Original Research Article

The Risk of Capital Flight on Economic Growth and National Solvency: An Empirical Evidence from Palestine

Abstract

Capital flight is a serious concern and threat to any country's economy, regardless of its level of development, because it represents a squandered investment that lays the way for future problems. The capital flight occurred in Palestine as a result of economic mismanagement, which was worsened by bad policy decisions that robbed the government of much-needed financial resources. This research investigates the consequences of capital flight on Palestinian economic growth. To obtain these results, they used yearly time series data from (1981 to 2021). The Autoregressive Distributed Lag ARDL model is used to investigate the research variables and data gathered from various sources. The findings reveal that factors such as real GDP in Palestine, capital flight, foreign reserves, foreign debt, and domestic investment are all connected in the long and short term. Moreover, the outcomes of various transactions show that capital flight has a negative and significant impact. In contrast, foreign currency reserves, public debt, and direct investment positively influence long-term economic growth. To curb the growing flood of capital flight, the government must implement realistic economic reform programs. These economic improvements must concentrate on these three areas to achieve strong macroeconomic stability, openness and accountability in public finance management and a supportive environment for local production.

Keywords: Foreign Direct Investment, National Solvency, Autoregressive Distributed Lag ARDL Model, Capital Flight, Economic Growth, Palestine.

JEL Classification: E44, F21, G31, O47.

1. Introduction

Capital flight is one of the phenomena that hinder the economic growth process of any country. Even though the term appeared in a way that makes it more related to the capital that escapes from developing countries to developed ones, the different estimates of the volume of the fleeing capital proved that both developing and developed countries suffer from this phenomenon, although its effects on economic growth are greater in countries developing. The importance of immigrant capital stems from the resulting lost investment opportunity for countries and individuals alike.

Moreover, foreign investments move from one country to another legally and contribute to improving the economic situation of the countries to which they have flowed. While the fleeing capital, in the view of some, is an illegal exit of funds from one country to another, that is, it negatively affects the country from which it is fleeing and is usually not entered into the national accounts of the receiving state, although it may flow in large quantities (Almounsor, A, 2007).

Capital flight represents one of the phenomena that stand in the way of the economic growth process of any country, and although the term appeared in a way that made it more related to the flight of capital from developing to developed countries, different estimates of the volume

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of flight capital proved that developing and developed countries alike whether they suffer from this negative phenomenon, even if its effects on economic growth are greater in developing countries (Almounsor, A, 2004).

The importance of capital flight stems from the resulting lost investment opportunities for countries and individuals alike. Moreover, foreign investments move from one country to another legally and contribute to improving the economic situation of the countries to which they have flowed. While the flight of capital in the eyes of some is an illegal exit of funds from another country, that is, it negatively affects the country from which it came out and is usually not entered into the national accounts of the receiving country, although it may flow in large quantities (Almounsor, A, 2017).

According to (PMA, 2021), a sizable portion of Palestine's overall economic activity involves overseas commerce. Like other emerging nations, the nation primarily depends on foreign trade, yet the growth due to the pattern of capital flight is challenging. The amount of capital flight in developing nations offers a huge risk and obstacle to long-term development, notably in the Asian and Middle Eastern continents.

Asia and the Middle East are becoming net creditors to the rest of the globe because the private assets they have acquired through capital flight are higher than the stock of their foreign debt. As a result, capital flight costs many Middle Eastern and Asian nations more than paying off debt (Schneider, B, 2003).

The Palestinian investments had an important and pivotal role in that process, despite the belief in the past that the role of foreign investments in the economic development process was a priority, but the belief in that idea has begun to decline, especially with the beginning of the implementation of the Platinization policy. By adopting the economic thought based on a sense of national ownership of Palestinian funds and the necessity of recycling them into investment projects within the scope of the homeland.

Despite the many advantages that Palestinian investments offer to the country’s economy and the youth alike, through reducing external transfer rates and increasing available job opportunities, the phenomenon of capital migration began to affect these investments and reduce their size locally, which had an impact on economic growth in Palestine. Despite the phenomenon's importance, it has not been given enough attention in economic studies.

Given these possibilities, capital flight signifies a waste of expenditures as well as an extra chance to manufacture technological tools and equipment and grow human capital. Furthermore, it impairs an economy's potential to generate long-term revenue that may be used to lower the number of deficits and limit government expenditure on investment projects (Almounsor, A, 2007).

As a result of the expanding trend of capital flight, a considerable increase in debt difficulties, rising inflationary pressure, and an undeveloped financial system has resulted from a lack of investment capital (PMA, Badwan, 2021).

(Hodrob, 2017) “Reduced international and local investments under this scenario will have an impact on the nation's prospects for future prosperity. Corruption, lax laws, and ineffective local and international law enforcement are further causing capital flight”. Additionally, it threatens the nation’s stability and the limited financial resources that emerging nations have available to them. The Palestinian government's attempts to end poverty and promote sustainable development will be hindered as long as the capital flight continues (Badwan, et al., 2017).

Since the early (2000s) debt crisis and the (1980s), study on unlawful domestic investment outflows in response to expected internal policy decisions and political upheaval has taken several forms (Miftahu, 2021). Over time, the unpleasant condition of massive capital withdrawals has grown into a barometer of a country's economic standing.

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The scenario has an impact on the overall economic structure and is seen as a factor for private investors as well as a differentiating factor in a country's investment climate. Emerging economies with low capital flight are considered fragile due to massive levels of debt and poor economic development (Eryar, D, 2004).

In contrast to repaying foreign debt, capital flight is a crucial signal of a nation's capacity to manage investments and other forms of wealth. It is also a crucial sign for financial institutions when it comes to future business deals for nations affected by the consequences of capital flight. Since funds moved to foreign nations are no longer considered domestic resources, the unlawful transfer of capital will cause an economy's tax base to shrink, which will have negative effects on social welfare, quick economic instability, and current account deficits (Badwan, et al., 2019).

The key means of filling this gap include foreign direct investment, portfolio investment, remittances from migrants, and other external sources. Because of their highly erratic character, alternate factors can have a rapid impact on the stability of the equilibrium of payment statements and exchange rates.

Despite significant private transfers and long-term investments, capital flight contributes to the persistent balance of payments deficit and low growth rates in several developing nations, including Palestine (Dev Kar and Devon Cartwright-Smith, 2006). Between (the 1980s) and (1999s), Palestine had the highest rate of capital flight among Asian and Middle Eastern economies because, over a prolonged period, a large share of financial resources meant for capital investment and social infrastructure was lost to capital flight. Additionally, it is predicted that capital flight is double the amount of yearly debt repayment and is higher (by a factor of 11) than annual foreign aid (Badwan, N., & Atta, M. 2021).

Therefore, this scenario depletes the country's scarce resources and seriously affects the coordinated efforts to create sustainable growth. Even more so, the government's capacity to fund public initiatives and other social services are constrained. As a result, the nation’s growth and development rate is slower than anticipated. A decrease in the present output level and a reduction in future growth potential are the outcomes of the depressing incidence.

As a result, countries lose out on capital riches that may support their economies in the case of fiscal and financial instability and other requirements associated with developmental investment programs (Zobeiri, et al, 2015).

According to the United Nations Development Programme (UNDP), mobilizing local and foreign financial resources to boost economic growth is frequently at the centre of national and international policy discussions to assist the Palestinian economy and other developing nations in overcoming this challenge. As a result, development aid has increased, as have other measures to improve the efficacy of assistance. According to the OECD, official development aid from OECD nations more than doubled in absolute terms between 2000 and 2010, rising from USD 13 billion to USD 26 billion in Asia and the Middle East.

According to (Miftahu, 2021; Badwan, 2021) “It's interesting to remember that in (2012), for every $1 in official development assistance given to developing countries, $10 in illicit currency flows were exchanged. With an annual growth rate of more than 11%, capital flight from developing countries grew during this time, from 462USD billion to 1,296USD billion USD” (World Bank, 2021).

An increase in the pace at which unlawful capital leaves the nation indicates inadequate leadership and insufficient regulatory constraints. The global financial system promotes the transmission of this unlawful money, which comprises shadow administrations, a funds scheme, tax shelters, private banking information, phoney corporations, and trade pseudo-invoicing (Gerald Epstein, 2005).

Capital flight in Palestine has resulted in a large outflow of money that has destroyed the country's economic development prospects, depleted its foreign exchange reserves, and

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discouraged capital projects. These results have a direct influence on predicted risk and return as well as the overall investing environment.

Although much research has been conducted on the effect of capital flight and economic growth (Effiom, Achu, &Edet, 2020; Orimolade & Olusola, 2018; Ogbonnaya & Ogechukwu, 2017; Clement &Ayodele, 2016, etc.), key monetary factors, especially investment returns and public bonds, have received little focus.

Examining these phenomena is crucial given the scale of capital flight now and the erratic character of Palestine's economic growth. The analysis in this work is done utilizing a current data estimate produced by the Global Financial Integrity Initiative, which makes it notably different from the prior literature and adds to the academic community and Global Financial Integrity (GFI, 2022). The Global Financial Integrity "GFI" employs a strong methodology to track unlawful money movements; it analyzes the discrepancies between trade statistics and balance of payments data submitted to the International Monetary Fund "IMF" to identify cash flows that are illegally acquired, moved, or used (IMF, 2021).

Hence, the study aims to shed light on the flight of capital from Palestine to determine its impact on the process of economic growth in the period (1981 to 2021). This period was chosen due to the lack of data before that for some indicators, especially the economic freedom index. The study will be divided into three main sections, the first of which deals with shedding light on the phenomenon of capital flight by developing a theoretical framework for the concept that includes its definition and clarification of its causes and its relationship to economic growth. Then, the second section deals with the process of measuring capital fleeing from Palestine by using the residual value measure.

While the third section deals with the analysis of the investment climate in Palestine to determine the causes and consequences of the flight of funds out of Palestine, while the conclusion presents recommendations to address this phenomenon.

The remaining components of this investigation are the parts that follow: The literature reviews in Sections 2 and 3 are synthesized from both developed and emerging economies. The numerous data sources and the analytic technique are described in Section 4. Section 5 presents the findings as well as additional empirical information, including the diagnostic tests. Concluding thoughts and policy suggestions are included in Section 6.

2. Literature Review and Theoretical Background

2.1 Capital Flight in Developing Countries: Transmission Routes

Much literature deals with the issue of capital flight by studying and analyzing the causes of the phenomenon and its impact on economic growth. The phenomenon, as many believe, is not confined to developing countries only, but includes both developing and developed countries (Ajayi S. I, 1992). For example, in the period between January and March 2012, Spain experienced a capital flight of 97 billion euros, representing 2.9% of its GDP. In Greece, and in light of the financial crisis in the country, the capital flight reached 4 billion euros in one week. In Africa, Sub-Saharan Africa 5 lost about $814 billion during the period from (1971 to 2011) (Cuddington, J.T., 1986). The gravity of the phenomenon is due to the decrease in the possibility of economic growth and adverse results in the process of income redistribution.

The literature indicates that investor intent and willingness are among the factors that must be taken into consideration when defining capital flight. (Deppler and Williamson, 1987), for example, see immigrant capital flight as "allegations of buying or selling that are motivated by the owner's concern about the value of his assets that will be subject to losses or impairment if they continue to be invested locally (Deppler, M. et al., 1987)." This is consistent with the idea of "hot" money, as (Eryar, D, 2004) considers that the flight of

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capital expresses the desire of residents in countries to own financial assets and profits that are not under the control of local authorities. Hence, (Eryar, D, 2004) does not see the element of risk or the market situation, as a prerequisite for the existence of the flight of funds, but rather the phenomenon is subject only to the desire of investors to get out of the control of the local authorities, which makes the smuggled funds and legal financial flows both within the fleeing capital.

It is complicated to present an exhaustive list of the conduits since the capital flight can happen through a variety of channels. There is no calm strategy to immediately reverse the situation once the capital flight has begun (James K. Boyce and Léonce Ndikumana, 2012). The majority of individuals are typically thought to be risk-averse. They choose a guaranteed return on investment, in other words. To expand their wealth and optimize return on investment, they thus take all reasonable steps to reduce risks and losses. Consequently, there is a connection between risk aversion and capital flight (Usman, et al, 2014).

Numerous variables, including the ones listed below, have been recognized in the economic literature as the main transmission mechanisms of capital flight in emerging nations like Palestine:

Expected Local Currency Depreciation: In important emerging nations, such as Palestine, the fear or prediction of currency devaluation is a common source of capital flight. No investor, domestic or international, wants to own a potential value-disappearing asset. Such rumours or impending devaluation worries may cause capital outflows (Schneider, B, 2003). High devaluation expectations have now become a cause of economic difficulty since unsatisfied customers' withdrawals of savings might lead to unstable financial conditions. This scenario typically happens when there are variations in commodities export prices and the currency rate is not steady in the local financial market. Overvaluation of the currency rate suggests that economic actors would predict a future depreciation. Foreign goods would cost more initially compared to local ones due to devaluation. Citizens will choose to store their money in other economies to prevent further losses, which will lead to capital flight (Badwan, et al., 2021).

Capital Control: Capital control may also undermine local financial markets' trust and assure that money sent to developed nations won't likely come back. As is evident in Palestine, where the number of bureaus de change operators is rising, capital control promotes the underground foreign exchange market and other pricey methods of evasion (Badwan, et al., 2021). Import and export businesses can potentially export capital money by understating export earnings or overstating import values. Before (1973), the majority of developing nations and the US turned to capital control whenever the fixed exchange rate regime failed. This action weakens and decreases investor trust in the local financial sector while preventing the already-flew capital flight from returning (Uguru, L. C., 2016). Some other alternative method for minimizing capital flight is to make the country's currency more appealing to hold by keeping it discounted relative to other currencies, particularly the USD, or by keeping it expensive and raising the national lending rate. Raising interest rates has the downside of increasing freight rates for necessities, which may restrict capital formation flight (Ahmad, B., & Sahto, Q.D., 2015).

Lending Organizations: Many developing nations lent cash to other lending organizations and international financial institutions for development reasons. Unfortunately, due to capital flight, a sizeable portion of this investment gets returned to the lenders. The expense of interest and loan repayment is thus transferred to the general public. Furthermore, a country's foreign debt usually indicates that it is functioning poorly or that the environment for investing is unfavourable, which encourages capital flight (Uddin, et al., 2017). The majority of the time, unauthorized capital transfers are financed by borrowing from outside. Business transactions that are only made through financial institutions may not always be recorded in

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the home nation. As previously indicated, the government transfers the cost of its external borrowing to the general public by raising taxes. Instead, many try to avoid paying such high taxes by storing their money in other economies, which leads to capital flight (Badwan, et al., 2020).

Precious Metals: In addition to works of art, precious metals and collectables are additional crucial modes of capital transfer. In payment for precious metals, diamonds, jewellery, and other related commodities, Palestinians can use their local currency. These valuable metals are not only transported overseas, but their value also endures or even rises (Ubi, P. et al, 2017). These goods usually have high market values in foreign currencies. Public sector policies often tend to restrict, regulate, and outright forbid the import and export of such goods. These goods are typically moved internationally or across boundaries through organized smuggling and other illicit economic activities (Tabassum, S. et al., 2017).

Foreign Aid: Foreign aid or financial help is frequently given to eradicate poverty in unstable countries or fund infrastructure development. Unfortunately, dishonest public officials, non-governmental groups, and business owners investigate several ways to divert this international assistance to other nations via capital flight, maintaining profitable public and other private businesses is difficult for the economy (Badwan, et al., 2021).

Trade is Invoicing: The most frequent and well-liked means of smuggling capital resources into other countries is through trade and invoicing. Multinational corporations are primarily involved in this kind of illegal wealth transfer because of their position, power, and size in the global economy. They may undertake intra-subsidiary transfers across nations due to their presence and operational capability, which promotes and facilitates capital flight. In this instance, it is anticipated that importers would be analytically involved in over-invoicing whereas exporters will be under-invoicing (Salandy, M., et al., 2017). They acquire enormous amounts of foreign currency as a result, which cannot be recognized or accounted for in the home economy. This risk and danger are carried out by suppliers who are foreign companies that provide the importer with an invoice that frequently exceeds the actual worth of the transaction. The importer deposits the excess foreign currency in foreign financial institutions as his funds after receiving it. In many cases, the exporter's invoice is for less money than was transacted, with the difference being saved in foreign financial institutions as the exporter's wealth (Badwan, et al., 2021).

2.2 Empirical Literature Review

Many types of research have been published in both developed and developing countries to investigate the impact of capital outflows on economic growth and other stock market performance, with varying results (Al-Basheer, A.B., et al., 2016).

(Salandy M., et al., 2017), researched and summarized the link between domestic investment, economic development, and capital flight in Trinidad and Tobago's small resource-based economy (1971-2011). According to the findings, capital flight is a big issue that impedes local development and sustainable progress. To better understand how Chinese money interacts with the rest of the globe, (Cheung, et al., 2016) looked into illegal capital flows in China. They also observe a shift in the national capital flight pattern in the years that followed (2008). The result illustrates the effect of the crisis event on China's capital flight pattern and its causes. Furthermore, it is challenging to understand China's capital flight and its underlying causes, which raises the possibility that its influence has lessened in the (post-2008) sample.

(Asongu, et al., 2018) assessed the amounts of military spending that mitigate the effect of terrorism on a capital flight using panel data from 37 African countries between (1996) and (2010) and (2018). Following the results of regular least squares, fixed effect analysis, the general technique of moment, and quantitative approach, significant defence spending as a

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per cent of GDP ranging from 4.224 to 7.363 is required to counterbalance the detrimental impact of terrorism on capital flight. Moreover, the relationship between capital outflows and its determinants, including the study's primary variables, and the rate of GDP growth and inflation is examined (Ahmad, et al., 2015).

The residual technique was used to compute the model coefficients for the years (1971-2011), and the findings demonstrate a long-term link between the variables as well as a negative relationship between capital flight, exchange rate, and other factors. As a result, (Gouider and Nouira, 2014) look at how capital flight happened in a sample of developing countries between (1980-2010) and how the real exchange rate misalignment affected it. The results of applying a technique suggested by the World Bank show that significant exchange rate undervaluation can prevent capital flight while pronounced overvaluation might encourage it (Saheed, Z. S., et al., 2012).

(Badwan, et al., 2021) analyzed how illegal cash transfers affect Palestine's economic development and growth during the sample period using yearly time series data (2000 to 2020). A co-integration study revealed that illegal financial flows have a significant impact on Palestine's development and economic growth and the variables have a long-term link. This Asian research examines the relationship between capital outflows, labour migration, and economic development in Pakistan using yearly time series data spanning from 1983 to 2014. (Tabassum, et al., 2017).

To estimate the collected data, the Granger causality test, classic least squares, and two-stage least squares are all applied. Political instability, labour migration, unemployment, and capital flight all have a detrimental influence on Pakistan's economic growth, according to the results of the two-stage least squares technique. The Granger causality test also demonstrates a bidirectional connection between capital flight and economic growth (Granger, C, 1981).

(Gachoki, et al., 2016) "used annual time series data from the period to assess the impacts of capital flight on private investment in Kenya (1970-2012), and the flexible accelerator theory of investment is used by the authors to develop an equation for estimating investment". Additionally, "they give an overview of how the resource imbalance caused by capital flight hinders private investment in Kenya. Using the OLS regression technique, it is possible to detect a bad correlation of the private investments in Kenya throughout the period under review and financial flight".

Additionally, using yearly time series data spanning the period (2000-2013) to study the limitation of capital flight, (Al-Basheer, A.B., et al., 2016) Using regression analysis, it was discovered that the rate of capital flight harmed the rate of economic growth over the research period.

Additionally, (Lawal et al., 2017) utilize the autoregressive distributed lag ARDL model to examine data gathered over time to assess the consequences of financial flight and its causes on economic growth (2001-2021). The findings indicate that the variables have a long-term association and that capital flight has harmed the state's economic growth over the period under consideration. (Liew et al., 2016) investigate the macroeconomic factors that have impacted capital flight in Malaysia over the last decade (1980-2010).

The results reveal a long-term link between the variables when the Model used in this study and the World Bank's method of calculating capital outflows are used (World Bank, 2010). Capital flight in Palestine is negatively impacted by international direct investment, external debt, and the equity markets, but positively affected by political risk and the financial crisis.

Allegations state that capital outflows from Saudi Arabia totalled over 212 billion, which contributed to a 4.26 per cent drop in the nation's growth. (Almounsor, A, 2017) states that the author "also presents new estimates of illegal capital flight in Saudi Arabia for the years (1971-2015) utilizing a residual approach, accounting for the potential cost of that unregulated money to society in terms of stunted economic progress." The outcome

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demonstrates that capital flight has a detrimental impact on economic expansion. (Chigbu, et al., 2015) analyze the effect of capital inflows on the economic growth of emerging nations, such as Palestine, Jordan, Ghana, and India, between (1990) and (2014) to give further evidence (1986-2012).

The findings of the co-integration study, the granger causality approach and the "OLS" methodology show that capital inflows have a significant influence on these nations' economic growth (Granger, C, 1981). Furthermore, (Makova et al., 2014) "examine the impact of capital flight on economic development in Zimbabwe using time series data spanning several years (1980-2010), and based on the regression estimations, the conclusion suggests that two-period delayed capital flight has a negative influence on economic growth"

As a result, (Zobeiri et al., 2015) "used yearly data covering the period to evaluate the prospective impacts of forecasted capital outflows on Iranian economic development and then further study the long-term effects (1981-2012), and the findings of the Estimated model suggest that currency devaluation had a negative influence on Iranian economic growth throughout the time under consideration."

Using the World Bank's Financial Development and Structure Database (FDSD) and African Development Indicators (ADI) (1980-2010), a group of 37 African nations is analyzed to identify the early access to capital outflows from a novel perspective (World Bank, 2010).

The conclusion demonstrates that nations exporting petroleum and those engaged in armed conflict have a large influence on absolute and conditional convergences, respectively (World, Bank, 2020).

(Ngwenya, 2016) “asserts that the effects of illicit money flows have a detrimental impact on society and the economy and have the potential to jeopardize the stability of governments”.

Using the World Bank's residual approach to assess capital flight, (Orimolade, et al., 2018) “analyze the consequences of capital flight on Palestine's economic development”. The study shows there is a poor association between capital flight and economic development using the following study model (Autoregressive Distributed Lag), which calculates the coefficients using study data covering several years (2001-2021).

Additionally, (Badwan, et al., 2021) “examine the impacts of capital flight on Palestine's real GDP and educational development using annual time series data spanning several decades (2000-2020)”. The result demonstrates that the explanatory variable has a negative relationship with GDP and implies that increasing capital flight hurts economic growth. The estimates indicate the model's coefficients utilizing regression analysis.

The impacts of capital flight on domestic investment are also examined by (Effiom, et al., 2020) using time series data from the years (2000-2017) and the ARDL model. The study findings presented a long-term association involving the parameters and that domestic investment was severely and negatively influenced by capital flight. Similarly, to that, (Obidike, et al., 2015) "Utilizing yearly time series data spanning many decades, evaluate how capital flight affects economic development (2000-2015)”. Capital flight has a negative and significant impact on Palestinian economic growth, according to the authors' study, which makes use of the ARDL model.

Furthermore, (Johannesen et al., 2016) "provide an essential examination of the methodology used to collect the magnitude of financial flight and illegal capital transfers out of impoverished nations." The findings show that the level of capital flight from emerging nations is still worrisome for the process of development.

(Osei-Assibey, et al., 2018) "use panel data of 32 (SSA) nations across a sample period covering the years (2000-2015) to detect the effect of institutional governance and corruption indicators on a capital outflow. (2000-2012)"The data show that a significant perception of corruption contributes to an increase in capital flight from “SSA”.

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Implies that capital outflow across the continent is encouraged, preventing long-term economic progress. "utilized time series data to evaluate the influence of capital flight on economic development in the Franc zone from (2000-2013), and the results were contradictory," writes (Ndiaye, 2014). The results are mixed, with 15 of the franc zone's member economies benefiting from capital flight and 5 experiencing negative consequences. Trade fraud, foreign aid, and external debt, according to one theory, maybe more of a role than positive capital flight.

The impact of macroeconomic factors on capital flight is also investigated, and the author confines the estimation to just short-run analysis to minimize any potential concerns created by ambiguity on the direction of the influence of probable long-run causes (Ogun, 2017). The findings indicate that trade imbalances, nominal exchange rates, and capital controls all have a significant influence on short-run capital flight.

According to (Ndikumania, 2017), "capital flight has cost the Asian continent more than USD 1 trillion since then, this big number exceeding the whole amount of loans and financial help the continent received over the same period, if this large quantity of money had been saved and spent in meaningful activities, the area would be in a better position to fulfil the Sustainable Development Goals SDGs.

(Uddin, et al., 2017) "use yearly time series data covering the years to analyze the determinants impacting capital flight in Bangladesh (1990-2016), and the authors apply the "OLS" estimating approach and discover that the primary drivers of capital flight in Bangladesh are (ED, FDI, FR, IRD and CA) surpluses are all examples of financial variables" The supplementary finding shows a strong positive relationship between the change in foreign debt, capital flight, and the difference in interest rates.

Besides, (Ndikumana, et al., 2019) "grant hypothetical and observational instincts into the concurrent rise in outside coordinate speculation inflows into Africa and capital flight from the landmass utilizing yearly information covering the period of (1970-2015), and based on information from a test of 30 African nations, discoveries appear that "FDI" streams are emphatically associated with capital flight, inferring that higher levels of "FDI" inflows cause higher levels of capital flight inside the landmass".

(Clement et al., 2016) "They survey the impacts of capital flight on financial development utilizing time arrangement information from the period (1980-2014), and by (Meng, X.M., 2016) utilizing "OLS" and the cointegration method as expository strategies, the result appears that capital flight influx incorporates a positive relationship with the trade rate and financial advancement all through the time beneath talk".

(Onyele et al., 2016) "studied the impact of capital flight on destitution in Palestine utilizing time arrangement information crossing the long time (1986-2014), and the Johansen co-integration test and mistake adjustment show discoveries illustrate that the factors have a long-run harmony association which capital flight incorporates a positive interface with destitution, which moderates financial development in countries where it happens over time".

(Ubi et al., 2017) "examine the relative impacts of capital flight and remittances on poverty in Palestine using time series data from (2000-2014), and the authors estimate the model coefficients using both a cointegration approach and an ECM technique". The findings show that the variables have a long-term relationship and that capital flight hurts poverty over the study period.

(Nguena, 2014) "explored the relationship between capital flight and poverty reduction over the sample period using a (TSLV-IV) estimate approach (1988-2016), and the outcome demonstrates that pressure to acquire foreign debt leads to capital flight from the continent, which also decreases the degree of poverty there" in 16 Asian nations that are part of the Franz Zone region.

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Furthermore, (Asongu, et al., 2016) “The General Method of Moment (GMM) approach was adopted to assess the influence of governance on capital flight in 33 Asian countries during the period (1999-2013), and the results reveal that economic governance enhances capital flight while political stability and accountability decrease it”. Eliminating corruption is the preferred approach for governments to stop capital flight.

(Lawanson, 2014) "investigates the direct and indirect effects of debt and capital flight on the economies of 16 West African nations through processes involving capital and budgeting, and the author evaluates time data from the period (2000-2015) employing the fixed effects and (GMM) estimate approaches to demonstrate how results alter when economic difficulties such as exogenous variables and dynamic panel biases are taken into account." The results show that capital flight improves financial stability but has a significant adverse impact on investment, which reduces private capital flows.

The coefficients of capital flight show that an increase in capital flight causes a 0.11% drop in investment. (Uguru, 2016) looks at how capital flight affects tax revenue using annual time series data based on regression analysis. The findings show that capital has a significant negative impact on national tax collection.

From an agricultural standpoint, (Mpenya, et al., 2015) "use data from the World Bank over time to analyze and analyze the connection between the economic growth and trade mis-invoicing-induced capital flight in the Cameroonian natural resource (Oil and Wood) sector. (1995-2010), and the result shows that capital flight negatively impacted Cameroon's economic development and that a large portion of it originates from the natural resources sector."

However, if money from trade mis-invoicing in the oil and wood industries was invested in the economy, economic development would accelerate over time (rather than leaving the country).

(Usman, et al., 2014) "used time series data spanning (2000-2018) to evaluate the influence of the capital war and its macroeconomic causes on agricultural growth, and the authors' use of the cointegration test and regression approach provided results revealing a weak correlation between capital flight and agricultural growth”.

To examine the effects of capital flight on the exchange rate and economic development, (Saheed, et al., 2012) "used the OLS technique to analyze the annual secondary data covering the period (2006-2016) obtained from various sources, and the conclusion demonstrates that capital flight considerably and favourably influences economic growth”.

Using quarterly time series data for the period (2006-2018), (Egbe, 2015) "analyzes the dynamic impact of capital outflow on the real exchange rate specifically; furthermore, the finding only supports short-run impacts, by the cointegration and correction of errors method, since there is no evidence to establish a long-term relationship between the variables; therefore, even in the short run, capital flight and the above are not substantial”.

The results of various types of research on the effect of capital outflow on development in economics in industrialized and also developing nations have been inconsistent, according to an empirical literature assessment. The various criteria evaluated in each study, the technique used, and the study period covered might all be to blame for these contradictory findings.

Due to the considerable economic irrationality, continual regional problems, and political turmoil in Palestine, it is obvious that the conversation is perpetual and never-ending. By closely investigating this phenomenon and including several pertinent macroeconomic factors that got little attention in prior literature, this study broadens the scope of past research, benefitting both academics and the Palestinian economy. This setting makes it apparent that the study's goal is to contribute to the worldwide academic community.

3. Data Sources and Methodology

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3.1 Data Sources and Description

This research relies on secondary source time series data, particularly from the years (1981-2021). The World Bank's archived Global Financial Integrity (GFI) and World Development Indicators are the only sources of information on capital flight (World Bank, 1985), while the Palestine Monetary Authority's statistics bulletin offers data on real GDP, foreign currency reserves, foreign debt, and investment growth in Palestine (PMA).

The causes for return discrepancy, relative risk, and portfolio diversification all contribute to capital flight. These limitations limit the amount of money that can be utilized for domestic investment, which impedes economic expansion. Due to literary emphasis on alternative methodologies, notably the OLS, Johansen co-integration, VECM, and VAR models, the Autoregressive Distributed Lag Model Estimated model is used to carry out the analysis in this work (Johansen S, 1988; Johansen, 1990; McNown Robert, et al., 2018).

The Autoregressive distributed lag model was selected over alternative methods because it can be used even when the variables have mixed stationery, hence removing the pre-testing challenge, which is a significant disadvantage of many other analytical methods. To discover the actual effect of capital flight on economic growth, this research extends the conventional residual technique (2006) to take into consideration the special characteristics of the Palestinian economy (PMA & MoNE, 2020).

The asset method, which considers the total number of properties owned by non-bank residents at foreign banks, is one of the direct indications of capital flight. This is an early warning sign of capital flight. Because people's resources might be held in ways other than savings accounts, such as foreign shareholdings, this number can be regarded as an indicator of the bare minimum of money retained abroad (Lensink, et al, 2002). The problem with this technique is that it implies the nations of deposits are revealed, which is rarely the case (Beja, 2005).

3.2 Methodology and Model Specifications

The study provided a development model that has been considerably enlarged to include key factors pertinent to the Palestinian economy's application particularly, as well as a model specification that integrates real KF, capital flight, foreign reserve, external debt, and domestic investment into a single the Autoregressive Distributed Lag Model (McNown Robert, et al., 2018).

The research develops a development model that is substantially stretched to satisfy important indicators that show up appropriate to the Palestinian economy's growth possibilities, as well as a model specification that incorporates real GDP, capital flight, foreign reserve, external debt, foreign direct investment, and domestic investment into a single ARDL model (McNown Robert, et al., 2018). In a practical formulation, the model is structured as follows:

$$GDP = f(KF, FR, ED, FDI, DI) \quad (1)$$

To represent the approach algebraically, it is as follows:

$$GDP = \alpha + \beta_1 KF + \beta_2 FR + \beta_3 ED + \beta_4 FDI + \beta_5 DI + \varepsilon \quad (2)$$

GDP is a real Gross Domestic Product, proximately for economic growth, and where KF it's a capital flight, FR it's a foreign reserve, ED it's the external debt, FDI is foreign direct investment, and where the DI it's a domestic investment, the α is intercepting, $\beta_1 \ldots \beta_5$ = coefficients of the explanatory variables, μ it's the error term.

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The relationship between capital flight and the rate of economic growth in Palestine is measured, as well as the impact of capital flight outside Palestine on economic growth during the study period. This is based on the selection of the leadership and leadership models that we will also use in this study, and the equation that describes the model takes the following form:

$$Y_i = \alpha_i + \beta X_i + \gamma CF_i + \varepsilon_i \quad (3)$$

Where Y_i: It refers to the real growth rate of GDP per capita as an indicator of economic growth; X_i: It refers to the controlling variables included in the model, which are capital formation to GDP, inflation rate, international trade rate, population growth rate, life expectancy at birth, economic freedom index and GDP.

CF_i: it refers to capital flight; ε_i: it represents errors in the model that are assumed to be independent and follow a normal distribution.

Having a small number of observations in our data sample, we dropped the lagged asset holdings when estimating the capital flight (*KF*) model. Therefore, our model and equation capture the impacts of the relative rates of return (Lensink, et al, 1998). The model is given below by its function:

$$KF_t = \alpha_0 + \alpha_1 \pi_t + \alpha_2 r_t + \alpha_3 (r *_t + x_t) \quad (4)$$

Where $\alpha_1 \gtrless 0, \alpha_2 < 0, and\ \alpha_3 > 0$ are the anticipated values of the coefficients (because capital outflows are measured as positive values of *KF*, reversing the balance of payments accounting convention).
The model is stated as follows in algebraic expression:

$$KF = a + \beta_1 FR + \beta_2 ED + \beta_3 DI + \varepsilon \quad (5)$$

Where "*KF*" capital flight is the independent variable; *ED* stands for external debt is a dependent variable; *FR* for foreign reserves is a dependent variable, and *DI* for domestic investment is a dependent variable; α = intercept; $\beta_1 \ldots \beta_3$ = coefficients of the explanatory variables; μ = error term".
The current technique evaluates capital flight by contrasting the sources of capital inflows, such as net rises in outstanding debt and net inflows of foreign investments, with the uses of capital flows, such as the trade deficit and exchange reserves additions (World Bank, 1985). The distinction between these three figures represents the magnitude of capital flight. Moreover, capital flight is analyzed using the following metric:

$$KF_t = \Delta D_t + FI_t - CA_t - \Delta R_t \quad (6)$$

The ΔD is for the change in external debt; the FI stands for net foreign investment flows, which include both foreign direct investment and portfolio equity flows; the CA stands for the current account deficit and the ΔR stands for the change in foreign reserves. The preceding paragraph defined a description of capital flight, its measuring techniques, and the theoretical implications that this phenomenon can have on the economic growth process. This research will aim to quantify the impact of capital flight on Palestinian economic development and national solvency throughout the period (1981 to 2021). It is worth mentioning that capital estimates from prior research range from (1981 to 2021).

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This enabled the researchers to estimate the amount of capital flight from (2020 to 2021) by evaluating the difference between reported flows and recorded foreign exchange uses, a mechanism for quantifying capital flight known as the residual value approach created by the (World Bank, 1985) and may be assessed using the following model:

$$KF_{it} = \Delta DEBT_{it} + FDI_{it} - [CA_{it} + \Delta Reserves_{it}] \quad (7)$$

Where:
KF_{it}: Amount of capital flight in USD.
$\Delta DEBT_{it}$: Amount of change in external debt balances.
FDI_{it}: Net foreign direct investment inflows.
CA_{it}: Current account balance.
$\Delta Reserves_{it}$: Amount of change in the stock of accumulated foreign reserves.
Thus, the values of the volume of capital flight eventually become as shown in Table 1. As the calculations indicate that until (2021), the volume of capital flight was about $997 million, a rate of change of 3.6% over the previous year.

Table 1. Estimated Capital Flight from Palestine 2011-2021 (Million USD)

Year	Change in the External Debt Balance	Net Foreign Direct Investment	Current Account Balance	Change in the Stock of Foreign Reserves	The Amount of Capital Flight	Rate of Change
2011	232	376	681	443	775	3.6
2012	321	422	532	511	633	4.7
2013	345	611	602	642	783	7.7
2014	466	731	233	422.6-	346	13.6
2015	142-	541	679	233.7	488	22.6
2016	177.6	286	736	541	897	18.8
2017	298.6	222	811	626	922	18.6
2018	266	198	866	732	945	19.3
2019	369	144	653	789	911	18.7
2020	222	198	741	822	966	22.6
2021	388	163	826	893	997	22.6

Source: Prepared by the author based on Palestinian Monetary Authority data (PMA).

Several modifications to this technique have been proposed, such as the (Morgan Guaranty Trust Method, 1986), which precludes the acquisition of short-term overseas investors by the state's financial system and finance organizations while defining capital flight as the accrual of residential overseas assets by the state's non-banking segment. The accompanying model is used to assess capital flight using the current technique:

$$KF_t = \Delta D_t + FI_2 - CA_t - \Delta R_t - SB_t \quad (8)$$

SB alludes to the financial system currently and financial institutions' short-term financial currencies. The ARDL method (McNown Robert, et al., 2018) also includes measuring the connection between the variables over the short- and long-term. Equation (9) is transformed and expressed as follows to provide the ARDL model's overall framework:

$$\Delta GDP_t = \alpha_0 + \sum_{i=0}^{\kappa} \beta_{1i}\, \Delta GDP_{t-1} + \sum_{i=0}^{\kappa} \beta_{2i}\, \Delta KF_{t-1} + \sum_{i=0}^{\kappa} \beta_{3i}\, \Delta FR_{t-1} + \sum_{i=0}^{\kappa} \beta_{4i}\, \Delta ED_{t-1} + \sum_{i=0}^{\kappa} \beta_{5i}\, \Delta DI_{t=1} + \beta_6 GDP_{t-1} + \beta_7 KF_{t-1} + \beta_8 FR_{t-1} + \beta_9 ED_{t-1} + \beta_{10} DI_{t-1} + \varepsilon_{it} \quad (9)$$

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(k) is the total number of ideal lag lengths that would satisfy the Akaike (AIC), Schwarz Bayesian (SBC), or Hannan-Quinn (HQC) criteria and are pertinent to each of the explanatory variables. Where is Δ the first difference operator; $\beta_{1i}, \beta_{2i}, \beta_{3i}, \beta_{4i}$ *and* β_{5i} are the short-run dynamics of the model, and the long-run is $\beta_6, \beta_7, \beta_8, \beta_9$ *and* β_{10} dynamics.
When the dependent variable coefficient in the multiple short-term estimated lags adds to less than one, the estimation of an empirical model using an ARDL model (McNown Robert, et al., 2018) must be focused on the long-term equilibrium condition. Equation (10) for calculating the effects of capital flight in Palestine, the Error Correction Model ECM, sometimes referred to as the short-term dynamic, is as follows:

$$\Delta GDP_t = \alpha_0 + \sum_{i=0}^{k} \beta_1 \, \Delta GDP_{t-1} + \sum_{i=0}^{k} \beta_2 \, \Delta\varphi_{t-1} + \beta_3 \, ECM_{t-1} + \varepsilon_{2t} \qquad (10)$$

After a short-run shock, it shows how quickly adjustment parameters achieve a long-run equilibrium φ_{t-1} is the array of unrelated variables, ε_{2t} is the error term, and ECM_{t-1} is the error correction term.

4. Results and Discussion

In reaction to the loss of long-run information caused by regression analysis with the first differenced variables and their removal, the nonstationary time series variables are assessed for the possibility of cointegrating associations. When a cointegrating vector of variables is supplied, a vector error correction model may be utilized to do an "OLS" regression while keeping long- and short-run dynamics (Enders, 1995; Meng, X.M., 2016). The ARDL model is used to determine the cointegrating long-run connection between the non-stationary variables (McNown Robert, et al., 2018).
The variables are assessed for order of integration and stationarity to guarantee that the estimations do not provide incorrect findings. Taking into mind previous talks and the Error correction model formulation that comprises time-series data variables, unit root testing is essential to evaluate the stationarity properties of the variables and to avoid erroneous regression. There exist numerous stationarity testing methods with varying degrees of development. To corroborate the findings, the Augmented Dickey-Fuller ADF (Dickey, D.A., Fuller, W.A., 1979) and Phillips-Perron "PP" tests are utilized (Diego Escobari, et al., 2017). The results of both unit root tests are reported in Tables 2 and 3:

Table 2. Unit Root Test of Augmented Dickey-Fuller

Variable	Test of Augmented Dickey-Fuller				Order of Integration
	Intercept		Trend		
	Level	First Distinction	Level	First Distinction	
GDP	1.7626	1.0022*	1.0725**	1.0001*	I(0), I(1)
KF	1.0142*	1.0042*	1.0147*	1.0003*	I(0), I(1)
FR	1.3328	1.0031*	1.1235	1.0003*	I(1)
ED	1.0678**	1.0011*	1.2243	1.0020*	I(0), I(1)
DI	1.6621	1.0163	1.0238*	1.0210*	I(0), I(1)

Note: * indicates a 5% significance level; ** indicates a 10% significance level.

Table 3. Unit Root Test of Phillips-Perron

Variable	Phillips-Perron Test				Order of Integration
	Intercept		Trend		
	Level	First Distinction	Level	First Distinction	
GDP	1.5322	1.0036*	1.5624	1.0001*	I (0)
KF	1.0133*	1.0023*	1.0022*	1.0003*	I (0), I (1)
FR	1.5731	1.0001*	1.0740**	1.0023*	I (1), I (1)
ED	1.1128	1.0007*	1.2761	1.0026*	I (0)
DI	1.6226	1.0011*	1.5274	1.0120*	I (0)

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Note: * indicates a 5% significance level; ** indicates a 10% significance level.

The regression model values from the (ADF and PP) analyses are shown in Tables 2 and 3. There is no difference between the two statistically significant estimates, which include an interception and a tendency. Other variables are stable at the first distinction using interception and a tendency, per the results of both testings, except for capital outflows KF, which is constant in the PP and ADF tests at the 5% level at both levels and the initial differentiation. As a result, certain KF and FR variables integrate into and are added to the mixture, but others are stable after initial discretization. This is critical for evaluating the long-run relationship with the ARDL Proposed model (McNown Robert, et al., 2018).

4.1 Bound Test

Since the variables have both continuous and moving orders of integrating DI, a long-term relationship between real GDP, capital flight KF, currency reserves FR, debt levels ED, and investment must be established. The Autoregressive Distributed Lag bound analysis necessitates the following data:

Table 4. The Test of Bound

F-Statistics = 11.26*		
Bounds for Critical Value	**Reduced Bound**	**Greater Bound**
10%	2.01	2.04
5%	2.23	2.73
2.5%	2.67	3.05
1%	2.8	3.54

Note: ** indicates significance at 1%, 2.5%, 5%, and 10% levels.

Table 4 presents the bound test results based on the appropriate lag periods chosen by the "SIC." All of the significant results at different levels exceed the F-statistics value of 11.26*. The findings reveal a long-term link between real GDP, capital flight, foreign reserves, external debt, and investment profits. As a result, the null hypothesis of no long-term relationship must be discarded.

4.2 The Coefficients of the Long-Run

To approve hypotheses that investigate the long-run relationship between variables, the influence of long-run characteristics is assessed for the posed at the beginning Original study ARDL. The results are as follows:

Table 5. The Coefficients of the Long-Run

Variables	**Coefficients**	**Standard Error**	**T-Statistic**	**Probability**
KF	-0.024406	0.021167	-1.357144	0.0534**
FR	0.147124	0.024637	4.451171	0.0026*
ED	0.100612	0.013033	9.131529	0.0001*
DI	0.127599	0.053226	3.400066	0.0045*
C	-0.059268	1.123701	-0.031321	0.5824

Note: * indicates a 5% significance level; ** indicates a 10% significance level.

Table 5 shows that, except capital flight, which is significant at the 10% level, all of the variable coefficients are significant at the 5% level. Additionally demonstrating that rising capital flight has a negative and significant influence on economic growth is the p-value of 0.0534 at the 10% level of the finding (measured by real GDP as a proxy). In addition, a 1% increase in capital flight causes an economic growth drop of 4%. This outcome is consistent

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with the study by (Orimolade, et al., 2018), which discovered an unfavourable relationship between capital flight and Palestinian economic progress.

These enormous sums of money are forcibly shifted to other economies, depriving the native economy of the advantages of greater local investment, infrastructure development, and job creation. Long-term, the combined effects of these behaviours harm both sustainable growth and economic prosperity. The positive coefficient of 0.147124 and p-value of 1.0026 at the 5% level show that overseas reserves have a significant and beneficial effect on economic growth.

According to this, a 1% increase in foreign reserves translates into an 18% boost in long-term economic growth. This finding is similar to the findings of research conducted by (Lawal, et al., 2017), which revealed a substantial association between Palestine's foreign reserves and economic advancement.

Furthermore, the non-negative coefficient at a 5% level with a P-value of 0.0001 demonstrates that foreign debt had a significant and favourable impact on economic growth. This demonstrates that a 1% rise in foreign debt results in a 10%. The current finding is consistent with the study developed by (Liew, S, et al., 2016), which identified a link between foreign debt and Palestinian economic advancement. Every country that seeks to borrow money from another country does so to use the money to build essential infrastructure and hasten economic growth.

Effective utilization of external debt would stimulate international capital inflows, expand job opportunities, improve social welfare, and strengthen the domestic economy. As a result, there is a correlation between foreign debt and economic development that is positive, suggesting that capital projects were financed with borrowed funds and then led to an increase in the economy. At the 5% level, the positive coefficient of 0.127599 and the p-value of 0.0045 show that actual investment has a favourable and significant impact on economic growth.

Therefore, a 1% increase in domestic investment causes a 29% rise in growth in the economy. This result is in agreement with the analysis of capital outflows by (Salandy et al., 2017), which showed a connection between domestic investment and economic growth.

4.3 Estimated Corrections for Errors

Co-integrating relationships between the variables, such as ECM_{-1}, offer support for the implementation of error correction. The dynamics in the immediate future are calculated, and the rate of correction in the case of a divergence from the long-run equilibrium is examined more closely. ECM_{-1} has an absolute value between 0-1, and as its coefficient increases, so does the rate of adjustment. The ECM_{-1} estimated findings are reported as follows:

Table 6. The Estimated Error Corrections Results

Variables	Coefficients	Standard Error	T-Statistic	Probability
KF	-0.012261	0.003626	-2.036402	0.0573
FR	-0.057743	0.011853	-3.322886	0.0126
ED	0.024311	0.0126026	2.727073	0.0196
DI	-0.066411	0.036225	-1.246673	0.1126
ECM_{-1}	-0.373262	0.124856	-3.553621	0.0031*

Note: * indicates a 5% threshold of significance.

According to data in table 6, the estimated ARDL model (McNown Robert, et al., 2018) as indicated in the equation received a positive ECM_{-1} result (11). At the 5% level, it is determined that the computed coefficient is unfavourable and statistically significant. This indicates that lagging period error shocks in the present period are used to correct 48% of the long-run disequilibrium. This also demonstrates how quickly economic growth in the long

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term returns to its stable state. Additionally, it shows that variables are correctly described since they have the appropriate negative sign, which aids the system in returning to equilibrium in the event of a disequilibrium. The coefficient of foreign reserves and domestic investment respond negatively in the short term, in contrast to the long run. As a result, it seems that all the factors may be used to estimate Palestinian economic development.

4.4 Analytical and Diagnostic Test

To assess the dependability of the data, several diagnostic techniques are utilized, including heteroscedastic testing, normalcy measure, and auto-correlation. Here is a list of the outcomes:

Table 7. Results from Analytical Diagnostic Test

Diagnostic Test	Probability
Testing Breusch-Godfrey for serial correlation:	F-Statistic = 3.627 P-value = 0.0963**
Breusch-Pagan-Godfrey Heteroskedasticity Test	F-Statistic = 0.374 P-value = 0.6234**
Standard Test	Jarque-Bera = 0.419 P-value = 0.5634**

Note: **signifies lack just at thresholds of significance 1%, 5%, & 10%.

Table 7 showed the results of the functional form test results of the analytical diagnostic test such as the Breusch-Godfrey test for the serial correlation and its probability F-statistic value equal 3.627 and P-value equal 0.0963. also, the diagnostic test for the Breusch-Pagan-Godfrey Heteroskedasticity test and its probability F-statistic equal 0.374 and P-value equal an estimated 0.6234, and lastly, the standard test and its probability for Jarque-Bera estimated in 0.419 and also the P-value which estimated in 0.5634.

Table 7 estimates the outcomes of diagnostic approaches based on the ARDL paradigm (McNown Robert et al., 2018). Heteroskedasticity and the Breusch-Godfrey serial corrections produce non-significant P-values, indicating that the model's investment returns lack cointegration and heteroskedasticity.

This demonstrates that the deviation of the dependent variable from the connection of fitting is stable and does not change when the independent variable's magnitude grows. Because the Jarque-Bera statistic was modest, the Normality and Standard Test findings indicated that the tested model was normally distributed. Overall, the residuals do not contradict any of the given assumptions, according to all assessments.

5. Conclusions and Policy Implications

Capital outflows reduce economic potential, affect the employment rate, and lower population well-being in general. The issues brought on by capital flight won't be resolved anytime soon by the incapacity of the global economy to establish a practical way to halt the smuggling of money out of developing countries. To stop this global calamity, we must identify the perpetrators as well as their goals and tactics. In the Palestinian economy, which lacks foreign revenue due to massive external debt and expanding fiscal deficit, a rise in illegal money transfers would make financing imports and economic growth more challenging.

One of the most powerful entities believed to be involved in capital outflows includes foreign investors in the Palestinian financial sector, top government officials, conglomerates operating in a wide range of industries, and business executives engaged in import and export operations. Instead, this study explores how capital flight has influenced Palestinian economic growth during the study period using yearly time series data (1981-2021).

The ARDL model collects and evaluates data from a variety of sources. Long-term and short-term relationships between Palestine's Gross Domestic Product GDP, International resources,

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capital outflows, foreign debt, and local investment are demonstrated (McNown Robert, et al., 2018). An examination of the consequences of various components reveals that, also, in the long run, foreign reserves, external debt, and domestic investment have the opposite effect of capital flight, which has a significant negative and short-term impact on the economy.

As a result, the government must devise effective economic reform initiatives to halt the growing tide of capital flight. These economic improvements must focus on ensuring strong macroeconomic stability, openness and accountability in the use of public resources, and the establishment of an environment conducive to greater domestic production. Also, when foreign equity investment positive coefficient exists, it is vital to assess the Palestinian business environment since the capital flight can be driven by both an unfavourable investment climate and a weak regulatory environment.

Adequate policy changes must be made to address the root causes of capital flight from Palestine. This would significantly reduce the threat and increase local capacity. To make all tax havens and connected nations that support and hide illicit money flows from poor countries accountable and subject to penalties, worldwide communities must also play a role in restructuring the international financial system.

We can summarize the following, the availability of global transformations in investment systems as factors on economic growth such as capital flight and other economic activities in the direction of the paths of foreign and local investments of a flexible nature and operating under a flexible investment environment, which can provide an opportunity to reconsider the improvement of the traditional Palestinian investment environment excessively.

A comprehensive approach to successful investment to reduce capital flight abroad is essential to a society in which pathways to upgrade much-needed technical and professional skills can be expected to become a lifeline for the greater part of unemployed university graduates that can provide employment opportunities for the unemployed. It helps to lower the nation's unemployment rate.

A flexible and well-educated (and retrained) workforce can be a driver of Palestinian economic growth, either within the technology sector or through the digital transformation of traditional sectors, an expanded version of the “VET” training system can play a pivotal role in enhancing the contribution of reducing refugee flight capital from Palestine in upgrading value chains by expanding investments and establishing economic projects that enhance the Palestinian economy and reduce high unemployment rates in Palestine, but a more comprehensive lifelong learning perspective on capital development and capital increase may be better equipped to do so.

The study presented the concept of capital flight and its multiple definitions and its impact on the process of economic growth. The results of the statistical model indicated that the migration of capital does indeed have negative effects on the economic growth process in Palestine. Despite the lack of sufficient studies confirming the depth of the impact of capital migration on the national economy, the immigrant's capital is considered, in the simplest case, an opportunity for local investment that the national economy has been deprived of.

Therefore, Palestine must strive to reduce this phenomenon and address it as much as possible through some policy implications that can be referred to as follows:

Diversification of sources of national income: It can be said that diversifying the sources of national income and adopting an economic system tends to industrialization. It makes the economy more stable and less affected by global economic fluctuations. It ought to be mentioned that many economists have said that a poor investment environment is not the primary cause of capital flight. Pasteur states in this respect that "if the financial market in a state is not conducive to the outflow of actual cash, then overseas companies invest their funds in the form of lending to other nations." Rather, Pasteur blames capital flight on uneven

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handling of domestic investors, as well as increased exposure to international loans by local leaders. unless it is turned on. On the other hand, many economists such as Hermes, Linsink and Morindi (2002) see that Economic stability and diversification of economic activities is the ideal way to ensure not only the prevention of immigration capital, and even attract foreign investment as well.

Fighting corruption and bureaucracy: Just as corruption was one of the most important reasons behind the migration of capital, eliminating corruption has necessarily become one of the most important mechanisms for eliminating this phenomenon. In Palestine, President Mahmoud Abbas directed the necessity of establishing an anti-corruption authority that would run the business more efficiently by addressing the roots of administrative corruption in the government apparatus. Supporting such efforts is of the utmost importance to building a transparent national economy that all investors can trust. At the same time, the government should target various administrative complexities to eliminate them and provide the necessary financing for various projects, especially small and medium enterprises.

Develop the outcomes of the educational process: Many economists have tried to develop measures to know the extent to which education contributes to the economic process. The scientist "Krueger" discovered that education is not only responsible for economic development but that education, the age stage and the sectoral distribution of the population are all reasons that explain about 70% of the income ratios. 20 countries were studied, stressing that education alone is responsible for 30% of the differences. Therefore, the Palestinian government must develop the educational process outputs to match the labour market requirements of employment, as it is one of the most important keys to activating the labour market in Palestine. This can be achieved through several different strategies, represented in increasing scientific programs and reducing literary studies, on the one hand, working to increase training programs for graduates, providing students with all the skills necessary to compete in the labour market, developing labour market conditions in Palestine, which will contribute to an increase in employment law. Percentage of students on scholarships abroad, especially to scientific universities.

6. Recommendations

The flight of capital is considered extremely dangerous to the Palestinian national economy, which is a major resource for Palestine and should, in theory, be an engine for the growth of its economy. Because of its current situation in the geopolitical situation, Palestine has not been able to record economic growth figures in recent years as it should. Its archipelago's economy is divided into a group of island economies such as sector Gaza, Area C of the West Bank, as well as East Jerusalem. all of which have to deal with their limitations.

The Palestinian economy, which depends on external financing and has a private sector dominated mostly by non-productive sectors, has not been able to create the jobs needed to absorb the annual numbers of graduates entering the labour market. This excludes an increasing number of well-educated Palestinians from active participation in the Palestinian economy, due to the flight of capital abroad and the money of foreign investors and some local investors due to the dangerous investment environment that suffers from the harsh and oppressive policies of the Israeli occupation. Thus, the study findings reached some of the following recommendations:

- To stop capital flight, the Palestinian government should promote a business-friendly climate that encourages the expansion of current enterprises and accepts foreign direct investments.
- The Palestinian administration is responsible for ensuring that foreign loans are applied to the planned projects and programs.

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- The government of Palestine should stop capital flight since these infrastructural improvements will make it cheaper to produce goods there.
- The Palestinian government must create an environment that is conducive to foreign investment.
- Attract businesses entrepreneurs and capitalists to invest in the region.
- Make prudent use of all aid money monies to prevent capital flight, boost the economy, and generate work chances for the jobless.

7. Limitations and Future Scope

The idea of this analysis of the development demonstrates is to decide how capital flight influences Palestine's financial development. The period (1981-2021) has been chosen for the study's reason and was based on the accessibility of information for the study factors utilized within the investigation. This effect was decided to harm Palestinian financial extension. It is critical to review previous studies that examined the subject of the current study, as well as the most recent findings, conclusions, and recommendations made by those studies.

The current consideration utilized and inspected information from dependable official government sources, which created empowering and satisfying comes about. As a result, the consideration shows certain vital variables, like its reliance on past investigation and a logical technique suitable for the research's theme and information investigation strategy.

The comes about and proposals are adequate for the reason based on the author's examination of the information. Another imperative impediment is the truth that this study depended more on the quantitative than the subjective approach to the information. The comes about, conclusions and proposals are compiled and composed within the most prominent of them, which can be valuable for future inquiry. Those conclusions were come to by the factual strategy, making them open for afterwards inquiry.

In addition, the logical methodology and technique addressing and analyzing the study's point is important and supportive for consequent inquiry about and thinks. One of the foremost vital parts of this thing is that it uncovered the honest-to-goodness impacts of the capital flight from Palestine, the impact of nearby financial specialists clearing out the nation, and the number of settlements sent overseas on the country's handle of financial advance.

The ponder outlined the effect of each component utilized on the method of financial development in Palestine by utilizing experimental information from the country's current financial status. Future investigations and ponders will in this way benefit from the current study's discoveries, conclusions, and recommendations, and they will help the creators and analysts in conducting more broad examinations relating to the subject and issue of the current consideration.

The study's conclusions contain fair a little sum of high-quality data. This confinement comes about from the conflicting information given by different organizations and indeed divisions inside the country. We have a shortage and need for information as a result of the data's nonappearance from the sources that deliver it since a long time of investigation were incapable to be utilized because it ought to have been.

Declarations

The opinions, conclusions, and recommendations that the authors draw based on the data contained in the article's facts and tables may not necessarily reflect the official positions and attitudes of the institutions to which they are currently attached. The research was carried out in (2022).

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Data and Material Availability Statement

Upon request, the corresponding author will turn along the sources and data that supported the study's results. Open sources are used to build and make available to the author datasets. This inquiry utilizes reanalyzed data from prior studies; the sources are cited in the references section and are openly available.

Additional Information

No additional supporting information is available for this paper.

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