poor. *Journal of Economic Growth, 7*(3), 195–225. https://doi.org/10.1023/A:1020139631000

Domar, E. D. (1946). Capital expansion, rate of growth, and employment. *Econometrica, 14*(2), 137–147.

Dos Santos, T. (1970). The structure of dependence. *American Economic Review, 60*(2), 231–236. https://www.jstor.org/stable/1815811

Dulaimi, M. (2018). *Measuring and analyzing the determinants of demand for money in the Iraqi economy for the period (1985–2015)* (Master's thesis). Department of Economics, College of Administration and Economics, University of Fallujah, Iraq.

Dunning, J. H. (1993). *Multinational enterprises and the global economy*. Addison-Wesley.

Dunning, J. (2001). The eclectic (OLI) paradigm of international production: Past, present, and future. *International Journal of the Economics of Business, 8*(2), 173–190. https://doi.org/10.1080/13571510110051441

Easterly, W. (1999). The ghost of financing gap: Testing the growth model used in the international financial institutions. *Journal of Development Economics, 60*(2), 423–438. https://doi.org/10.1016/S0304-3878(99)00047-4

Easterly, W. (2006). Reliving the 1950s: The big push, poverty traps, and takeoffs in economic development. *Journal of Economic Growth, 11*, 289–318. https://doi.org/10.1007/s10887-006-9006-7

Easterly, W., & Fischer, S. (2001). Inflation and the poor. *Journal of Money, Credit and Banking, 33*(2), 160–178. https://doi.org/10.2307/2673879

Easterly, W., Levine, R., & Roodman, D. (2003). Aid, policies, and growth. *American Economic Review, 94*(3), 774–780.

Economic and Social Commission for Western Asia (ESCWA). (2000). *The role of foreign direct investment in economic development in ESCWA member countries*. United Nations, New York, USA.

Economic and Social Commission for Western Asia (ESCWA). (2006). *Migrant workers' remittances to the Arab region: Characteristics and impacts*. United Nations, New York.

Economic and Social Commission for Western Asia (ESCWA). (2022, October). *Countering economic dependence and de-development in the occupied Palestinian territory* (E/ESCWA/CL6.GCP/2022/2). United Nations. https://www.un.org/unispal/wpcontent/uploads/2023/03/ESCWAREPORT_280223.pdf

Economic and Social Commission for Western Asia (ESCWA). (2023). *The Palestinian economy: Reducing dependency and reclaiming development*. https://www.unescwa.org/sites/default/files/pubs/pdf/palestine-economic-dependency-development-arabic.pdf

Eichengreen, B., & Uzan, M. (1992). The Marshall Plan: Economic effects and implications for Eastern Europe and the former USSR. *Economic Policy, 7*(14), 13–75. https://doi.org/10.2307/1344512

Ekanayake, E. M., & Moslares, C. (2020). Do remittances promote economic growth and reduce poverty? Evidence from Latin American countries. *Economies, 8*(2), 35. https://doi.org/10.3390/economies8020035

Elbadawy, A., & Roushdy, R. (2010). *Impact of international migration and remittances on child schooling and child work: The case of Egypt* (Working Paper No. 545). The Economic Research Forum.

Eljafari, M. (2012). *Determinants and consequences of remittances: The case of Palestine*. Al-Quds University. https://doi.org/10.13140/RG.2.2.11728.12806

Eltalla, H. A. (2019). Workers' remittances and economic growth in Palestine: Evidence from a computable general equilibrium model. *Journal of Economic Cooperation and Development, 40*(3), 69–88.

Enders, W. (2014). *Applied econometric time series* (4th ed.). John Wiley & Sons.

Engle, R. F. (1982). Autoregressive conditional heteroscedasticity with estimates of the variance of United Kingdom inflation. *Econometrica, 50*(4), 987–1007. https://doi.org/10.2307/1912773

Engle, R. F., & Granger, C. W. J. (1987). Co-integration and error correction: Representation, estimation, and testing. *Econometrica, 55*, 251–276.

Escobar, A. (1995). *Encountering development: The making and unmaking of the third world* (Student ed.). Princeton University Press. http://www.jstor.org/stable/j.ctt7rtgw

Euro-Mediterranean Human Rights Monitor. (2022). *A generation under blockade: Consequences of Israel's 17-year blockade of the Gaza Strip*. Euro-Med Monitor. Retrieved from https://euromedmonitor.org/en/article/5541/A-generation-under-

blockade%3A-Consequences-of-Israel%E2%80%99s-17-year-blockade-of-the-Gaza-Strip

Ezeoha, A. E., & Ugwu, J. O. (2015). Interactive impact of armed conflicts on foreign direct investments in Africa. *African Development Review, 27*, 456–468. https://doi.org/10.1111/1467-8268.12161

Fanack. (2012). *Fact sheet: The Paris Protocol – Historical classification*. Retrieved from https://fanack.com/wp-content/uploads/Oslo-Accords-and-Paris-Protocol-Konrad-Adenauer-Stiftung.pdf

Fariss, C. J., Anders, T., Markowitz, J. N., & Barnum, M. (2022). New estimates of over 500 years of historic GDP and population data. *Journal of Conflict Resolution, 66*(3), 553–591. https://doi.org/10.1177/00220027211054432

Farsakh, L. (2005). *Palestinian labour migration to Israel: Labour, land and occupation*. Routledge. https://www.taylorfrancis.com/books/mono/10.4324/9780203431658/palestinian-labour-migration-israel-leila-farsakh

Farsakh, L. (2024). How Israel dominates the Palestinian economy. *Jacobin*. Retrieved from https://jacobin.com/2024/01/israel-palestine-settler-colonialism-labor-economy

Ferreira, F. H. G., Messina, J., Rigolini, J., López-Calva, L. F., Lugo, M. A., & Vakis, R. (2013). *Economic mobility and the rise of the Latin American middle class*. World Bank Publications. https://doi.org/10.1596/978-0-8213-9634-6

Feyzioglu, T., Swaroop, V., & Zhu, M. (1998). A panel data analysis of the fungibility of foreign aid. *World Bank Economic Review, 12*(1), 29–58.

Fielding, D. (2004). How does violent conflict affect investment location decisions? Evidence from Israel during the Intifada. *Journal of Peace Research, 41*(4), 465–484. http://www.jstor.org/stable/4149684

Flaming, A. (1999). *Development as freedom*. Oxford University Press. https://books.google.ps/books?id=NQs75PEa618C

Flassbeck, H., Kaczmarczyk, P., & Paetz, M. (2018, December). Macroeconomic structure, financial markets, and the financing of government activity: Lessons for Palestine. Palestine Economic Policy Research Institute (MAS). https://www.mas.ps

Frank, G. (1966). The development of underdevelopment. *Monthly Review Press.*

Frank, A. G. (1967). *Capitalism and underdevelopment in Latin America: Historical studies of Chile and Brazil*. Monthly Review Press.

Friedmann, H., & Wayne, J. (1977). Dependency theory: A critique. *Canadian Journal of Sociology, 2*, 399. Retrieved from https://api.semanticscholar.org/CorpusID:151581868

Furtado, C. (1964). *Development and underdevelopment*. University of California Press.

Gaies, B., & Nabi, M.-S. (2019). Financial openness and growth in developing countries: Why does the type of external financing matter? *Journal of Economic Integration, 34*(3), 426–464. https://www.jstor.org/stable/26756452

Gelb, S., Kalantaryan, S., McMahon, S., & Perez Fernandez, M. (2021). *Diaspora finance for development: From remittances to investment* (EUR 30742 EN). Publications Office of the European Union. https://doi.org/10.2760/034446

Godfrey, L. G. (1978). Testing against general autoregressive and moving average error models when the regressors include lagged dependent variables. *Econometrica*, *46*(6), 1293–1302. https://doi.org/10.2307/1913829

Goga, S., Murphy, I. F., & Swinburn, G. (2004). *Local economic development: A primer developing and implementing local economic development strategies and action plans (Arabic).* Washington, D.C.: World Bank Group. Retrieved from http://documents.worldbank.org/curated/en/674551468339868826/Local-economic-development-a-primer-developing-and-implementing-local-economic-development-strategies-and-action-plans

Goldin, I. (2018). The evolution of development aid. In *Development: A very short introduction* (Very Short Introductions). Oxford University Press. https://doi.org/10.1093/actrade/9780198736257.003.0005

Gohou, G., & Soumaré, I. (2012). Does foreign direct investment reduce poverty in Africa and are there regional differences? *World Development*, *40*(1), 75–95. Retrieved from https://www.dsinstitute.org/wpcontent/uploads/2021/06/3_Gohou_Soumare_WD2011-1.pdf?utm_source=chatgpt.com

Government of the State of Israel & PLO. (1994). *Protocol on Economic Relations between the Government of the State of Israel and the P.L.O., representing the Palestinian people* (Annex IV, Gaza-Jericho Agreement). Paris.

Granger, C. W. J., & Newbold, P. (1974). Spurious regressions in econometrics. *Journal of Econometrics*, *2*(2), 111–120. https://doi.org/10.1016/0304-4076(74)90034-7

Griffin, K. (1970). Foreign capital, domestic savings, and econometric development. *Oxford Bulletin of Economics and Statistics*, *32*(2), 99–112.

Griffin, K. (1971). On foreign capital, domestic saving, and economic development. *Oxford Bulletin of Economics and Statistics, 33*, 156–161.

Griffin, K., & Enos, J. (1970). Foreign assistance: Objectives and consequences. *Economic Development and Cultural Change, 18*, 313–327. https://doi.org/10.1086/450435

Grossman, H. I. (1991). A general equilibrium theory model of insurrections. *American Economic Review*, *81*(4), 912–921.

Gujarati, D. N., & Porter, D. C. (2009). *Basic econometrics* (5th ed.). McGraw Hill Inc.

Gulati, U. (1975). Effect of capital imports on savings and growth in less developed countries. *Economic Inquiry, 13*, 563–569.

Gupta, K. (1975). Foreign capital inflows, dependency burden, and savings rates in developing countries: A simultaneous equation model. *Kyklos, 28*, 358–374.

Gupta, S., Tiongson, E. H., Pivovarsky, A., & Clements, B. J. (2003). *Foreign aid and revenue response: Does the composition of aid matter?* (IMF Working Paper No. 2003/176). International Monetary Fund. https://doi.org/10.5089/9781451858839.001

Gweshengwe, B., & Hassan, N. (2020). Defining the characteristics of poverty and their implications for poverty analysis. *Cogent Social Sciences, 6*, Article 1768669. https://doi.org/10.1080/23311886.2020.1768669

Haase, D. (2013). Introduction: Development under occupation. *Perspectives on Global Development and Technology, 12*(5–6), 535–539. https://doi.org/10.1163/15691497-12341272

Habbas, W., & Quzmar, I. (2022). *The future of Palestinian employment in the Israeli labour market in light of political and economic realities.* Palestine Economic Policy Research Institute (MAS) and Palestinian Centre for Israeli Studies (Madar).

Haddad, A. (1987). *External debt of Arab countries and its effects on balance of payments.* Arab Thought Forum, Seminar on Arab External Debt, Amman, p. 272.

Hamed, O., & Al-Bitawi, W. (2017). *Government borrowing, liquidity, and the stability of the Palestinian banking system.* Palestine Economic Policy Research Institute (MAS). Retrieved from https://mas.ps/cached_uploads/download/migrated_files/20172211161032-2-1640017260.pdf

Hallaq, S. (2020). *The Palestinian labor market over the last three decades* (Working Paper No. 976). Levy Economics Institute. https://www.levyinstitute.org/publications/the-palestinian-labor-market-over-the-last-three-decades

Haq, M. (1995). *Reflections on human development.* Oxford University Press.

Harrod, R. F. (1939). An essay in dynamic theory. *The Economic Journal, 49*(193), 14–33.

Hegre, H., & Sambanis, N. (2006). Sensitivity analysis of the empirical literature on civil war onset. *Journal of Conflict Resolution, 50*(4), 508–535.

Hemyoud, A., & Zougart, N. (2020). The impact of foreign direct investment on social and economic development in Arab countries (oil and non-oil) – An econometric study for the period (2000–2016). *Algerian Journal of Economic Development, 7*(1), 249–268. https://www.asjp.cerist.dz/en/article/117681

Hess, P., & Ross, C. (1997). *Economic development: Theories, evidence, and policies.* The Dryden Press, Harcourt Brace College Publishers, USA.

Hamilton, J. D. (1994). *Time series analysis*. Princeton University Press. https://doi.org/10.1515/9780691218632

Hanson, H., & Tarp, F. (2000). Aid effectiveness disputed. *Journal of International Development, 12*(3), 375–398. https://doi.org/10.1002/(SICI)1099-1328(200004)12:3<375::AID-JID672>3.0.CO;2-Q

Harker, C. (2021). The promise of financial inclusion: Finance as future in Palestine. *Geografiska Annaler: Series B, Human Geography, 103*(4), 320–336. https://doi.org/10.1080/04353684.2021.1931398

Hassouneh, I. (2017). Do Palestinian workers' remittances from Israel matter for the Palestinian economy? *Global Proceedings Repository*. Retrieved from

https://scholar.ppu.edu/bitstream/handle/123456789/8381/122-243-1-SM.pdf?sequence=2

Hassouneh, I., & Alrabadi, D. W. H. (2020). Do Palestinian workers' remittances from Israel and its volatility matter for the Palestinian economy? *Journal of Reviews on Global Economics*, *9*, 1–13. https://www.researchgate.net/publication/358893134_Do_Palestinian_Workers'_Remittances_from_Israel_and_its_Volatility_Matter_for_the_Palestinian_Economy

Helles, R. M. (2018). *Policies for detaching the Palestinian economy from dependency on the Israeli occupation*. Political Studies, Studies, and Research. Palestinian Research Center.

Henry, C. M. (1987). Economic growth and economic development: A distinction without a difference. *Social and Economic Studies, 36*(4), 67–84. Retrieved from http://www.jstor.org/stable/27862915

Hirschman, A. (1958). *The strategy of economic development*. Yale University Press. https://www.amazon.com/Strategy-Economic-Development-Albert-Hirschman/dp/0300001177

Hussein, M., & Al-Hamoud, K. M. (2002). The role of external financing in economic development in Syria (Unpublished doctoral dissertation). University of Halapp.

In'airat, M. (2009). The impact of foreign aid on the Palestinian economy: A critique of econometric approaches for studying the effectiveness of foreign aid. VDM Verlag. ISBN 978-3639206869.

Injass, R. A., Sarmidi, T., & Injas, M. M. (2017). The Paris Protocol and the Palestinian economy: New evidence. *South East Asia Journal of Contemporary Business, Economics and Law*, *12*(3), 18.

International Monetary Fund [IMF]. (2001). *Economic performance, prospects, and policies: Achieving prosperity and confronting demographic challenges*. International Monetary Fund. https://doi.org/10.5089/9781589060357.071

International Labour Conference (ILC). (2024). *The situation of workers of the occupied Arab territories: Report of the Director-General – Appendix* (112th Session, ILC.112/DG/APP). International Labour Organization. Retrieved from https://www.ilo.org/sites/default/files/2024-05/ILC112%282024%29-DG-APP-%5BRO-BEIRUT-240422-001%5D-Web-EN.pdf

International Labour Organization. (2018). *The occupied Palestinian territory: An employment diagnostic study*. Retrieved from https://www.un.org/unispal/wp-content/uploads/2018/04/ILOSTUDY_040418.pdf

International Labour Organization. (2023). *Impact of the Israel-Hamas conflict on the labor market and livelihoods in the Occupied Palestinian Territory*. Retrieved from https://www.un.org/unispal/wp-content/uploads/2023/11/wcms_901136.pdf

International Labour Organization. (2024). *A year of war in Gaza: Impacts on employment and livelihoods in the occupied Palestinian territory*. Retrieved from

https://www.ilo.org/publications/year-war-gaza-impacts-employment-and-livelihoods-west-bank-and-gaza-strip

International Monetary Fund. (2009). *Balance of payments and international investment position manual* (6th ed.). International Monetary Fund. https://www.imf.org/external/pubs/ft/bop/2007/pdf/bpm6.pdf

International Monetary Fund. (2014). *Macroeconomic policy and poverty reduction*. Retrieved from https://www.imf.org/external/pubs/ft/exrp/macropol/eng/

International Monetary Fund. (2022). *West Bank and Gaza: Report to the Ad Hoc Liaison Committee*. IMF Publications. https://www.imf.org/en/Publications/CR/Issues/2022/05/10/West-Bank-and-Gaza-Report-to-the-Ad-Hoc-Liaison-Committee-517654

International Monetary Fund. (2023). *Resilient remittances: The power of migrant workers' earnings*. Retrieved from https://www.imf.org/ar/Publications/fandd/issues/2023/09/B2B-resilient-remittances-dilip-ratha

International Monetary Fund [IMF]. (2001). *Economic performance, prospects, and policies: Achieving prosperity and confronting demographic challenges*. International Monetary Fund. https://doi.org/10.5089/9781589060357.071

International Monetary Fund [IMF]. (2004). *Foreign aid: Grants versus loans*. *Finance & Development*. Retrieved from https://www.imf.org/external/pubs/ft/fandd/2004/09/pdf/clements.pdf

Iqtait, A. (2019). The political economy of taming the Palestinian Authority. In *Palestine: Past and Present* (pp. 145–175). Nova Publishing.

Iqtait, A. (2022). Fiscal and economic history of the West Bank and Gaza Strip. In *Palgrave Macmillan* (pp. 37–69). https://doi.org/10.1007/978-3-031-19478-8_3

Ito, T., & Krueger, A. O. (Eds.). (2000). *The role of foreign direct investment in East Asian economic development.* University of Chicago Press, National Bureau of Economic Research.

Jacobs, J. (2024, May 17). Rostow's 5 stages of economic growth and development. Retrieved from https://www.thoughtco.com/rostows-stages-of-growth-development-model-1434564

Janoski, T. (1990). *The political economy of unemployment: Active labor market policy in West Germany and the United States.* University of California Press. https://www.jstor.org/stable/10.2307/jj.16110776

Jarque, C. M., & Bera, A. K. (1987). A test for normality of observations and regression residuals. *International Statistical Review, 55*(2), 163–172. http://dx.doi.org/10.2307/1403192

Johansen, S. (1988). Statistical analysis of cointegration vectors. *Journal of Economic Dynamics and Control*, *12*(2), 231–254. https://doi.org/10.1016/0165-1889(88)90041-

Johansen, S., & Juselius, K. (1990). Maximum likelihood estimation and inference on cointegration – with applications to the demand for money. *Oxford Bulletin of Economics and Statistics, 52*, 169–210.

Johnston, B. F., & Mellor, J. W. (1961). The role of agriculture in economic development. *The American Economic Review, 51*(4), 566–593.

Jones, C. I., & Klenow, P. J. (2016). Beyond GDP? Welfare across countries and time. *American Economic Review*, *106*(9), 2426–2457. https://doi.org/10.1257/aer.20110236

Jonyo, F. (2021). The politics of external resource mobilization: From foreign aid to foreign investment. In G. Onyango & G. Hyden (Eds.), *Governing Kenya* (pp. 287–309). Palgrave Macmillan. https://doi.org/10.1007/978-3-030-61784-4_11

Juselius, K. (2018, May 24). The cointegrated VAR methodology. *Oxford Research Encyclopedia of Economics and Finance.* Retrieved December 10, 2024, from https://oxfordre.com/economics/view/10.1093/acrefore/9780190625979.001.0001/acrefore-9780190625979-e-247

Justino, P. (2010, July). *War and poverty* (HiCN Working Papers No. 81). Households in Conflict Network. Retrieved from https://ideas.repec.org/p/hic/wpaper/81.html

Justino, P. (2012). War and poverty. In M. Garfinkel & S. Skaperdas (Eds.), *The Oxford handbook of the economics of peace and conflict*. Oxford University Press.

Justino, P., & Shemyakina, O. N. (2012). Remittances and labor supply in post-conflict Tajikistan. *IZA Journal of Labor & Development, 1*(8). https://doi.org/10.1186/2193-9020-1-8

Kabidani, S. A. (2013). *The effect of economic growth on income distribution justice in Algeria compared to Arab countries: An analytical and econometric study* (Doctoral dissertation). University of Abou Bakr Belkaid – Tlemcen, Algeria, 2012–2013, pp. 69–70. Retrieved from http://dspace.univ-tlemcen.dz/bitstream/112/3550/1/Kebdani-sid-ahmed.doc.pdf

Kang, S., & Meernik, J. (2005). Civil war destruction and the prospects for economic growth. *The Journal of Politics, 67*(1), 88–109. https://doi.org/10.1111/j.1468-2508.2005.00309.x

Kanafani, N. (2001). Trade: A catalyst for peace? *Economic Journal, 111*(472), 276–290. https://doi.org/10.1111/1468-0297.0062

Karim, M. Z. A., & Abu, N. (2016). The relationships between foreign direct investment, domestic savings, domestic investment, and economic growth: The case of Sub-Saharan Africa. *Society and Economy, 38*(2), 193–217. https://doi.org/10.1556/204.2016.38.2.4

Karras, G. (2006). Foreign aid and long-run economic growth: Empirical evidence for a panel of developing countries. *Journal of International Development, 18*(7), 15–28. https://gkarras.people.uic.edu/JIDev_2006.pdf?utm_source=chatgpt.com

Keita, O. (2021). Impact of foreign direct investment on welfare in Africa: Empirical evidence from Guinea. *Journal of Economic Science Research, 4*(3), 1–13.

Klasen, S. (2018). *Human development indices and indicators: A critical evaluation.* United Nations Development Programme. Retrieved from https://hdr.undp.org/system/files/documents/klasenfinal.pdf

Knack, S. (2001). Aid dependence and the quality of governance: Cross-country empirical tests. *Southern Economic Journal, 68*(2), 310–329. https://doi.org/10.2307/1061596

Khababa, A. (2014). *The development of economic development theories and strategies.* Dar Al-Jameaa Al-Jadida Publishing.

Khalidi, R., & Samour, S. (2011). Neoliberalism as liberation: The statehood program and the remaking of the Palestinian national movement. *Journal of Palestine Studies, 40*(2), 6–25. https://doi.org/10.1525/jps.2011.XL.2.6

Khalidi, R. (2016). Key features of the Palestinian economy: Challenges to its resilience, and existing visions to face them. In *MAS Economic Conference 2016, Towards a New Vision for the Advancement of the Palestinian Economy: Preparatory Papers.* Palestine Economic Policy Research Institute (MAS).

Khalidi, R., et al. (2022). *Prospects for development in Palestine 2021: Weathering the storm, mobilizing together.* Palestine Economic Policy Research Institute (MAS).

Khan, R., Zeeshan, Haque, M. I., Gupta, N., Tausif, M. R., & Kaushik, I. (2022). How foreign aid and remittances affect poverty in MENA countries? *PLOS ONE, 17*(1), e0261510. https://doi.org/10.1371/journal.pone.0261510

Koay, Y.-Y., & Choong, C.-K. (2013). The nexus between worker remittances and economic growth in Malaysia. *Prosidings Perkem VIII, Jilid 1*, 507–515.

Kobrin, J. S. (1979). Political risks: A review and reconsideration. *Journal of International Business Studies, 10*(1), 67–80.

Krueger, G. (2005). *Violent conflict and foreign direct investment in developing economies: A panel data analysis.* Minneapolis: The Federal Bank of Minneapolis. Retrieved from http://www.minneapolisfed.org/mea/contest/2006papers/pierpont.pdf

Krugman, P. (1991). History versus expectations. *The Quarterly Journal of Economics, 106*(2), 651–667. https://doi.org/10.2307/2937950

Krugman, P. R., Obstfeld, M., & Melitz, M. (2011). *International economics: Theory and policy* (8th ed.). Pearson Education. ISBN: 9780132146654

Kurd, M. (2024). *Palestinian labor in Israel: Trends, drivers, and impacts.* Palestine Economic Policy Research Institute (MAS). Retrieved from https://mas.ps/publications/9684.html

Kvangraven, I. H. (2023). Dependency theory: Strengths, weaknesses, and its relevance today. *ResearchGate.* DOI:10.4337/9781788976541.00013

Kuznets, S. (1955). *Economic growth and income inequality.* Harvard University Press.

Kuznets, S. (1966). *Modern economic growth: Rate, structure, and spread (Chapters 2 & 4).* Yale University Press.

Kuznets, S. (1971). *Economic growth of nations: Total output and production structure.* Harvard University Press.

Labdi, T. (2018). *The Palestinian diaspora and the state-building process.* Arab Reform Initiative. Retrieved from https://www.arab-reform.net/publication/the-palestinian-diaspora-and-the-state-building-process/

Lai, B., & Thyne, C. (2007). The effect of civil war on education, 1980–1997. *Journal of Peace Research*, *44*(3), 277–292.

Leithi, M. A. (2005). *Economic development* (pp. 160–162). Dar Al-Jameaat Al-Masria, Alexandria, Egypt.

Le More, A. (2008). *International assistance to the Palestinians after Oslo: Political guilt, wasted money.* Routledge.

Lensink, R., & Morrissey, O. (1999). Aid instability as a measure of uncertainty and the positive impact of aid on growth. *Journal of Development Studies, 36*(3), 31–49. https://doi.org/10.1080/00220380008422627

Levine, R., & Renelt, D. (1992). A sensitivity analysis of cross-country growth regressions. *The American Economic Review, 82*(4), 942–963. http://www.jstor.org/stable/2117352

Levy, V. (1988). Aid and growth in Sub-Saharan Africa: The recent experience. *European Economic Review, 37*(9), 1777–1795.

Lewis, W. A. (1954). Economic development with unlimited supplies of labour. *The Manchester School, 22*(2), 139–191. https://doi.org/10.1111/j.1467-9957.1954.tb00021.x

Lewis, W. A. (1955). *The theory of economic growth.* Allen & Unwin.

Lin, J. Y., & Monga, C. (2011). *Growth identification and facilitation: The role of the state in the dynamics of structural change* (Policy Research Working Paper Series No. 5313). The World Bank. Retrieved from https://ideas.repec.org/p/wbk/wbrwps/5313.html

Lin, J. Y. (2012). *New structural economics: A framework for rethinking development and policy* (Report No. 66393). World Bank. Retrieved from http://documents.worldbank.org/curated/en/991771468155733696

Lin, J. Y., & Monga, C. (2011). *Growth identification and facilitation: The role of the state in the dynamics of structural change* (Policy Research Working Paper Series No. 5313). The World Bank. Retrieved from https://ideas.repec.org/p/wbk/wbrwps/5313.html

Lindley, A. (2009). Remittances and conflict: Some conceptual considerations. *Jahrbücher für Nationalökonomie und Statistik, 229*(6), 774–786. https://doi.org/10.1515/jbnst-2009-0607

Loayza, N., Schmidt-Hebbel, K., & Servén, L. (2000). Saving in developing countries: An overview. *The World Bank Economic Review, 14*(3), 393–414. https://doi.org/10.1093/wber/14.3.393

Lubbad, I. S. (2004). The Palestinian Authority's experience in utilizing international aid (1994–2003). *Islamic University Journal (Series of Human Studies), 12*(2), 467–501.

Lütkepohl, H. (2005). *New introduction to multiple time series analysis.* Springer Science & Business Media. https://doi.org/10.1007/978-3-540-27752-1

Lustig, N., Pessino, C., & Scott, J. (2013). *The impact of taxes and social spending on inequality and poverty in Argentina, Bolivia, Brazil, Mexico, Peru, and Uruguay: An overview* (CEQ Working Paper No. 1313). Tulane University, Department of Economics. https://ideas.repec.org/p/tul/wpaper/1313.html

Madani, D. H., Davies, E. A. R., & Nguyen, H. T. (2023). *Taking stock – Harnessing the potential of the services sector for growth* (English). Washington, D.C.: World Bank Group. Retrieved from http://documents.worldbank.org/curated/en/099544403132351453/IDU0343e48530e212043860bee605aae66cfb04a

Makki, S. S., & Somwaru, A. (2004). Impact of foreign direct investment and trade on economic growth: Evidence from developing countries. *American Journal of Agricultural Economics, 86*, 795–801. https://doi.org/10.1111/j.0002-9092.2004.00627.x

Mankiw, N. G., Romer, D., & Weil, D. (1992). A contribution to the empirics of economic growth. *Quarterly Journal of Economics, 107*(May), 407–437.

Maqadad, M., & Abu Jiab, M. (2022). Scientific paper: Gaza gas between reality and aspirations. *Al-Zaytouna Center for Studies and Consultations.*

Markusen, J. R., & Venables, A. J. (1999). Foreign direct investment as a catalyst for industrial development. *European Economic Review, 43*(2), 335–356. https://doi.org/10.1016/S0014-2921(98)00048-8

MAS, Palestinian Economic Policy Research Institute. (2005). *Towards a more effective use of international aid to the Palestinian people.* Ramallah: MAS, Palestinian Economic Policy Research Institute.

Matsuyama, K. (1992). Agricultural productivity, comparative advantage, and economic growth. *Journal of Economic Theory, 58*(2), 317–334. https://doi.org/10.1016/0022-0531(92)90057-O

McMillan, M., Rodrik, D., & Verduzco-Gallo, Í. (2017). Globalization, structural change, and productivity growth, with an update on Africa. *World Development, 63*(C), 11–32. Retrieved from https://ideas.repec.org/a/eee/wdevel/v63y2014icp11-32.html

Meeding, T. M., & Weinberg, D. H. (2001). Toward a uniform definition of household income. *Review of Income and Wealth, 47*(1), 1–24. Retrieved from https://www.roiw.org/2001/1.pdf

Meier, G. M., & Stiglitz, J. E. (Eds.). (2001). *Frontiers of development economics: The future in perspective.* World Bank Group. Retrieved from http://documents.worldbank.org/curated/en/586861468762924370/Frontiers-of-development-economics-the-future-in-perspective

Meyer, D., & Shera, A. (2015). *Remittances' impact on the labor supply and on the deficit of current account* (BERG Working Paper Series No. 97). Bamberg University, Bamberg Economic Research Group.

Miaari, S. H., & Sauer, R. M. (2011). The labor market costs of conflict: Closures, foreign workers, and Palestinian employment and earnings. *Review of Economics of the Household, 9*(2), 129–148. https://doi.org/10.1007/s11150-009-9081-6

Miaari, S., Zussman, A., & Zussman, N. (2014). Employment restrictions and political violence in the Israeli–Palestinian conflict. *Journal of Economic Behavior & Organization, 101*, 24–44. https://doi.org/10.1016/j.jebo.2014.02.002

Miniaoui, H., & Ouni, H. (2020). Workers' remittances and economic growth in MENA countries: The role of financial development. In *IEMed Mediterranean Yearbook 2020* (pp. 267–271). European Institute of the Mediterranean (IEMed).

Mingiri, K. F., Ikhide, S., & Tsegaye, A. (2016). The relationship between external financial flows and economic growth in the Southern African Development Community (SADC): The role of institutions. *Journal of Economics and Behavioral Studies, 8*(1(J), 87–103. https://doi.org/10.22610/jebs.v8i1(J).1209

Morrar, R., Wilson, P., Rabee, I., Saadeh, I., & Srouji, Y. (2022). *Requirements for establishing the Jerusalem Development Cluster: Policy priorities, interventions, programs.* Palestine Economic Policy Research Institute (MAS). https://mas.ps/en/publications/3619.html

Morrar, R., Yaaqbeh, S., & Taweel, R. (2024). *Responsiveness of social entrepreneurship institutions in Palestine to achieving sustainable development goals (SDGs).* Palestine Economic Policy Research Institute (MAS).

Mosley, P. (1980). Aid, savings, and growth revisited. *Oxford Bulletin of Economics and Statistics, 42*(4), 79–95.

Moyo, D. (2009). *Dead aid: Why aid is not working and how there is a better way for Africa.* Farrar, Straus and Giroux.

Mudambi, R., & Navarra, P. (2002). Institutions and international business: A theoretical overview. *International Business Review, 11*(6), 635–646. https://doi.org/10.1016/S0969-5931(02)00042-2

Mucuk, M., & Demirsel, M. T. (2013). The effect of foreign direct investments on unemployment: Evidence from panel data for developing countries. *Journal of Business, Economics & Finance, 2*(3), 53–66. Retrieved from https://dergipark.org.tr/tr/download/article-file/374588?utm_source=chatgpt.com

Murphy, K. M., Shleifer, A., & Vishny, R. W. (1989). Industrialization and the big push. *Journal of Political Economy, 97*, 1003–1026. https://doi.org/10.1086/261641

Muslam Shaker Hamdia. (2020). Economic development in Iraq: Foreign financing sources and the terms of international financing institutions. *International Journal of Innovation, Creativity and Change, 13*(9). Retrieved from http://www.ijicc.net

Mustafa, K. M. Y. (2015). *The role of foreign economic aid in addressing poverty cycles in Sudan from the perspective of Islamic economics for the period 2001–2015* (Unpublished doctoral dissertation). Ma'had Buhuth wa Dirasat Al-Alam Al-Islami, Omdurman Islamic University.

Mwega, F. M., Mwangi, N., & Olewe-Ochilo, F. (1994). *Macroeconomic constraints and medium-term growth in Kenya: A three-gap analysis.* AERC. Retrieved from http://hdl.handle.net/10625/16738

Myint, H. (1958). The "classical theory" of international trade and the underdeveloped countries. *The Economic Journal, 68*(270), 317–337. https://doi.org/10.2307/2227598

Myrdal, G. (1957). *Economic theory and underdeveloped regions.* Methuen & Co. Ltd.

Nabulsi, T. R. S., & Shraideh, W. G. (1997). *The impact of external financing on economic development: An applied study on Jordan for the period 1973–1994* (Unpublished master's thesis). University of Jordan, Amman.

Nafziger, E. W. (2005). Theories of economic development. In *Economic development* (pp. 123–164). Cambridge University Press.

Nafziger, E. W. (2012). *Economic development* (5th ed.). Cambridge University Press. https://doi.org/10.1017/CBO9781139028295

Nasr, L. F. M. (2008). *The role of the Palestinian Investment Promotion Agency "PIPA" in promoting local and foreign investment in Palestine (Gaza Strip as a case study)* (Master's thesis, The Islamic University of Gaza).

Nazeer, A. M., & Masih, M. (2017). Impact of political instability on foreign direct investment and economic growth: Evidence from Malaysia. *MPRA Paper 79418.* University Library of Munich, Germany.

Nigh, D. (1985). The effects of political events on United States direct foreign investment: A pooled time-series cross-sectional analysis. *Journal of International Business Studies, 16*(1), 1–17.

Nkoro, E., & Uko, A. K. (2016). Autoregressive distributed lag (ARDL) cointegration technique: Application and interpretation. *Journal of Statistical and Econometric Methods, 5*(4), 63–91.

Nunnenkamp, P., & Spatz, J. (2002). Determinants of FDI in developing countries: Has globalization changed the rules of the game? *Transnational Corporations, 11*(2), 1–34.

Nurkse, R. (1953). *Problems of capital formation in underdeveloped countries.* Oxford University Press.

Nyoni, T. J. (1998). Foreign aid and economic performance in Tanzania. *World Development, 26,* 1235–1240.

Obaid, S. M., & Talalwah, M. (2019). Obstacles to foreign direct investment and ways to activate it in the Palestinian market. *Rimah Journal of Research and Studies, (31),* 47–60. Retrieved from https://search.mandumah.com/Record/951639/Description

O'Brien, T., Hausmann, R., & Santos, M. A. (2020). *Accelerating growth in Albania through targeted investment promotion.* Growth Lab at Harvard University's Center for International Development. Retrieved from https://growthlab.hks.harvard.edu/publications/accelerating-growth-albania-through-targeted-investment-promotion

Qabqali, I. A. (2014). *External borrowing and its role in financing economic development in Syria (1995–2010)* [Doctoral dissertation, Tishreen University, Faculty of Economics, Department of Economics and Planning].

Office for the Coordination of Humanitarian Affairs (OCHA). (2009). *Special focus: The closure of the Gaza Strip: The economic and humanitarian consequences.* Office for the Coordination of Humanitarian Affairs.

Ogujiuba, K. K., & Eboreime, M. I. (2024). Do remittances mitigate poverty? Evidence from selected countries in Africa, Asia, and Latin America. *Empirical Economics, 66*(1), 123–145. https://doi.org/10.1007/s00181-019-01764-8

Olibe, K., & Crumbley, C. L. (1997). Determinants of US private foreign direct investments in OPEC nations: From public and non-public policy perspectives. *Journal of Public Budgeting, Accounting & Financial Management, 9*(2), 331–355.

Omar, I. (2019). *The economic reality of the areas classified as "C": Policies and potentials.* Palestinian Research Center. Retrieved from https://www.prc.ps

Organisation for Economic Co-operation and Development (OECD). (2009). *OECD benchmark definition of foreign direct investment* (4th ed.). Organisation for Economic Co-operation and Development. https://doi.org/10.1787/9789264045743-en

Organisation for Economic Co-operation and Development (OECD). (2016). *Development co-operation report 2016: The sustainable development goals as business opportunities.* OECD Publishing. https://www.oecd.org/en/publications/development-co-operation-report-2016_dcr-2016-en.html

Organisation for Economic Co-operation and Development. (2022). *Rule of law and governance in the Palestinian Authority: Delivering better policies and services.* OECD Publishing. https://www.oecd.org/en/publications/rule-of-law-and-governance-in-the-palestinian-authority_68ffa992-en.html

Othman, O. A. (2023). Al-Ab'ad Al-Iqtisadiyah Li Al-Tamweel Al-Duwali [The economic dimensions of international finance]. *Majallat Al-Dirasat Al-Qanuniya wal-Iqtisadiya, 9*(1), 1–77. https://doi.org/10.21608/jdl.2023.193191.1129

P.L.O & Government of the State of Israel. (1994). *The Israeli-Palestinian Interim Agreement on the West Bank and the Gaza Strip: Protocol on Economic Relations.* Paris, April 9, 1994. Retrieved from https://www.mne.gov.ps/ckfinder/userfiles/files/agreements/Paris%20Economic%20Protocol.pdf

Palestine Monetary Authority (PMA) & Central Bureau of Statistics (PCBS). (2023). *International investment position reports: Time series data.* Retrieved from https://www.pma.ps

Palestine Monetary Authority (PMA) & Central Bureau of Statistics (PCBS). (2023). *Palestinian balance of payments data series: Private sector transfers from abroad and worker remittances.* Retrieved from https://www.pma.ps

Palestinian Banking Association (PBA). (2014). *The required reforms on the macroeconomic and financial policies of the Palestinian Authority.* Retrieved from https://www.pba.ps/contents/180.html

Palestinian Center for Policy and Survey Research (PCR). (2020). *The economic reality of Area C: Policies and potentials.* Ramallah, Palestine: Palestinian Center for Policy and Survey Research.

Palestinian Central Bureau of Statistics (PCBS). (2022). *Palestinian poverty profile 2022.* Palestinian Central Bureau of Statistics. http://www.pcbs.gov.ps

Palestinian Central Bureau of Statistics. (2023a). *Economic performance indicators for the Palestinian ICT sector.* PCBS Official Website.

Palestinian Central Bureau of Statistics. (2023b). *Labor force survey: Employment and wages of Palestinians working in Israel.* PCBS Publications. Retrieved from http://www.pcbs.gov.ps

Palestinian Central Bureau of Statistics. (2023c). *Trade statistics: Imports, exports, and the trade balance in Palestine.* PCBS Publications. Retrieved from http://www.pcbs.gov.ps

Palestinian Central Bureau of Statistics. (2023d). *The international investment position and external debt statistics, end of the second quarter 2024 and end of year 2023.* Retrieved from https://www.pcbs.gov.ps/post.aspx?ItemID=5831&lang=en

Palestinian Monetary Authority [PMA]. (2004). *Annual report (2003).* Retrieved from http://www.pma.ps

Palestinian Monetary Authority [PMA]. (2011). *The role of the banking sector in developing the Palestinian economy.* Ramallah, Palestine. Retrieved from https://www.pma.ps/Portals/0/Users/002/02/2/Publications/English/Working%20Papers/The_Banking_Sector_and_Development.pdf

Palestinian Monetary Authority [PMA]. (2015). *Annual report (2014).* Retrieved from http://www.pma.ps

Palestinian Monetary Authority [PMA]. (2021). *Annual report (2020).* Retrieved from http://www.pma.ps

Palestinian Monetary Authority [PMA]. (2023). *Annual report (2022).* Retrieved from http://www.pma.ps

Palestinian Monetary Authority [PMA]. (2024). *Annual report (2023).* Retrieved from http://www.pma.ps

Pallage, S., & Robe, M. A. (2001). Foreign aid and the business cycles. *Review of International Economics, 9,* 641–672.

Papanek, G. F. (1973). Aid, foreign private investment, savings, and growth in less developed countries. *Journal of Political Economy, 81*(1), 120–130.

Paris Protocol. (1994). *Protocol on Economic Relations between the Government of Israel and the PLO.* Retrieved from https://www.btselem.org/freedom_of_movement/paris

Parr, J. (1999). Growth-pole strategies in regional economic planning: A retrospective view. Part 1. Origins and advocacy. *Urban Studies, 36*(6), 1195–1215. https://doi.org/10.1080/0042098993187

Peace Now. (2021). *Settlement watch: Land expropriation and settlement expansion.* Retrieved from https://peacenow.org

Perroux, F. (1955). Note sur la notion de pole de croissance. *Economic Appliquée*, 307–320.

Pesaran, M. H., & Pesaran, B. (1997). *Working with Microfit 4.0: Interactive econometric analysis (Windows version).* Oxford University Press.

Pesaran, M. H., & Shin, Y. (1999). An autoregressive distributed lag modeling approach to cointegration analysis. In S. Strom (Ed.), *Econometrics and economic theory in the 20th century: The Ragnar Frisch centennial symposium* (pp. 371–413). Cambridge University Press.

Pesaran, M. H., Shin, Y., & Smith, R. (2001). Bounds testing approaches to the analysis of level relationships. *Journal of Applied Econometrics, 16*, 289–326.

Phillips, P. C. B. (1986). Understanding spurious regressions in econometrics. *Econometrics, 33*(3), 311–340. https://doi.org/10.1016/0304-4076(86)90001-1

Phillips, P. C. B., & Perron, P. (1988). Testing for a unit root in time series regression. *Biometrika, 75*(2), 335–346. https://doi.org/10.1093/biomet/75.2.335

Prasad, E. S., Rajan, R. G., & Subramanian, A. (2007). Foreign capital and economic growth. *Brookings Papers on Economic Activity, 2007*(1), 153–230. http://dx.doi.org/10.1353/eca.2007.0016

Prebisch, R. (1950). *The economic development of Latin America and its principal problems.* United Nations Economic Commission for Latin America.

Price, G. N., & Elu, J. U. (2012). Remittances and the financing of terrorism in Sub-Saharan Africa: 1974–2006. *Peace Economics, Peace Science and Public Policy, 18*(1). https://doi.org/10.1515/1554-8597.1257

Qabqly, I., & Ghadeer, H. G. (2023). Sources of financing economic development in Syria (1995–2010) and available sources during the reconstruction phase. *Tishreen University Journal for Research and Scientific Studies - Economic and Legal Sciences Series, 45*(4), 51–67. Retrieved from https://search.mandumah.com/Record/1410370

Qabqali, I. A. (2014). *External borrowing and its role in financing economic development in Syria (1995–2010)* [Doctoral dissertation, Tishreen University, Faculty of Economics, Department of Economics and Planning].

Qeshta, N. (2023). Sustainable development: Goals and challenges. *Journal of Law and Political Sciences, 9*(1), 01–15. https://www.asjp.cerist.dz/en/article/219855

Quibria, M. G., & Islam, A. (2014). *Aid effectiveness in Bangladesh: Development with governance challenges.* MPRA Paper No. 64696. https://mpra.ub.uni-muenchen.de/64696/

Quraishi, M. (2007). *Economic development: Theories, policies, and topics* (p. 139). Wael Publishing House.

Rahman, M. A. (1967). The welfare economics of foreign aid. *Pakistan Development Review*, *7*, 141–159.

Rahman, O. (2021). *The impact of foreign direct investment on economic growth in Palestine.* Arab American University Publications. Retrieved from https://www.aaup.edu/publication/omar.rahman/article/impact-foreign-direct-investment-economic-growth-palestine

Ramsey, J. B. (1969). Tests for specification errors in classical linear least squares regression analysis. *Journal of the Royal Statistical Society: Series B (Methodological), 31*(2), 350–371.

Rajan, R., & Subramanian, A. (2008). Aid and growth: What does the cross-country evidence really show? *The Review of Economics and Statistics, 90*(4), 643–665. https://doi.org/10.1162/rest.90.4.643

Ratha, D. (2003). Workers' remittances: An important and stable source of external development finance. *Global Development Finance*. Available at SSRN: https://ssrn.com/abstract=3201568

Reva, A., Cojocaru, M.-I., & Bezzina, J. (2021). *Palestinian digital economy assessment.* Washington, D.C.: World Bank Group. Retrieved from http://documents.worldbank.org/curated/en/472671640152521943/Palestinian-Digital-Economy-Assessment

Ranis, G., & Fei, J. C. H. (1961). A theory of economic development. *The American Economic Review, 51*(4), 533–565. Retrieved from https://www.jstor.org/stable/1802787

Ravallion, M. (1992). *Poverty comparisons: A guide to concepts and methods* (Living Standards Measurement Study Working Paper No. 88). World Bank. Retrieved from https://documents.worldbank.org/en/publication/documents-reports/documentdetail/958221468765021239/poverty-comparisons-a-guide-to-concepts-and-methods

Ravallion, M., & Chen, S. (1997). What can new survey data tell us about recent changes in distribution and poverty? *The World Bank Economic Review, 11*(2), 357–382. http://www.jstor.org/stable/3990232

Ravallion, M. (2009). *Do poorer countries have less capacity for redistribution?* (Policy Research Working Paper No. WPS 5046). World Bank. Retrieved from https://hdl.handle.net/10986/4238

Regan, P. M., & Frank, R. W. (2014). Migrant remittances and the onset of civil war. *Conflict Management and Peace Science, 31*(5), 502–520.

Ribaj, A., & Mexhuani, F. (2021). The impact of savings on economic growth in a developing country (the case of Kosovo). *Journal of Innovation and Entrepreneurship, 10,* Article 1. https://doi.org/10.1186/s13731-020-00140-6

Richardson, H. W. (1978). Regional and urban economics. *Urban Studies, 15*(3), 271–286.

Riddell, R. C. (2007). *Does foreign aid really work?* Oxford University Press.

Riddell, R. (2014). Does foreign aid really work? An updated assessment. *SSRN Electronic Journal*. https://doi.org/10.2139/ssrn.2409847

Rodrik, D. (1998). Has globalization gone too far? *Challenge*, *41*(2), 81–94. http://www.jstor.org/stable/40721822

Rodrik, D. (2004). Globalization and growth: Looking in the wrong places. *Journal of Policy Modeling*, *26*(4), 513–517. https://doi.org/10.1016/j.jpolmod.2004.04.003

Rodrik, D. (2009). Industrial policy: Don't ask why, ask how. *Middle East Development Journal*, *1*, 1–29. https://doi.org/10.1142/S1793812009000024

Rodrik, D., & Subramanian, A. (2009). Why did financial globalization disappoint? *IMF Staff Papers*, *56*(1), 112–138. https://doi.org/10.1057/imfsp.2008.29

Rodrik, D. (2011). The globalization paradox: Democracy and the future of the world economy. *ASEAN Economic Bulletin*, *28*(3), 420. https://doi.org/10.1355/ae28-3k

Romer, P. M. (1986). Increasing returns and long-run growth. *Journal of Political Economy*, *94*(5), 1002–1037. https://doi.org/10.1086/261420

Rosenstein-Rodan, P. N. (1943). Problems of industrialisation of Eastern and South-Eastern Europe. *The Economic Journal*, *53*(210/211), 202–211. https://doi.org/10.2307/2226317

Rostow, W. (1960). The five stages of growth: A summary. In *The stages of economic growth: A Non-Communist Manifesto* (pp. 4–16). Cambridge University Press.

Roy, S. (1999). De-development revisited: Palestinian economy and society since Oslo. *Journal of Palestine Studies*, *28*(3), 64–82. https://doi.org/10.2307/2538308

Roy, S. (2004). The Palestinian-Israeli conflict and Palestinian socioeconomic decline: A place denied. *International Journal of Politics, Culture, and Society*, *17*(3), 365–403. https://doi.org/10.1023/B:IJPS.0000019609.37719.99

Roy, S. (2016). The Gaza Strip: The political economy of de-development (Expanded third edition). *Journal of Palestine Studies*, *45*(3), 616. https://doi.org/10.1525/jps.2016.45.3.616

Roy, S. M. (1998). *The Palestinian economy and the Oslo process: Decline and fragmentation* (1st ed.). Emirates Center for Strategic Studies and Research.

Saad, A. (2015). *The impact of remittances on key macroeconomic variables: The case of Palestine.* Palestine Economic Policy Research Institute.

Sachs, J. D. (2005). *The end of poverty: Economic possibilities for our time.* Retrieved from http://lst-iiep.iiep-unesco.org/cgi-bin/wwwi32.exe/[in=epidoc1.in]/?t2000=021569/(100)

Sachs, J., Warner, A., Åslund, A., & Fischer, S. (1995). Economic reform and the process of global integration. *Brookings Papers on Economic Activity*, *1995*, 1–118. https://doi.org/10.2307/2534573

Salameh, A. G. (2020). *Occupation and the stumbling of local economic development in Palestine.* Palestine Return Center. Retrieved from https://www.prc.ps/

Samara, A. (1997). *The World Bank, donors, and praisers: A study in the dependency and re-education of Palestinians.* Al-Mashriq/Al-Aamil for Cultural and Developmental Studies.

Samaan, M. M., Mahbouk, M. T., & Shamia, A. Z. (2011). *Principles of micro and macroeconomic analysis* (5th ed.). Dar Al-Thaqafa, Jordan.

Schneider, F., & Frey, B. (1985). Economic and political determinants of foreign direct investment. *World Development, 13*(2), 161–175.

Schwarz, G. (1978). Estimating the dimension of a model. *Annals of Statistics, 6*(2), 461–464. https://doi.org/10.1214/aos/1176344136

Scitovsky, T. (1954). Two concepts of external economies. *Journal of Political Economy, 62*(2), 143. https://doi.org/10.1086/257498

Scott, A., & Storper, M. (2003). Regions, globalization, development. *Regional Studies, 37*(6–7), 579–593. https://doi.org/10.1080/0034340032000108697a

Scott, J. C. (1998). *Seeing like a state: How certain schemes to improve the human condition have failed.* Yale University Press.

Selby, J. (2003). *Water, power, and politics in the Middle East: The other Israeli-Palestinian conflict.* I.B. Tauris.

Sen, A. (1999). *Development as freedom.* New York: Alfred A. Knopf.

Seyoum, M., Wu, R., & Yang, L. (2015). Technology spillovers from Chinese outward direct investment: The case of Ethiopia. *China Economic Review, 33,* 35–49. https://doi.org/10.1016/j.chieco.2015.01.005

Shaban, O. (2022, August). *International aid to the Palestinians: Between politicization and development.* Arab Center Washington DC. Retrieved from https://arabcenterdc.org/resource/international-aid-to-the-palestinians-between-politicization-and-development/

Shapiro, S., & Globerman, D. (2003). Governance infrastructure and US foreign direct investment. *International Business Studies, 34*(1), 19–39.

Shikaki, I. (2021). *The demise of Palestinian productive sectors: Internal trade as a microcosm of the impact of the occupation.* The Palestinian Policy Network (Al-Shabaka). Retrieved from https://al-shabaka.org/briefs/the-demise-of-palestinian-productive-sectors-internal-trade-as-a-microcosm-of-the-impact-of-occupation/

Shikaki, I. (2023). *A Structuralist Model of the Palestinian Economy: Who Bears the Economic Burden of the Israeli Occupation? Review of Political Economy,* 36(4), 1582–1612. https://doi.org/10.1080/09538259.2022.2156733

Shumway, R., & Stoffer, D. (2011). *Time series analysis and its applications with R examples* (Vol. 9). Springer. https://doi.org/10.1007/978-1-4419-7865-3

Srinivasan, T. N. (1986). *The costs and benefits of being a small, remote island, landlocked, or ministate economy.* Washington, D.C.: World Bank Group. Retrieved from http://documents.worldbank.org/curated/en/363641468766496559/The-costs-and-benefits-of-being-a-small-remote-island-landlocked-or-ministate-economy

Stiglitz, J. E., Sen, A., & Fitoussi, J. P. (2010). *Mismeasuring our lives: Why GDP doesn't add up.* The New Press.

Stojanovic-Trivanovic, M., Susic, I., & Susic, M. (2017). Foreign direct investments and their impact on the economic development of Bosnia and Herzegovina. *IOP Conference Series: Materials Science and Engineering, 200*(1), 012019. https://doi.org/10.1088/1757-899X/200/1/012019

Streeten, P. (1959). Unbalanced growth. *Oxford Economic Papers, 11*(2), 167–190. https://doi.org/10.1093/oxfordjournals.oep.a040822

Streeten, P. (1972). Unbalanced growth, programmes and prognoses and the ideal plan. In *The frontiers of development studies.* Palgrave Macmillan. https://doi.org/10.1007/978-1-349-05017-8_4

Syed, A. H. (2022, August). *Disentangling the relationship between remittances and peace* (Master's thesis). The University of Chicago.

Taghdisi, S. (2015). Political economy of aid in conflict: An analysis of pre-and post-Intifada donor behaviour in the Occupied Palestinian Territories. *Stability: International Journal of Security & Development, 4*(1), 1–18. http://dx.doi.org/10.5334/sta.fl

Talalwah, M. A. (2017). Partnership between the public and private sectors in the Palestinian economy and obstacles to its implementation from the perspective of decision-makers in the private sector. *Journal of Al-Azhar University – Gaza (Humanities), 19*(2), Article 8. Retrieved from https://digitalcommons.aaru.edu.jo/alazhar/vol19/iss2/8/

Tansey, R., & Hyman, M. (1994). Dependency theory and the effects of advertising by foreign-based multinational corporations in Latin America. *Journal of Advertising, 23*(1), 27–42. https://doi.org/10.1080/00913367.1994.10673429

Taylor, L. (1994). Gap models. *Journal of Development Economics, 45*(1), 17–34. https://doi.org/10.1016/0304-3878(94)90057-4

The Coalition for Accountability and Integrity (AMAN). (2020). *Fiscal leakages and losses incurred by the Palestinian Authority in the context of relations with Israel.* Retrieved from https://www.aman-palestine.org

Thirlwall, A. P. (2011). *Economics of development: Theory and evidence* (9th ed.). Palgrave Macmillan.

Todaro, M. P., & Smith, S. C. (2020). *Economic development.* Pearson Education Australia. https://books.google.ps/books?id=UeksEAAAQBAJ

Thorbecke, E. (2019). The history and evolution of the development doctrine, 1950–2017. In M. Nissanke & J. A. Ocampo (Eds.), *The Palgrave handbook of development economics*. Palgrave Macmillan, Cham. https://doi.org/10.1007/978-3-030-14000-7

Turner, M., & Shweiki, O. (Eds.). (2015). *Decolonizing Palestinian political economy: De-development and beyond.* Palgrave Macmillan.

Turnorsskey, S. J. (2008). The role of factor substitution in the theory of economic growth and income distribution: Two examples. *Journal of Macroeconomics, 30*, 604–629.

Ukeje, E. U., & Obiechina, M. E. (2013). Workers' remittances–economic growth nexus: Evidence from Nigeria, using an error correction methodology. *International Journal of Humanities and Social Science, 3*(7), 212.

UNCTAD. (2005). *Report on UNCTAD's assistance to the Palestinian people.* United Nations. Retrieved from https://unctad.org

UNCTAD. (2006). *The Palestinian war-torn economy: Aid, liberalization, and the failures of the Paris Protocol.* United Nations Conference on Trade and Development. Retrieved from https://unctad.org

UNCTAD. (2009). *The economic dimensions of prolonged occupation: Continuity and change in Israeli policy towards the Palestinian economy.* Retrieved from https://unctad.org/system/files/official-document/gds20092_en.pdf

UNCTAD. (2012). *The Palestinian economy: Macroeconomic and trade policymaking under occupation.* United Nations Conference on Trade and Development. Retrieved from https://unctad.org/system/files/official-document/gdsapp2011d1_en.pdf

United Nations Conference on Trade and Development. (2013). *Palestinian fiscal revenue leakage to Israel under the Paris Protocol on Economic Relations.* Retrieved from https://unctad.org/system/files/official-document/gdsapp2013d1_en.pdf

UNCTAD. (2015). *Report on UNCTAD assistance to the Palestinian people: Developments in the economy of the occupied Palestinian territory.* United Nations Conference on Trade and Development.

UNCTAD. (2019a). *The economic costs of the Israeli occupation for the Palestinian people: The agricultural sector.* Retrieved from https://unctad.org

UNCTAD. (2019b). *The economic costs of the Israeli occupation for the Palestinian people: The unrealized oil and natural gas potential.* Retrieved from https://unctad.org/publication/economic-costs-israeli-occupation-palestinian-people-unrealized-oil-and-natural-gas

UNCTAD. (2019c). *The economic costs of the Israeli occupation for the Palestinian people: The financial sector.* Retrieved from https://unctad.org

UNCTAD. (2019d). *The economic costs of the Israeli occupation for the Palestinian people.* Retrieved from https://unctad.org/system/files/official-document/gdsapp2019d2_en.pdf

United Nations Conference on Trade and Development. (2020). *Economic costs of the Israeli occupation for the Palestinian people: The Gaza Strip under closure and restrictions.* Retrieved from https://unctad.org/system/files/official-document/a75d310_en_1.pdf

UNCTAD. (2021a). *The economic costs of the Israeli occupation for the Palestinian people: The separation barrier.* Retrieved from https://unctad.org

UNCTAD. (2021b). *Economic costs of the Israeli occupation for the Palestinian people: The Gaza Strip under closure and restrictions.* Retrieved from https://unctad.org

UNCTAD. (2022a). *Report on UNCTAD assistance to the Palestinian people: Developments in the economy of the occupied Palestinian territory.* United Nations Conference on Trade and Development. Retrieved from https://unctad.org/publication/report-unctad-assistance-palestinian-people-0

UNCTAD. (2022b). *The economic costs of the Israeli occupation for the Palestinian people: The toll of the additional restrictions in Area C, 2000–2020.* Retrieved from https://unctad.org/publication/economic-costs-israeli-occupation-palestinian-people-toll-additional-restrictions-area

UNCTAD. (2023a). *Economic costs of the Israeli occupation for the Palestinian people.* Retrieved from https://unctad.org/publication/economic-costs-israeli-occupation-palestinian-people

UNCTAD. (2023b). *Report on UNCTAD assistance to the Palestinian people: Developments in the economy of the Occupied Palestinian Territory* (TD/B/EX(74)/2). United Nations. https://unctad.org/news/report-unctads-assistance-palestinian-people

UNCTAD. (2024). *Palestinian fiscal revenue leakage to Israel under the Paris Protocol on Economic Relations.* United Nations Conference on Trade and Development. Retrieved from https://unctad.org/system/files/officialdocument/gdsapp2013d1_en.pdf

United Nations Office for the Coordination of Humanitarian Affairs (OCHA). (2015). *The Gaza Strip: The humanitarian impact of the blockade.* Retrieved from https://ocha.un.org

United Nations. (1993). *Assistance to the Palestinian people: Report of the Secretary-General*. Retrieved from https://www.un.org/unispal/document/auto-insert-189486/

United Nations Human Settlements Programme. (2015). *Spatial planning in Area C of the Israeli occupied West Bank of the Palestinian Territory*. Retrieved from https://unispal.un.org/pdfs/UNHABSTUDY_MAY15.pdf

United Nations Office for the Coordination of Humanitarian Affairs (OCHA). (2017). *The humanitarian impact of Israeli settlements in the West Bank*. Retrieved from https://www.unocha.org

United Nations Office for the Coordination of Humanitarian Affairs. (2018). *The humanitarian impact of restrictions on access to land near the perimeter fence in the Gaza Strip*. Retrieved from https://www.unocha.org/publications/report/occupied-palestinian-territory/humanitarian-impact-restrictions-access-land-near-perimeter

United Nations Office for the Coordination of Humanitarian Affairs (OCHA). (2020). *The impact of the barrier on agricultural livelihoods in the West Bank*. Retrieved from https://www.unocha.org

United Nations Office for the Coordination of Humanitarian Affairs [UNOCHA]. (2023, September 13). *UN report: Thirty years since the Oslo Accords, the legacy of Palestinian statehood at risk*. Retrieved from https://unsco.unmissions.org/un-report-thirty-years-oslo-accords-legacy-palestinian-statehood-risk-0

UNRWA, The United Nations Relief and Works Agency for Palestine Refugees in the Near East. (2007). *Emergency appeal*.

Van Hear, N., Nyberg-Sørensen, N., & Engberg-Pedersen, P. (2002). The migration–development nexus: Evidence and policy options. *International Migration*, 40(1), 49–73. https://doi.org/10.1111/1468-2435.00211

Voivodas, C. S. (1973). Exports, foreign capital inflow and economic growth. *Journal of International Economics*, 3(4), 337–349. https://doi.org/10.1016/0022-1996(73)90025-6

Watson, G. R. (2000). Redeployment from the West Bank. In *The Oslo Accords: International law and the Israeli-Palestinian peace agreements* (Online ed., Oxford Academic, 2010). Oxford University Press. https://doi.org/10.1093/acprof:oso/9780198298915.003.0006

Weiskopff, T. E. (1972). The impact of foreign capital flow on domestic savings in underdeveloped countries. *Journal of International Economics*, 2(1), 25–38.

Weller, C. (2012). *Neocolonial dependence model and the false paradigm: Useful for explaining development in Haiti and the Dominican Republic?* Retrieved from https://studylib.net/doc/8729198/neocolonial-dependence-model-and-the-false-paradigm

Wildeman, J. (2019, March). *Donor aid effectiveness and do no harm in the Occupied Palestinian Territory: An oral and documentary analysis of Western donor perceptions of development and peacebuilding in their Palestinian aid programming, 2010–2016*. https://doi.org/10.13140/RG.2.2.30973.51684

Wildeman, J., & Tartir, A. (2021). Political economy of foreign aid in the Occupied Palestinian Territories: A conceptual framing. In A. Tartir, T. Dana, & T. Seidel (Eds.), *Political Economy of Palestine* (pp. 177–193). Middle East Today. Cham: Palgrave Macmillan. https://doi.org/10.1007/978-3-030-68643-7_10

Williamson, J. (2003). From reform agenda to damaged brand name: A short history of the Washington Consensus and suggestions for what to do next. *Finance and Development*, 40(3), 10–13.

Williamson, J. G., & Panchamukhi, V. R. (Eds.). (1989). *The balance between industry and agriculture in economic development*. Palgrave Macmillan. https://doi.org/10.1007/978-1-349-19746-0

Woodward, D. P., & Rolfe, R. J. (1993). The location of export-oriented foreign direct investment in the Caribbean Basin. *Journal of International Business Studies*, 24(1), 121–144.

Wooldridge, J. M. (2013). *Introductory econometrics: A modern approach* (5th ed.). South-Western Cengage Learning.

World Bank. (1987). *World development report 1987: World development indicators*. World Bank Group.

World Bank. (1999, December 18). *Aid effectiveness in the West Bank and Gaza* (Working Paper No. 43064, Volume 1). Middle East and North Africa Region. West Bank and

Gaza. Published on July 1, 2010. Retrieved from https://documents1.worldbank.org/curated/en/435031468339038074/pdf/430640WP01NO0P10Effectiveness0front.pdf

World Bank Group. (2003). *Twenty-seven months: Intifada, closures, and Palestinian economic crisis: An assessment*. Washington, DC: World Bank Group. Retrieved from http://documents.worldbank.org/curated/en/616581468765333893/Twenty-seven-months-Intifada-closures-and-Palestinian-economic-crisis-an-assessment

World Bank Group. (2004). *Stagnation or revival: Israeli disengagement and Palestinian economic prospects*. Washington, D.C.: World Bank Group. Retrieved from http://documents.worldbank.org/curated/en/220121468140963365/Stagnation-or-revival-Israeli-disengagement-and-Palestinian-economic-prospects

World Bank Group. (2006). *Global economic prospects 2006: Economic implications of remittances and migration*. Washington, D.C.: World Bank Group. Retrieved from http://documents.worldbank.org/curated/en/507301468142196936/Global-economic-prospects-2006-economic-implications-of-remittances-and-migration

World Bank. (2007). *The economic effects of restricted access to land in the West Bank*. Retrieved from https://worldbank.org

World Bank Group. (2008). *West Bank and Gaza: Financial sector review*. Washington, D.C.: World Bank Group. Retrieved from http://documents.worldbank.org/curated/en/134601468320930463/West-Bank-and-Gaza-financial-sector-review

World Bank. (2013). *West Bank and Gaza: Area C and the future of the Palestinian economy*. Retrieved from https://documents1.worldbank.org/curated/en/137111468329419171/pdf/AUS29220REPLAC0EVISION0January02014.pdf

World Bank. (2014). *Natural disasters in the Middle East and North Africa: A regional overview* (Report No. 81658). Retrieved from https://documents.worldbank.org/en/publication/documents-reports/documentdetail/211811468106752534/natural-disasters-in-the-middle-east-and-north-africa-a-regional-overview

World Bank. (2016). *Public expenditure review of the Palestinian Authority: Towards enhanced public finance management and improved fiscal sustainability*. Retrieved from https://openknowledge.worldbank.org/entities/publication/f09088f7-efd3-57bd-89bc-763d4fc9d6d3

World Bank (WB). (2017). *Unlocking the trade potential of the Palestinian economy* (Report No. ACS22471). Retrieved from https://documents1.worldbank.org/curated/pt/960071513228856631/pdf/ACS22471-REVISED-Palestine-Trade-Note-Web.pdf

World Bank. (2018). *Economic monitoring report to the Ad Hoc Liaison Committee*. Washington, DC: World Bank. Retrieved from https://www.worldbank.org/en/country/westbankandgaza/publication/economic-monitoring-report-to-the-ad-hoc-liaison-committee-september-2018

World Bank. (2019). *Agricultural restrictions and economic development in the West Bank*. Retrieved from https://www.worldbank.org

World Bank. (2021). *Economic monitoring report to the Ad Hoc Liaison Committee: Reconstructing Gaza and addressing the needs of the Palestinian economy*. Retrieved from https://www.worldbank.org/en/country/westbankandgaza/publication/economic-monitoring-report-ahlc

World Bank. (2022). *Coordinated efforts are required to avoid a worsening economic and fiscal outlook in the Palestinian territories*. Retrieved from https://www.worldbank.org/en/news/press-release/2022/09/16/coordinated-efforts-are-required-to-avoid-worsening-economic-and-fiscal-outlook-in-the-palestinian-territories

World Bank. (2023). *The Palestinian economy remains vulnerable amid socio-political instability*. Retrieved from https://www.worldbank.org/en/news/press-release/2023/05/02/the-palestinian-economy-remains-vulnerable-amid-socio-political-instability

World Bank. (2024a). *Impacts of the conflict in the Middle East on the Palestinian economy*. Retrieved from https://thedocs.worldbank.org/en/doc/7fa86a3dc815d1b545b1eb0f129e351b-0280012024/original/WorldBank-PalestinianEconomicUpdate-Dec2024-final.pdf

World Bank. (2024b). *Joint World Bank, UN report assesses damage to Gaza's infrastructure*. Retrieved from https://www.worldbank.org/en/news/press-release/2024/04/02/joint-world-bank-un-report-assesses-damage-to-gaza-s-infrastructure

Wooldridge, J. M. (2013). *Introductory econometrics: A modern approach* (5th ed.). South-Western Cengage Learning.

Yasmeen, K., Anjum, A., Yasmeen, K., & Twakal, S. (2011). The impact of workers' remittances on private investment and total consumption in Pakistan. *International Journal of Accounting and Financial Reporting, 1*(1), 152. https://doi.org/10.5296/ijafr.v1i1.949

Zafeer, S. (2015). *The political economy of foreign direct investment during internal armed conflict* (Doctoral thesis). University of Birmingham, Department of Political Science and International Studies, School of Government and Society.

Zeitoun, M. (2008). *Power and water in the Middle East: The hidden politics of the Palestinian-Israeli water conflict*. I.B. Tauris.

Zitouni, A., & Aishi, K. (2012, December 27). External financing and its forms. *Khazzartech: Industrial Economics, 2*(2), 23–42. http://dspace.univ-batna.dz/xmlui/handle/123456789/2463

Zhang, K. (2001). Does foreign direct investment promote economic growth? Evidence from East Asia and Latin America. *Contemporary Economic Policy, 19*(2), 175–185. https://doi.org/10.1111/j.1465-7287.2001.tb00059.x

Appendices

Appendix 1: Key Macroeconomic Indicators of the Palestinian Economy (1994–2023)

(Million US$)

Year	Gross Domestic Product (GDP)	Consumption	Gross capital formation (Investment)	Exports	Imports	GDP per capita (Dollar)	Unemployment Rate (%)	Poverty Rate (%)
1994	5,058	6,008	1,800	642	3,442	2,361	11.2	22
1995	5,418	6,512	1,809	814	3,757	2,355	11.1	23
1996	5,484	6,596	1,818	782	3,685	2,249	11.1	23.6
1997	6,288	7,440	2,051	945	4,125	2,442	10.8	23
1998	7,189	8,222	2,353	1,107	4,498	2,701	10.7	20.3
1999	7,784	8,796	3,239	1,171	5,459	2,830	10.6	23.2
2000	7,118	8,329	2,268	1,371	4,934	2,507	10.6	35
2001	6,456	8,029	1,790	919	4,364	2,208	21.5	51
2002	5,649	7,190	1,517	750	3,793	1,878	27.5	65
2003	6,441	8,037	1,931	843	4,352	2,080	23.0	51
2004	7,853	9,816	1,811	902	4,928	2,464	23.2	22
2005	8,740	10,990	1,932	1,076	5,535	2,659	20.0	21
2006	8,653	10,771	1,815	1,046	5,263	2,553	19.0	9
2007	8,981	11,242	1,402	1,269	5,299	2,570	18.3	43
2008	9,648	11,698	1,909	1,522	5,671	2,687	22.9	28
2009	10,477	12,488	2,226	1,628	6,226	2,842	20.5	9
2010	11,082	12,848	2,144	1,639	5,793	2,930	21.4	5
2011	12,146	13,988	2,182	2,017	6,168	3,132	17.6	6
2012	12,887	15,117	2,790	2,028	7,058	3,242	19.2	9
2013	13,492	14,861	3,194	2,117	6,661	3,315	19.9	14
2014	13,471	15,212	3,084	2,320	6,929	3,233	20.5	20
2015	13,972	15,843	3,505	2,244	7,646	3,278	23.0	21
2016	15,211	17,154	3,874	2,208	7,796	3,490	23.9	20
2017	15,427	16,514	4,167	2,516	7,902	3,463	25.7	26
2018	15,616	16,889	4,260	2,579	8,257	3,418	26.3	26
2019	15,829	17,329	4,177	2,631	8,376	3,378	25.3	26
2020	14,037	15,495	3,329	2,336	7,189	2,923	25.9	38
2021	15,021.7	16,752.1	3,770.2	2,740.4	8,256.4	3,052	26.4	31
2022	15,635.0	18,756.9	4,211.3	2,903.2	9,885.6	3,100	25.7	24
2023	14,922.7	17,858.4	4,074.7	2,728.5	9,516.3	2,892	32.5	55

Sources: PCBS, OECD, World Bank

Appendix 2: Contribution of Economic Activities to Palestine's GDP

(percent)

Economic activity	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Agriculture	12.1	11.7	13.4	10.4	10.2	9.2	8.5	7.8	7.3	7.3	11.1	8.3	10.7	8.4	10.5
Mining, manufacturing	22.2	20.6	17.2	15.4	14.9	13.5	13.2	16.6	16.1	17.2	14.0	15.3	11.1	10.6	13.5
Construction	5.6	4.2	5.3	4.9	5.5	8.8	5.3	3.4	2.2	3.0	3.9	4.2	4.2	4.0	2.7
Wholesale and retail trade	16.1	13.4	11.9	13.3	12.5	11.3	12.2	12.0	14.7	12.4	10.4	9.8	9.3	11.4	9.0
Transportation	4.1	3.7	3.6	4.2	4.2	4.2	3.8	3.3	3.5	2.9	2.3	2.7	1.9	1.7	1.2
Financial and insurance activities	0.9	1.6	2.0	2.2	2.6	3.0	3.5	3.0	3.3	3.5	3.0	4.0	3.9	4.4	4.2
Information and communication	0.1	0.1	0.1	0.9	1.8	2.0	3.0	3.0	2.9	3.0	2.7	1.5	3.2	3.4	3.5
Services	29.8	27.1	25.3	26.7	26.0	24.7	27.3	25.8	26.6	25.8	22.6	21.8	18.2	18.5	20.0
Accommodation and food service activities	2.7	2.3	2.0	2.3	2.4	2.3	1.6	1.0	0.5	0.9	0.8	1.1	1.2	0.9	1.1
Real estate activities	13.0	11.1	10.5	10.9	10.0	9.2	12.1	10.7	10.4	9.9	8.4	7.8	5.2	5.6	6.0
Professional, scientific, and technical activities	1.1	0.6	1.0	1.3	1.2	0.8	1.2	1.0	0.8	0.3	0.7	0.9	0.5	0.6	1.2
Education	7.4	7.2	7.0	8.0	7.8	7.6	7.7	8.3	9.3	9.3	7.8	7.4	7.4	7.1	7.2
Human health and social work activities	3.6	3.8	3.6	3.7	3.7	3.7	3.2	3.5	4.0	4.1	3.3	2.8	2.9	2.5	2.3
Public administration and defense	8.8	11.3	12.3	10.8	10.0	9.3	10.2	16.7	17.6	17.6	17.4	19.1	24.2	22.8	18.9

Appendix 2: Contribution of Economic Activities to Palestine's GDP (Continue)

(Percent)

Economic activity	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Agriculture	10.4	8.9	8.5	8.4	7.8	8.0	7.4	7.5	7.0	7.0	7.0	7.1	6.6	6.0	5.6
Mining, manufacturing	13.2	14.1	13.1	13.6	13.6	12.8	11.7	12.0	13.6	13.2	13.1	12.4	11.9	12.1	11.5
Construction	4.8	6.2	7.7	7.2	8.2	5.2	4.8	5.1	5.3	5.9	5.6	4.6	4.7	4.5	3.3
Wholesale and retail trade	10.7	15.9	18.5	18.4	18.7	18.9	19.8	19.4	20.5	21.4	21.3	18.8	17.9	17.8	17.8
Transportation	1.6	1.3	1.2	1.3	1.4	1.5	1.8	1.8	1.8	1.8	1.7	1.6	1.5	1.5	1.4
Financial and insurance	3.8	2.7	2.5	2.8	2.8	3.0	3.0	3.5	3.6	4.0	4.0	4.6	4.7	4.7	5.3
Information and communication	4.2	4.3	4.2	4.2	3.9	4.1	3.9	3.4	3.2	3.2	3.1	3.4	3.4	3.1	3.0
Services	18.7	16.8	16.9	18.3	18.6	19.4	19.2	19.6	18.4	19.2	19.6	20.3	21.1	20.6	20.5
Accommodation and food service	0.8	1.8	0.9	1.2	1.4	1.1	1.3	1.4	1.7	1.7	1.6	1.4	1.3	1.3	1.1
Real estate activities	5.9	4.1	3.3	3.5	3.7	4.6	4.9	4.7	4.7	4.5	4.5	4.4	4.6	4.4	3.9
Professional, scientific, and technical activities	1.0	1.0	1.2	1.1	1.1	1.1	1.1	1.3	1.1	1.1	1.2	1.0	1.0	0.9	1.0
Education	7.4	5.8	6.2	7.2	7.2	7.6	7.0	6.9	6.2	5.7	5.9	6.5	6.6	6.4	6.6
Human health and social work	2.5	2.2	2.8	2.9	2.9	2.9	2.7	2.9	3.0	3.3	3.4	4.0	4.6	4.6	4.9
Public administration and defense	16.7	15.2	15.3	14.0	13.7	14.2	13.9	13.3	11.4	9.6	9.9	11.7	12.1	11.7	11.2

Sources: PCBS

Appendix 3: Saving Gap, External Resources Gap, and General Budget Gap In the Palestinian Economy (1994–2023)
(Million US$)

	Total net revenues	Current expenditures and net lending	General budget gap	Exports	Imports	External Resources Gap	Saving Gap
1994	---	---	---	642	3,442	-2,828	1,122
1995	---	---	---	814	3,757	-2,967	1,270
1996	---	---	---	782	3,685	-2,927	1,270
1997	645.5	829.8	-426.6	945	4,125	-3,202	1,458
1998	807.2	867.8	-322.9	1,107	4,498	-3,410	1,298
1999	868.4	838.9	-206.3	1,171	5,459	-4,323	2,007
2000	941.5	942.5	-240.3	1,371	4,934	-3,574	1,391
2001	939.0	1,199.0	-729.0	919	4,364	-3,474	1,078
2002	273.0	1,095.0	-1,162.0	750	3,793	-3,072	658
2003	290.0	994.0	-956.0	843	4,352	-3,543	1,867
2004	747.0	1,240.0	-888.0	902	4,928	-4,027	2,076
2005	1,050.0	1,528.0	-478.0	1,076	5,535	-4,459	1,700
2006	1,370.0	1,994.0	-911.0	1,046	5,263	-4,218	1,173
2007	722.0	1,426.0	-985.0	1,269	5,299	-4,029	-631
2008	1,616.0	2,567.0	-1,261.0	1,522	5,671	-4,149	-1,954
2009	1,779.9	3,272.7	-1,707.8	1,628	6,226	-4,598	-21
2010	1,548.6	2,919.6	-1,556.9	1,639	5,793	-4,154	1,017
2011	1,845.4	2,931.3	-1650.58	2,017	6,168	-4,151	2,021
2012	2,176.0	2,960.7	-1698.37	2,028	7,058	-5,030	2,267
2013	2,240.1	3,047.1	-1568.62	2,117	6,661	-4,544	1,784
2014	2,319.9	3,250.7	-1586.86	2,320	6,929	-4,610	1,824
2015	2,791.2	3,445.9	-1431.82	2,244	7,646	-5,401	1,914
2016	2,891.4	3,445.0	-1086.7	2,208	7,796	-5,588	2,510
2017	3,551.9	3,661.7	-1243.07	2,516	7,902	-5,386	1,655
2018	3,651.5	3,794.8	-1057.32	2,579	8,257	-5,678	1,541
2019	3,462.9	3,660.0	-1267.5	2,631	8,376	-5,746	1,545
2020	3,290.6	3,660.1	-1670.74	2,336	7,189	-4,853	1,650
2021	3,526.2	3,954.9	-1258.59	2,740	8,256	-5,516	1,540
2022	4,224.7	4,035.1	-515.187	2,903	9,886	-6,982	2,322
2023	4,685.1	4,158.1	-514.664	2,729	9,516	-7,110	3,131

Sources: PCB, PMA, and MOF

Appendix 4: External Funding Sources for the Palestinian Economy (1994–2023)
(Million US$)

Year	Foreign Grants and Aid (FGA)	Foreign Direct Investment (FDI)	Compensation of Employees (COE)	Private sector transfers from abroad (PTA)
1994	472.0	180.0	285.6	220
1995	514.1	214.0	357.0	233.8
1996	552.4	244.0	335.8	261.4
1997	614.0	301.0	430.9	330.5
1998	616.4	433.5	680.9	351.3
1999	598.7	458.6	705.0	332.1
2000	729.8	728.3	456.3	503.9
2001	996.9	1000.3	193.1	674.9
2002	941.0	1115	136.4	700.3
2003	1,028.7	876.9	195.6	214.9
2004	1,160.0	667.9	202.8	316.3
2005	1,015.2	416.8	261.5	274.9
2006	1,360.5	880	309.9	298.1
2007	1,717.0	1109	385.4	762.2
2008	2,468.5	1343	498.4	1,337.3
2009	2,607.9	1958.7	487.1	873.2
2010	2,517.2	2175.3	578.3	1,067.6
2011	2,432.3	2328.0	736.5	959.8
2012	2,010.9	2336.2	822.9	1,688.2
2013	2,601.4	2459.0	1,140.5	1,254.4
2014	2,517.8	2487.0	1,449.4	1,497.4
2015	1,883.5	2511.0	1,663.9	1,505.0
2016	2,409.7	2660.0	1,894.5	1,559.3
2017	2,154.3	2703.0	2,131.1	1,663.5
2018	2,295.0	2721.0	2,666.2	1,525.8
2019	2,297.9	2777.0	2,597.5	1,723.5
2020	2,096.6	2716.0	2,434.4	1,277.8
2021	2,194.5	2976.0	3,507.0	1,788.0
2022	2,212.4	3116.0	4,380.0	2,290.0
2023	2,270.0	3190.0	3,092.0	2,030.0

Sources: PCBS, PMA, OECD

تقييم فعالية التمويل الخارجي في التنمية الاقتصادية في البيئات التي مزقتها الصراعات: التجربة الفلسطينية

محمد عارف محمد إبراهيم

أسماء لجنة الإشراف: الأستاذ الدكتور سامي ميعاري، الأستاذ الدكتور حامد علي، الدكتور رباح مرار

ملخص

تتناول هذه الرسالة تأثير التدفقات المالية الخارجية على التنمية الاقتصادية في البيئات التي مزقتها الصراعات، مع تركيز خاص على الاقتصاد الفلسطيني خلال الفترة من عام 2000 إلى عام 2023. وتهدف الدراسة إلى تقييم مدى تأثير المساعدات الخارجية، والاستثمار الأجنبي المباشر، وتعويضات العاملين (خصوصاً العمال الفلسطينيين في إسرائيل)، والتحويلات الخاصة على مؤشرات التنمية الأساسية، وهي: الناتج المحلي الإجمالي الحقيقي للفرد، والبطالة، والفقر، وذلك في ظل أوضاع من عدم الاستقرار السياسي والهشاشة المؤسسية.

أُجريت الدراسة في فلسطين باستخدام بيانات اقتصادية كلية فصلية تغطي الفترة من الربع الأول لعام 2000 حتى الربع الثالث لعام 2023. وتشمل مجتمع الدراسة الاقتصاد الفلسطيني بأكمله، بينما يعتمد التحليل على بيانات سلاسل زمنية مأخوذة من مصادر رسمية مثل الجهاز المركزي للإحصاء الفلسطيني، وسلطة النقد الفلسطينية، والبنك الدولي، ومنظمة التعاون الاقتصادي والتنمية (OECD) .

استخدمت الدراسة منهجاً اقتصادياً كمياً، مستندة إلى أسلوب اختبار الحدود في نموذج الانحدار الذاتي للفجوات الزمنية الموزعة (ARDL)، لتحليل العلاقات قصيرة وطويلة الأجل بين المتغيرات. وتم اختيار هذا النموذج لقدرته على التعامل مع عينات صغيرة وتركيبات تكامل مختلفة. أجري التحليل باستخدام برنامج EViews ، كما تم تطبيق اختبارات تشخيصية رئيسية لضمان موثوقية النموذج، شملت اختبارات التغاير غير المتجانس، والارتباط الذاتي، والاعتدال الطبيعي، والاستقرار (CUSUM وCUSUMSQ).

أظهرت النتائج أن المساعدات الخارجية ترفع بشكل كبير نصيب الفرد من الناتج المحلي وتقلل البطالة على المديين القصير والطويل، لكنها لا تؤثر بشكل واضح على الفقر. كما تُخفض الاستثمارات الأجنبية المباشرة معدلات البطالة، لكنها تفشل في رفع نصيب الفرد من الناتج أو تقليص

الفقر. أما تعويضات العمالة من إسرائيل فتُحقق فوائد طويلة الأجل في نمو متوسط نصيب الفرد من الناتج المحلي الإجمالي وتقليص الفقر، لكنها تحمل مخاطر إضعاف خلق فرص العمل المحلية. وتُوفر التحويلات الخاصة بعض التخفيف المؤقت للفقر وزيادة طفيفة في نصيب الفرد من الناتج المحلي الإحمالي، لكنها ترتبط بارتفاع البطالة في الأجل القصير وتفتقر إلى أثر تنموي مستدام. كما تؤدي شدة الصراع إلى إضعاف متوسط نصيب الفرد من الناتج المحلي الإجمالي على المدى الطويل وزيادة الفقر على المدى القصير، دون أن تُحدث تغيراً كبيراً في معدلات البطالة أو اتجاهات الفقر طويلة الأجل.

تشمل التوصيات السياساتية إعادة توجيه المساعدات والاستثمار الأجنبي المباشر نحو القطاعات ذات القدرة العالية على التوظيف والصمود (مثل البنية التحتية اللامركزية، الطاقة الخضراء، والمشاريع الصغيرة والمتوسطة)، وتحويل التحويلات المالية إلى رأس مال طويل الأجل عبر سندات المغتربين وبرامج الادخار المطابق، وتعزيز القدرات المؤسسية والحوكمة، ودمج البعد المتعلق بالصراع في عملية التخطيط الاقتصادي.

الكلمات المفتاحية: التدفقات المالية الخارجية، التنمية الاقتصادية، الاقتصادات المتأثرة بالنزاعات، نموذج ARDL ، الاقتصاد الفلسطيني