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The Impact of Foreign Direct Investments and Economic Growth on Employment: The Case of Palestine

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ABSTRACT

Today, foreign direct investments are a powerful economic growth and job creation tool. The study's data, which aims to analyze the effects of FDI and economic growth on employment in the Palestinian context, covers the period between 1995-2022 and consists of annual data. Time series cointegration analysis was preferred as the econometric analysis method. The stationarity of the variables was evaluated with ADF and PP unit root tests, and it was determined that they were non-stationary. As a result of the Johansen cointegration test, a long-run relationship between the variables was determined. According to the FMOLS, DOLS, and CCR estimation results, a statistically significant positive relationship was found between the EMP variable used as the dependent variable in the study and the FDI and lnGDP variables at a 5 % confidence level. Finally, according to the Toda Yamamoto causality test results, a statistically significant unidirectional causality relationship was found between FDI and lnGDP variables and the EMP variable at a 5 % level. These results show that FDI in Palestine can create employment and that economic growth has a substantial impact on employment.
Keywords: Foreign direct investments, economic growth, employment, johansen cointegration analysis.

Doğrudan Yabancı Yatırımlar ve Ekonomik Büyümenin İstihdama Etkisi: Filistin Uygulaması

ÖZ

Doğrudan yabancı yatırımlar günümüzde ekonomik büyüme ve istihdam yaratma açısından güçlü bir araç olarak öne çıkmaktadır. Doğrudan yabancı yatırımlar ve ekonomik büyümenin istihdam üzerindeki etkilerini Filistin bağlamında analiz etmeyi amaçlayan çalışmanın verileri 1995-2022 arasını kapsamakta ve yıllık verilerden oluşmaktadır. Çalışmada ekonometrik analiz yöntemi olarak zaman serisi eşbütünleşme analizi tercih edilmiştir. Değişkenlerin durağanlıkları ADF ve PP birim kök testleri ile değerlendirilmiş ve durağan olmadıkları tespit edilmiştir. Johansen eşbütünleşme testi sonucunda değişkenler arasında uzun dönemli ilişkilerin varlığı tespit edilmiştir. Eşbütünleşme ilişkisinin tespit edilmesi sonrasında gerçekleştirilen FMOLS, DOLS ve CCR tahmin sonuçlarına göre, çalışmada bağımlı değişken olarak kullanılan EMP değişkeniyle FDI ve lnGDP değişkenleri arasında % 5 güven düzeyinde istatistiki olarak anlamlı pozitif ilişki tespit edilmiştir. Son olarak ise, Toda Yamamoto nedensellik testi sonuçlarına göre FDI ve lnGDP değişkeninden EMP değişkenine doğru istatistiki olarak % 5 düzeyinde anlamlı tek yönlü nedensellik ilişkisi tespit edilmiştir. Elde edilen bu sonuçlar, Filistin'de doğrudan yabancı yatırımların istihdam yaratma kapasitesine sahip olduğunu, ekonomik büyümenin istihdam üzerinde oldukça güçlü bir etkisi olduğunu göstermektedir.
Anahtar Kelimeler: Doğrudan yabancı yatırımlar, ekonomik büyüme, istihdam, johansen eşbütünleşme analizi.

Introduction

FDI (Foreign direct investment) is one of key elements integrating economic systems with global capital flows. The theoretical foundations of FDI range from growth models to institutional economics and industrial organization approaches. Neoclassical growth theory argues that FDI contributes economic growth by increasing capital stock of host country (Solow, 1956). Based on the theory, FDI not only overcomes capital shortage in developing countries but also stimulates economic growth by increasing the efficiency of production factors. However, this approach has been complemented by endogenous growth models in which economic growth is not limited to capital accumulation but also technology transfer and innovation (Romer, 1990).

In neo-classical growth theory, the contribution of FDI is based on increasing production capacity through physical capital accumulation. Solow's growth model explained relationship between capital, labor, and technological development, emphasizing that technology is primary source of long-term growth (Solow, 1956). However, this model does not include effects of FDI to technology transfer and knowledge diffusion due to technology treatment as an exogenous factor. Endogenous growth models developed to overcome these shortcomings have emphasized central role of technology and knowledge transfer in economic growth. Romer's (1990) model argued that FDI can transform capital accumulation and production processes through knowledge and innovation. Within this framework, FDI has been posited as a fundamental catalyst for fostering long-term economic growth in host nations. In particular, transfer of technological knowledge and skills increases competitiveness of local firms and leads to diversification in the production structure (Borensztein et al, 1998).

The institutional economics perspective offers another critical theoretical approach to assessing the effects of FDI. This perspective states that effects of FDI are limited to capital and technology transfer and depend on quality of institutional infrastructure and regulatory framework. Alfaro et al. (2004) emphasize that contribution of FDI to growth is more pronounced in economies with developed financial markets. In cases where institutional capacity is strong, FDI is observed to play a complementary role to domestic investments and stimulate economic growth more effectively (Demir, 2016). Another dimension supporting FDI's effects on economic growth is its relationship with openness and international trade. In open economies, FDI's effects on international trade have often been observed. These investments facilitate local firms' access to international markets and increase their export capacity(Borensztein et al, 1998). Moreover, it has been stated that FDI accelerates integration into international value chains and gives local economies a competitive advantage in global markets (Alfaro et al, 2004).

The effects of foreign direct investment on employment, as is its contribution to economic growth, is an essential analytical topic. The effects on employment are realized through direct and indirect mechanisms. Direct effects are manifested by new investments increasing the demand for local labor. The orientation of FDI towards a sector allows for expanding production in that sector and creating new job opportunities. However, the extent of these effects depends on sectoral concentration of FDI and level of technology. For example, investments in low-technology sectors have the potential to create a broader range of jobs. In contrast, investments in high-technology sectors generally increase the demand for a more limited but qualified labor force (Zhang, 2001). Indirect effects arise through productivity growth, knowledge transfer and increase in skill level of the local labor force. The diffusion of knowledge and technology brought by FDI to local firms can create a long-term transformation in the labor market structure. Within this framework, it is stressed that FDI has labor quality-enhancing effect, especially in high-tech sectors (Akinlo, 2004). However, the success of this transformation depends on structure of labor market and level of human capital in host country. In economies with low levels of education, problems may arise, such as inability of the local labor force to fill the employment opportunities created by FDI (Borensztein et al, 1998). Therefore, to fully benefit from the employment-creating effects of FDI, host country's education and vocational skills development policies need to be strengthened.

The effects of FDI on employment may also have different repercussions on income inequality and labor market dynamics. Technology-intensive investments generally increase the demand for high-skilled labor while having a limited impact on low-skilled labor (Alfaro et al, 2004). This suggests that effects of FDI on employment should be considered not only quantitative terms but also qualitative terms. Within this framework, contribution of FDI to economic growth is directly related to employment dynamics and the transformation capacity of the local labor force.

This study aims to analyze effects of FDI and economic growth on employment in Palestinian context. FDI is seen as an important tool in development processes in emerging economies with its capital accumulation, technology transfer, and employment-generating effects, but the extent and nature of these effects vary depending on host country's institutional infrastructure, economic structure and level of political stability. In an economy shaped by political and economic vulnerabilities, such as

Palestine, analyzing the potential effects of FDI is essential for understanding economic growth and labor market dynamics and developing strategic recommendations to guide development policies. The paper first presents the theoretical foundations explaining the role of FDI in economic systems, followed by literature on the subject. Finally, the methodology and findings section analyzes effects of FDI and economic growth on employment, and policy recommendations are presented to enhance these effects. In this respect, study aims not only to explain impact of FDI and economic growth on employment but also to provide important contributions to literature and decision-makers by emphasizing role of these investments in processes of social development and sustainable economic structure.

Literature

The effects of FDI on economic growth and employment have been extensively examined in literature, producing notable findings across various countries. It is widely recognized that FDI fosters economic growth by facilitating technology transfer, promoting knowledge accumulation, modernizing production processes, and enhancing capital accumulation. In their European study, Barrell & Pain (1997) found that FDI leads to growth and technical progress through technology transfer. Similarly, Borensztein et al (1998) argue that FDI contributes positively to developing countries' economic growth, provided they have sufficient human capital. These findings suggest that FDI is capital flow and a means of transferring knowledge and technology.

The effects of FDI vary across countries. Nair-Reichert & Weinhold (2001) argue that the impact of FDI on growth in developing countries varies depending on the economic, political, and social structure. Zhang (2001) found that FDI stimulates growth in East Asian and Latin American countries, but this effect is directly related to the liberalization of trade regimes and human capital development. This suggests that the impact of FDI depends not only on amount of investment but also on policies and infrastructure of host countries. Turkey-specific studies also support this general picture. For instance, Örnek (2007) argues that FDI contributes significantly short and long term economic growth by increasing domestic savings. Similarly, Mucuk & Demirsel (2009) show that there is bidirectional causality between FDI and economic growth in Turkey.

It is supported by various studies that the effects of FDI are not homogeneous and show sectoral differences. Akinlo (2004) reported that FDI in the manufacturing sector stimulated growth in Nigeria, but its effects were limited in the oil sector. Vu & Noy (2009) argue that sectoral effects of FDI vary across selected OECD countries, with positive results, especially in their interactions with the labor force. Similarly, Hu et al (2024) find that FDI increases rural employment and income levels in coastal areas in China and that the level of education further strengthens this effect. These findings suggest that FDI contributes to growth and shapes sectoral and regional dynamics.

The development of financial infrastructure stands out as an important factor that strengthens effects of FDI on growth. Hermes & Lensink (2003) find that financial market development enhances impact of FDI on growth developing countries, while effect is limited countries with inadequate financial infrastructure. Moreover, Alfaro et al (2004) find that FDI contributes significantly to growth countries with developed financial markets. Nguyen and Lee (2021) argue that in low-income countries, uncertainties negatively affect FDI flows, but developed financial markets can mitigate these effects. This emphasizes importance of financial market reforms increasing effectiveness of FDI.

The effects on employment are more complex and heterogeneous than economic growth. The employment-creating effects of FDI are usually generated by new investments expanding production capacity and increasing the demand for labor. However, these effects vary across countries and sectors. Akhisar & Güvel (2024) state that FDI in European countries effectively reduces unemployment in developing regions but does not significantly impact the male unemployment rate in developed countries. In another study conducted in China (Hu et al, 2024), it was found that FDI significantly affects rural employment and that the level of education further strengthens this effect. Ekinci (2011) has shown that FDI supports economic growth in Turkey, but its effects on employment still need to be improved.

Regulatory regimes and policies are other important factors shaping effects of FDI on economic growth and employment. Adams & Opoku (2015) find that quality regulatory regimes in Sub-Saharan African countries increase the contribution of FDI to growth. Emako et al (2022) argue that FDI has different effects depending on its sectoral composition and can lead to positive results manufacturing sector and negative results service sector. Dahal et al (2024) show that FDI contributes to growth in Nepal, but structural problems such as trade imbalances can limit these effects. These studies provide substantial evidence of how regulatory regimes and economic infrastructures transform the impact of FDI.

The effects of FDI on economic growth and employment have been widely studied literature and found strongly influenced by countries' economic structures, financial systems, sectoral characteristics, and regulatory regimes. The studies' results show that FDI doesn't have same type of impact in every country and that benefits of investment are closely related to existing conditions and policy frameworks of host countries. Accordingly, Table 1 summarizes effects of methods used and findings in the literature and provides visual framework for a clearer understanding of relationships between studies.

Table 1
Literature

Authors/Year	**Group**	**Method**	**Findings**
Barrell & Pain (1997)	Europe	Panel data analysis	FDI contributes to GDP and technological progress through technology transfer.
Borensztein et al (1998)	Developing Countries	Cross-country regression analysis	FDI was effective in technology transfer and contributed to growth when the host country had sufficient human capital stock.
Nair-Reichert and Weinhold (2001)	Developing Countries	Panel data analysis	The effect of FDI on economic growth varies across countries, emphasizing the need to consider interaction heterogeneity.
Zhang (2001)	Latin America & East Asia	Granger causality and Cointegration method	FDI was found to promote growth, particularly countries with liberal trade regimes and well-developed human capital.
Hermes & Lensink (2003)	Developing Countries	Panel data analysis	Financial market development was found to enhance impact of FDI on growth, while effect was limited absence of adequate financial infrastructure.
Alfaro et al. (2004)	Developing and Developed Countries	Panel data analysis	It was found that FDI significantly contributes to economic growth in countries with well-developed financial markets
Asheghian (2004)	USA	Time series analysis	FDI was identified to cause one-way causality on total factor productivity and economic growth.
Akinlo (2004)	Nigeria	Error Correction Model (ECM)	FDI in the manufacturing sector contributed to growth, but its impact was limited in the

			petroleum sector.
Aydın & Erbaykal (2006)	Developing Countries	Toda-Yamamoto causality test	Economic growth was found to influence FDI in developing countries, with mutual causality observed in a limited number of countries.
Örnek (2007)	Turkey	VAR model	Direct investments were found to increase domestic savings and contribute economic growth both short - long term.
Yang (2008)	110 Countries	Panel data	The impact of FDI on growth varies regionally and temporally, with more positive effects in developed regions.
Mucuk & Demirsel (2009)	Turkey	VAR model and Causality test	Causality was identified between FDI and economic growth.
Vu & Noy (2009)	Selected OECD Countries	Fixed-effects panel regression analysis	The sectoral impact of FDI on growth varies, with positive outcomes particularly evident in its interaction with the labor force.
Ekinci (2011)	Turkey	Cointegration and Causality test	Causality was identified between FDI and economic growth; however, no significant impact on employment was observed.
Adams & Opoku (2015)	Sub-Saharan Africa	GMM Model	The effect of FDI depends on regulatory regimes, with quality regulations promoting economic growth.
Sunde (2017)	South Africa	ARDL and VECM	Causality was identified between FDI, economic growth, and exports.
Nguyen & Lee (2021)	116 Countries	GMM Model	Analyzed effects of uncertainty and developed financial markets on FDI, finding that uncertainty negatively affects FDI inflows in low-income countries.
Emako et al. (2022)	Developing Countries	System-GMM	The growth impact of FDI differs by sector, with positive effects in manufacturing and negative effects in the services sector.
Obeng-Amponsah & Owusu (2023)	Ghana	ARDL and Granger causality test	Impact of FDI on employment was identified indirect, with technology acting as a regulatory factor.
Akhisar & Güvel (2024)	Developing and Developed European Countries	Panel data analysis	FDI was found to reduce unemployment rates more significantly in developing countries, with no impact on male unemployment in developed countries.
Paksoy and	Kazakhstan	Johansen cointegration	A bidirectional causality relationship was

Alagöz (2024)	and Granger causality	identified between GDP and FDI.

The studies in the table reveal that the relationships between FDI economic growth and employment vary widely terms of both methodological approaches and results. It is understood that these effects are heavily influenced by factors such as countries' economic structures, financial infrastructures, sectoral characteristics, and regulatory regimes. Literature shows that effects of FDI are not homogeneous and are shaped by variables such as host country conditions, policy preferences, and level of human capital. Findings suggest that FDI is not growth and employment solution alone but can provide significant benefits within an appropriate economic and institutional framework.

Dataset, Methodology and Findings

Dataset

The study's data, which aims to analyze effects of FDI and economic growth on employment in Palestinian context, covers 1995-2022 and consists of annual data. While employment is used as dependent variable, FDI and gross domestic product are used as independent variables. Logarithm of gross domestic product variable is used. There is no need for an ethics committee decision in this study. The information for the study was sourced from databases of World Bank and International Labour Organization. Explanations about data are given below.

Table 2
Data Explanations

Variables	Symbol	Unit	Explanation
Employment	EMP	Ratio	Total Employment Rate
Gross Domestic Product	lnGDP	logarithmic	Logarithm of Total GDP
Foreign Direct İnvestment	FDI	Ratio	FDI to GDP Ratio

Methodology

ADF and PP unit root tests were used to examine the stationarity of data of study, which aims to analyze effects of FDI and GDP on employment in the Palestinian context. A non-stationary variable in a time series indicates that it contains unit root. With stationarization of a series, both the problem of spurious regression is eliminated and results of analysis are more reliable.

ADF unit root test eliminates autocorrelation by adding lagged values of dependent variables as independent variables to model. Moreover, PP test provides nonparametric method to control for the high degree of correlation in time series (Yalçınkaya et al, 2018). The DF unit root test, introduced by Dickey and Fuller (1979-1981), is among widely utilized methods for determining whether time series is stationary. Regression equations formulated for ADF test are as follows: (Dickey and Fuller, 1981).

$$\Delta X_t = \beta_0 + \beta_1 X_{t-1} + \sum_{i=1}^{k} \lambda_i \Delta X_{t-i} + u_t$$

$$\Delta X_t = \beta_0 + \beta_1 X_{t-1} + \beta_2 trend + \sum_{i=1}^{k} \lambda_i \Delta X_{t-i} + u_t$$

In the equations, X represents the considered series, Δ represents the difference operator, k represents lags of dependent variable, β and λ are parameters, the trend represents the linear time trend, and it represents the error term. The unit root test proposed by Phillips - Perron involves nonparametric corrections (Çağlayan and Saçaklı, 2006). The equation for the test is determined as

follows. Here, α = ρ -1, and xt is the deterministic component denoting "constant" or "constant and trend".

$$\Delta y_t = \alpha y_{t-1} + \chi_t{}'\delta + \varepsilon_t$$

Cointegration concept and test developed by Engle-Granger is a practical method since it is based on single equation and is applied with the OLS (Ordinary Least Squares) method, but it also brings some limitations. For example, in a bivariate system, possible to detect co-integration relationship in equation containing one variable, while such a relationship may not be observed in the equation containing the other variable. This may create uncertainty about the nature of relationship between variables. Johansen developed method which allows for estimation and testing of all potential cointegration relationships between sets of variables.

Traditional cointegration methods used in the analysis of long run relationships between variables have been replaced by modern approaches due to limitations such as endogeneity problems encountered estimation process and the lack of interpretability of the obtained long-run coefficients. In this context, FMOLS method by Hansen and Phillips (1990), CCR method by Park (1992) and DOLS method by Stock and Watson (1993) are particularly noteworthy. Similar to traditional cointegration techniques, FMOLS, CCR, and DOLS rely on the assumption which series involved are stationary their first differences. However, a significant analytical advantage of these methods lies their ability to yield interpretable coefficients, enhancing their practical utility in empirical analysis (Erdoğan et al., 2018).

In this study, which aims to examine the long-run effects of FDI and economic growth on employment in Palestine, time series cointegration analysis is preferred as econometric analysis method. Analysis process, the stationarity properties of variables were evaluated by ADF and PP unit root tests and it was found that they were non-stationary. Following this finding, a VAR(2) model with an appropriate lag level was constructed. Before proceeding to the cointegration analysis, the stability conditions of the VAR(2) model are evaluated. It was tested which model should be free from autocorrelation, satisfy the constant variance assumption, and the characteristic polynomial roots should lie inside the unit circle. The Johansen co-integration test is employed to identify existence of long run relationships among variables in model. Long-run estimation results are derived using the FMOLS, DOLS, and CCR methods. Furthermore, causality relationships between variables are investigated through Toda and Yamamoto test, providing a more comprehensive validation of study's findings. Model utilized in study is presented as follows:

$$EMP_t = \alpha_0 + \beta_1 FDI_t + \beta_2 lnGDP_t + \varepsilon_t$$

Findings

Various descriptive characteristics data set of study are given. While employment is used as dependent variable, FDI and gross domestic product are used as independent variables. Logarithm of gross domestic product variable is used. Some information about the data set is commented below the table.

Table 3
Descriptive Statistics for Variables

	EMP	FDI	lnGDP
Mean	32.130	1.722	23.017
Median	32.550	1.180	23.031
Maximum	35.977	5.200	23.485
Minimum	26.045	0.270	22.413
Std. Dev.	2.043	1.557	0.371
Skewness	-0.932	1.127	-0.199
Kurtosis	4.199	2.906	1.592

Jarque-Bera	5.732	5.945	2.497
Probability	0.056	0.051	0.286

The data set of variables analyzed in study is shown Table 3. Considering analysis period, average, biggest and smallest values of EMP are 32.130, 35.977 and 26.045. The average, biggest and smallest values of FDI variable are 1.722, 5.200 and 0.270. Average, biggest and smallest values of GDP variable are 23.017, 23.485 and 22.413, respectively. Unit root tests results are given below.

Table 4
Unit Root Test Results

Variables	**ADF**		**PP**		**Decision**
	Const.	Const. and Trend	Cons.	Const. and Trend	
EMP	-2.52(0.126)	-2.97(0.157)	-2.53(0.134)	-2.98(0.153)	nonstationary
FDI	-2.23(0.197)	-2.27(0.432)	-2.16(0.222)	-2.21(0.460)	nonstationary
lnGDP	-1.11(0.695)	-3.21(0.103)	-1.11(0.695)	-2.08(0.529)	nonstationary

Note: Values in parentheses show probability values.

Null hypothesis which all variables have unit root cannot be rejected at the 5 % level of significance, therefore, these variables are found to be non-stationary at their levels. Following the unit root test results, it is necessary to determine VAR model with appropriate lag before proceeding to the cointegration analysis. The determination of the appropriate lag level to be used in VAR model is carried out using information criteria. The VAR model appropriate lag value results using various information criteria are given Table 5 below.

Table 5
Determining the Appropriate VAR Model

Lag number	**LogL**	**LR**	**FPE**	**AIC**	**SC**	**HQ**
0	-102.274	NA	0.660	8.098	8.243	8.139
1	-43.408	99.619	0.014	4.262	4.842	4.429
2	-29.932	19.694*	0.010*	3.917*	4.934*	4.210*

'*' shows the lag length selected by relevant criteria.

All information criteria indicate that appropriate lag level is two. Before proceeding with the cointegration analysis, the VAR(2) model with the appropriate lag level should be checked to see whether it satisfies the stability conditions (no autocorrelation, no changing variance and characteristic polynomial roots less than one). Then, the cointegration test can be performed using VAR model with appropriate lag which satisfies the stability condition. Results of stability condition tests of VAR(2) model with appropriate lag are given Table 6.

Table 6
Stability Condition Tests of VAR(2)

LM Autocorrelation Test Result

Lag	LR Statistic	Probability	Decision

1	3.750	0.927	no autocorrelation
White Heteroscedasticity Test Result			
	Chi-Square Statistic	Probability	Decision
	67.109	0.641	no heteroscedasticity
Characteristic Polynomial Roots			
Roots	Modulus Value		
0.918519	0.918519		
0.117185 - 0.582903i	0.594565		
0.117185 + 0.582903i	0.594565		
0.500695 - 0.194925i	0.537300		
0.500695 + 0.194925i	0.537300		
-0.532929	0.532929		

Stability conditions of VAR(2) model with appropriate lag level presented Table 6 are investigated comprehensively and it is determined that model meets the necessary criteria. Accordingly, the VAR(2) model is found to be free of autocorrelation, free of changing variance and the characteristic polynomial roots are inside unit circle (modulus values less than 1). Results indicate that prerequisites for the Johansen co-integration test are fulfilled by the VAR(2) model. Furthermore, the unit root tests indicated that variables utilized the study are integrated of the same order, specifically first order I(1). This outcome enabled application of Johansen cointegration test to evaluate presence of long run relationship among variables. The detailed results of the Johansen cointegration test are presented in Table 7.

Table 7
Johansen Cointegration Test

Number of Equations	**Eigen Val.**	**Trace Stat.**	**Crit.Val.(5 %)**	**Probability**
r=0	0.6511	53.2543	35.1927	0.0002
r≤1	0.5446	25.8761	20.2618	0.0075
r≤2	0.1881	5.4197	9.1645	0.2405

Test results shows taht there are two co-integrated vectors between EMP, FDI and lnGDP variables. After the Johansen co-integration test, FMOLS, DOLS and CCR methods were used to estimate coefficients of relationships between EMP, FDI and lnGDP variables. The estimation results obtained through FMOLS, DOLS, and CCR methods are presented in Table 8 below.

Table 8
FMOLS, DOLS ve CCR Estimation Results

Variables	**FMOLS**		**DOLS**		**CCR**	
	Coeff.	Prob.	Coeff.	Prob.	Coeff.	Prob.
FDI	0.8183	0.0003	0.7184	0.0222	0.8148	0.0005
lnGDP	3.2742	0.0007	4.1134	0.0011	3.1900	0.0007
Constant	-44.8344	0.0296	-64.5680	0.0170	-2.2708	0.0324

The FMOLS estimation results indicate statistically significant positive relationship at 5 % confidence level between EMP and FDI, lnGDP variables. In this case, when FDI increases by one unit, EMP variable increases by 0.8183 units. Similarly, when lnGDP increases by one unit, the EMP variable increases by 3.2742 units. DOLS estimation shows statistically significant positive relationship between EMP variable and FDI and lnGDP variables at 5 % confidence level. According to this result, when FDI increases by one unit, EMP variable increases by 0.7184 units. Similarly, when lnGDP increases by one unit, EMP variable increases by 4.1134 units. Finally, CCR estimation shows statistically significant positive relationship between EMP variable and FDI and lnGDP variables at 5 % confidence level. According to this result, when FDI increases by one unit, EMP variable increases by 0.8148 units. Similarly, when lnGDP increases by one unit, the EMP variable increases by 3.3190 units. The results obtained with FMOLS, DOLS and CCR methods show that a one unit increase in FDI increases the EMP variable by 0.8183, 0.7184 and 0.8148 units, respectively. This finding reveals that FDI has the capacity to create employment. Foreign investments can be thought to create this positive effect through mechanisms such as providing new job opportunities, transferring technology and increasing labor demand, which support economic growth.

According to FMOLS, DOLS and CCR estimations, a one unit increase in lnGDP increases EMP by 3.2742, 4.1134 and 3.3190 units, respectively. This result shows that economic growth has a very strong impact on employment. Economic growth increases production capacity, raising the demand for labor and expanding employment opportunities. Moreover, a growing economy has the potential to create more jobs by expanding the service and industrial sectors. As a result, all methods provide consistent results on direction and significance of relationship between variables. This increases reliability of analysis. The fact that both FDI and lnGDP have positive and significant effects on employment emphasizes positive impact of policies aimed at increasing lnGDP and FDI on employment. In particular, implementation of policies that encourage FDI is critical for both reducing unemployment and promoting economic growth. Overall, these findings provide an empirical framework proving positive impact of FDI and lnGDP on employment in Palestine. By supporting these two factors, policymakers can combat unemployment and promote economic development in a sustainable manner. Table 9 below presents the Toda and Yamamoto causality relationship results.

Table 9
Toda Yamamoto Causality Results

Dep. Variable:EMP	**x^2 Statistic**	**Degrees of Freedom**	**Probability**
FDI	11.8269	2	0.0027**
lnGDP	12.3485	2	0.0210**
Dep. Variable: FDI	**x^2 Statistic**	**Degrees of Freedom**	**Probability**
EMP	3.7192	2	0.1557
lnGDP	2.2068	2	0.3317

Dep. Variable: lnGDP	**x^2 Statistic**	**Degrees of Freedom**	**Probability**
EMP	4.4028	2	0.1106
FDI	0.7495	2	0.6875

Note: ***, ** and * indicate causality at 1 %, 5 % and 10 %, respectively.

Toda-Yamamoto test reveal a unidirectional causality relationship, statistically significant at 5 % level, from the FDI and lnGDP variables to the EMP variable. However, no statistically significant causality relationship at 5 % level is observed from EMP and lnGDP to FDI. Similarly, no statistically significant causality relationship at 5 % level from EMP and FDI to the lnGDP variable.

Conclusion

FDI has become vital driver of economic growth and job creation in the contemporary global economy. In both developed and developing nations, FDI plays crucial role not only by providing financial resources but also through transfer of technology, innovation, and the dissemination of expertise. These investments enable countries to enhance productivity, boost competitiveness, and generate new employment opportunities in their labor markets. However, impact of FDI on economic development is not solely determined by volume of investment; it is also influenced by factors such as the institutional framework, economic infrastructure, and political stability of host country. Especially in countries with strong financial infrastructure and an effective regulatory framework, the positive effects of these investments become much more pronounced, whereas weak institutional structures and limited human capital can limit the potential of this effect.

The study, which aims to analyze the effects of FDI and GDP on employment in Palestinian context, covers period 1995-2022 and consists of annual data. While employment is used as the dependent variable, FDI and gross domestic product variables are used as independent variables. Data of study were obtained from World Bank and International Labor Organization database.

Stationarity of variables was initially tested using the ADF and PP unit root tests. For variables found to be non-stationary at their level values, the long-run relationship was examined using Johansen co-integration test. Results of the Johansen co-integration test indicated presence of co-integration among EMP, FDI, and lnGDP variables in Palestine. Results obtained with the long run FMOLS, DOLS and CCR methods after detection of cointegration relationship show that a one unit increase in FDI increases the EMP variable by 0.8183, 0.7184 and 0.8148 units. Finding reveals that FDI has the capacity to create employment. According to FMOLS, DOLS and CCR estimations, a one unit increase in lnGDP increases EMP by 3.2742, 4.1134 and 3.3190 units. Result reveals that economic growth has very strong impact on employment. By increasing production capacity, economic growth raises the demand for labor and expands employment opportunities. The fact that both FDI and lnGDP have positive and significant effects on employment emphasizes the positive impact of policies aimed at increasing economic growth and FDI on employment. In particular, implementation of policies that encourage foreign investment is critical for both reducing unemployment and promoting economic growth.

In the Palestinian context, the literature shows that FDI and lnGDP can have positive effects on EMP, but these effects are not fully realized due to various constraints. Political instability, weak economic infrastructure and deficiencies in regulatory regimes are among the main factors limiting the potential of these investments. Limited local labor capacity and the uneven distribution of sectoral investments reduce the potential for employment-generating effects of FDI and lnGDP. To maximize the impact of FDI and increase its contribution to sustainable development, Palestine should, where possible, improve its regulatory regimes, strengthen its financial infrastructure and prioritize human capital investments. Especially in countries with fragile economic structures such as Palestine, it is vital to ensure political stability and implement long-term strategic plans. Future research should

examine the EMP effects of FDI and lnGDP in Palestine in more detail on a sectoral basis, along with indirect effects such as technology transfer and knowledge accumulation.

Author Contribution Statement

The author contributed 100 % to this article.

Conflicts of Interest

There is no conflict of interest in this study.

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Genişletilmiş Özet

Giriş

Doğrudan yabancı yatırımlar günümüzde ekonomik büyüme ve istihdam yaratma açısından güçlü bir araç olarak öne çıkmaktadır. Doğrudan yabancı yatırımlar ve ekonomik büyümenin istihdam üzerindeki etkilerini Filistin bağlamında analiz etmeyi amaçlayan çalışmanın verileri 1995-2022 arasını kapsamakta ve yıllık verilerden oluşmaktadır. Çalışmada ekonometrik analiz yöntemi olarak zaman serisi eşbütünleşme analizi tercih edilmiştir. Değişkenlerin durağanlıkları ADF ve PP birim kök testleri ile değerlendirilmiş ve durağan olmadıkları tespit edilmiştir. Johansen eşbütünleşme testi sonucunda değişkenler arasında uzun dönemli ilişkilerin varlığı tespit edilmiştir. Eşbütünleşme ilişkisinin tespit edilmesi sonrasında gerçekleştirilen FMOLS, DOLS ve CCR tahmin sonuçlarına göre, çalışmada bağımlı değişken olarak kullanılan EMP değişkeniyle FDI ve lnGDP değişkenleri arasında % 5 güven düzeyinde istatistiki olarak anlamlı pozitif ilişki tespit edilmiştir. Son olarak ise, Toda Yamamoto nedensellik testi sonuçlarına göre FDI ve lnGDP değişkeninden EMP değişkenine doğru istatistiki olarak % 5 düzeyinde anlamlı tek yönlü nedensellik ilişkisi tespit edilmiştir. EMP ve lnGDP değişkeninden FDI değişkenine doğru istatistiki olarak % 5 düzeyinde anlamlı nedensellik ilişkisi tespit edilememiştir. Benzer şekilde, EMP ve FDI değişkeninden lnGDP değişkenine doğru istatistiki olarak % 5 düzeyinde anlamlı nedensellik ilişkisi tespit edilememiştir. FMOLS, DOLS ve CCR yöntemleriyle elde edilen sonuçlar, FDI'ın bir birim artmasının EMP değişkenini sırasıyla 0.8183, 0.7184 ve 0.8148 birim artırdığını göstermektedir. FMOLS, DOLS ve CCR tahminlerine göre, lnGDP'nin bir birim artması EMP'yi sırasıyla 3.2742, 4.1134 ve 3.3190 birim artırmaktadır. Elde edilen bu sonuçlar, Filistin'de doğrudan yabancı yatırımların istihdam yaratma kapasitesine sahip olduğunu, ekonomik büyümenin istihdam üzerinde oldukça güçlü bir etkisi olduğunu göstermektedir.

Yöntem

Doğrudan yabancı yatırımlar ve ekonomik büyümenin istihdam üzerindeki etkilerini Filistin bağlamında analiz etmeyi amaçlayan çalışmanın verileri 1995-2022 arasını kapsamakta ve yıllık verilerden oluşmaktadır. Çalışmada bağımlı değişken olarak istihdam kullanılırken, bağımsız değişkenler olarak doğrudan yabancı yatırımlar ve gayri safi yurtiçi hasıla değişkeni yer almaktadır. Çalışmanın analizinde gayri safi yurtiçi hasıla değişkeninin logaritması alınarak kullanılmıştır. Çalışmanın verileri Dünya Bankası (WB) ve Uluslararası Çalışma Örgütü (ILO) veri tabanından temin edilmiştir. Çalışmanın analizi Eviews programı ile gerçekleştirilmiştir. Filistin'de doğrudan yabancı yatırımlar ve ekonomik büyümenin istihdam üzerindeki uzun dönemli etkilerini incelemeyi amaçlayan bu çalışmada, ekonometrik analiz yöntemi olarak zaman serisi eş-bütünleşme analizi tercih edilmiştir. Analiz sürecinde, öncelikle değişkenlerin durağanlık özellikleri ADF ve PP birim kök testleri ile değerlendirilmiş ve durağan olmadıkları tespit edilmiştir. Bu bulgunun ardından, uygun gecikme düzeyine sahip VAR(2) modeli oluşturulmuştur. Eş-bütünleşme analizine geçmeden önce, VAR(2) modelinin kararlılık koşulları değerlendirilmiştir. Bu kapsamda, modelin otokorelasyondan arınmış olması, sabit varyans varsayımını sağlaması ve karakteristik polinom köklerinin birim çemberin içinde yer alması gerektiği test edilmiştir. Johansen eş-bütünleşme testi yardımıyla modeldeki değişkenler arasında uzun dönemli ilişkilerin varlığı tespit edilmiştir. Elde edilen uzun dönem tahmin sonuçları ise FMOLS, DOLS ve CCR yöntemleri kullanılarak hesaplanmıştır. Ayrıca, değişkenler arasındaki nedensellik ilişkileri Toda-Yamamoto nedensellik testi ile analiz edilerek çalışma sonuçları daha kapsamlı bir şekilde desteklenmiştir.

Bulgular

Doğrudan yabancı yatırımlar ve ekonomik büyümenin istihdam üzerindeki etkilerini Filistin bağlamında analiz etmeyi amaçlayan çalışmanın verilerinin durağanlığının incelenmesinde Genişletilmiş Dickey-Fuller (ADF) ve Philips-Perron (PP) birim kök testlerinden yararlanılmıştır. Zaman serisinde durağan olmayan bir değişken, birim kök içerdiğini göstermektedir. Değişkenlere uygulanan ADF ve PP birim kök testi sonucuna göre %5 anlam düzeyinde tüm değişkenlerin birim

köke sahip olduğuna ilişkin H_0 temel hipotezi reddedilememekte, dolayısıyla bu değişkenlerin seviyelerinde durağan olmadığı tespit edilmektedir. Bilgi kriterlerinin tamamı (LR, FPE, AIC, SC ve HQ) tarafından uygun gecikme düzeyinin iki olduğu tespit edilmiştir. Eşbütünleşme analizine geçilmeden önce, uygun gecikme düzeyine sahip VAR(2) modelinin kararlılık koşullarını (otokorelasyon olmaması, değişen varyans olmaması ve karakteristik polinom köklerinin birden küçük olması) sağlayıp sağlamadıklarına dair kontrollerinin gerçekleştirilmesi gerekir. Daha sonrasında kararlılık koşulunu sağlayan uygun gecikmeye sahip VAR modeli kullanılarak eşbütünleşme testi gerçekleştirilebilir. Uygun gecikme düzeyine sahip VAR(2) modelinin kararlılık koşulları kapsamlı bir şekilde incelenmiş ve modelin gerekli kriterleri sağladığı belirlenmiştir. Bu doğrultuda, VAR(2) modelinde otokorelasyon bulunmadığı, değişen varyans sorununa rastlanmadığı ve karakteristik polinom köklerinin birim çemberin içinde (modülüs değerleri 1'den küçüktür) olduğu tespit edilmiştir. Johansen eş-bütünleşme testi sonuçlarına göre EMP, FDI ve lnGDP değişkenleri arasında iki tane eş-bütünleşik vektörün varlığı tespit edilmiştir. FMOLS tahmin sonuçlarına göre, çalışmada bağımlı değişken olarak kullanılan EMP değişkeniyle FDI ve lnGDP değişkenleri arasında % 5 güven düzeyinde istatistiki olarak anlamlı pozitif ilişki tespit edilmiştir. Bu durumda, FDI bir birim arttığında EMP değişkeninin 0.8183 birim arttığını göstermektedir. Benzer şekilde, lnGDP bir birim arttığında EMP değişkeninin 3.2742 birim arttığını göstermektedir. DOLS tahmin sonuçlarına göre ise, EMP değişkeniyle FDI ve lnGDP değişkenleri arasında % 5 güven düzeyinde istatistiki olarak anlamlı pozitif ilişki tespit edilmiştir. Bu sonuca göre, FDI bir birim arttığında EMP değişkeninin 0.7184 birim arttığını göstermektedir. Benzer şekilde, lnGDP bir birim arttığında EMP değişkeninin 4.1134 birim arttığını göstermektedir. Son olarak CCR tahmin sonuçlarına göre ise, EMP değişkeniyle FDI ve lnGDP değişkenleri arasında % 5 güven düzeyinde istatistiki olarak anlamlı pozitif ilişki tespit edilmiştir. Bu sonuca göre, FDI bir birim arttığında EMP değişkeninin 0.8148 birim arttığını göstermektedir. Benzer şekilde, lnGDP bir birim arttığında EMP değişkeninin 3.3190 birim arttığını göstermektedir. Toda Yamamoto nedensellik testi sonuçlarına göre FDI ve lnGDP değişkeninden EMP değişkenine doğru istatistiki olarak % 5 düzeyinde anlamlı tek yönlü nedensellik ilişkisi tespit edilmiştir. EMP ve lnGDP değişkeninden FDI değişkenine doğru istatistiki olarak % 5 düzeyinde anlamlı nedensellik ilişkisi tespit edilememiştir. Benzer şekilde, EMP ve FDI değişkeninden lnGDP değişkenine doğru istatistiki olarak % 5 düzeyinde anlamlı nedensellik ilişkisi tespit edilememiştir.

Sonuç, Tartışma ve Öneriler

Doğrudan yabancı yatırımlar ve ekonomik büyümenin istihdam üzerindeki etkilerini Filistin bağlamında analiz etmeyi amaçlayan çalışmanın verileri 1995-2022 arasını kapsamakta ve yıllık verilerden oluşmaktadır. Çalışmada bağımlı değişken olarak istihdam kullanılırken, bağımsız değişkenler olarak doğrudan yabancı yatırımlar ve gayri safi yurtiçi hasıla değişkeni yer almaktadır. Çalışmanın verileri Dünya Bankası (WB) ve Uluslararası Çalışma Örgütü (ILO) veri tabanından temin edilmiştir. Çalışmanın analizinde öncelikle değişkenlerin durağanlığı ADF ve PP birim kök testleri ile sınanmış, düzey değerlerinde durağan olmadıkları tespit edilen değişkenler arasındaki uzun dönemli ilişki Johansen eşbütünleşme testi ile incelenmiştir. Johansen eşbütünleşme testinin sonucunda, Filistin'de EMP, FDI ve lnGDP değişkenleri arasında eşbütünleşme ilişkisinin olduğu tespit edilmiştir. Eşbütünleşme ilişkisinin tespiti sonrasında gerçekleştirilen uzun dönem FMOLS, DOLS ve CCR yöntemleriyle elde edilen sonuçlar, FDI'ın bir birim artmasının EMP değişkenini sırasıyla 0.8183, 0.7184 ve 0.8148 birim artırdığını göstermektedir. Bu bulgu, doğrudan yabancı yatırımların istihdam yaratma kapasitesine sahip olduğunu ortaya koymaktadır. FMOLS, DOLS ve CCR tahminlerine göre, lnGDP'nin bir birim artması EMP'yi sırasıyla 3.2742, 4.1134 ve 3.3190 birim artırmaktadır. Bu sonuç, ekonomik büyümenin istihdam üzerinde oldukça güçlü bir etkisi olduğunu göstermektedir. Ekonomik büyüme, üretim kapasitesini artırarak iş gücüne olan talebi yükseltmekte ve istihdam olanaklarını genişletmektedir. FDI ve lnGDP'nin her ikisinin de istihdam üzerinde pozitif ve anlamlı etkiler yaratması, ekonomik büyümeyi ve doğrudan yabancı yatırımları artırmaya yönelik politikaların istihdam üzerindeki olumlu etkisini vurgulamaktadır. Özellikle yabancı yatırımları teşvik eden politikaların uygulanması, hem işsizliği azaltmak hem de ekonomik büyümeyi desteklemek açısından kritik önem taşımaktadır. Filistin bağlamında literatürde gerçekleştirilen analizler, FDI ve lnGDP'nin EMP üzerinde olumlu etkiler yaratabileceğini ancak bu etkilerin çeşitli kısıtlamalar nedeniyle tam anlamıyla ortaya çıkamadığını göstermektedir. Siyasi istikrarsızlık, ekonomik altyapının zayıflığı ve

düzenleyici rejimlerdeki eksiklikler, bu yatırımların potansiyelini sınırlayan başlıca faktörler arasında yer almaktadır. Gelecekte yapılacak çalışmalar için ise Filistin'de FDI ve lnGDP'nin EMP etkilerini sektörel bazda daha detaylı incelemeli, teknoloji transferi ve bilgi birikimi gibi dolaylı etkilerle birlikte değerlendirmelidir. Ayrıca, yerel iş gücü kapasitesini artırmaya yönelik eğitim politikaları, FDI'nin istihdam yaratıcı etkilerini daha sürdürülebilir kılmak için araştırma kapsamına dahil edilmelidir. Bu tür çalışmalar hem uluslararası yatırımcıların ihtiyaçlarını hem de yerel ekonomilerin önceliklerini dikkate alan daha etkili politikalar geliştirilmesine katkı sunabilir.