Political Instability and Economic Growth in the Middle East: Assessing the Economic Cost of Political Turmoil in Selected Countries

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Abstract
This study examined the impact of political instability on economic growth in selected Middle Eastern countries, namely Egypt, Jordan, Iraq, Lebanon, Saudi Arabia, and Syria. The study was primarily anchored in Institutional Theory. A qualitative research design was adopted, using thematic analysis of secondary data obtained from the World Bank, International Monetary Fund, and relevant scholarly literature. The findings indicated that political instability was generally associated with weaker economic growth across the selected countries. The major channels identified included reduced domestic and foreign investment, disruption of productive activities, deterioration in institutional quality, human-capital losses, and increased economic uncertainty. The findings further showed that prolonged political instability tends to produce more persistent economic losses, although the magnitude of these effects varied according to institutional quality, economic structure, and the duration of instability. The study concluded that political stability, effective institutions, and a predictable economic environment are important foundations for sustainable economic growth in the Middle East. It therefore recommended strengthening institutional quality and governance, promoting economic diversification, creating a more predictable investment environment, strengthening economic and external buffers, and protecting and supporting investment during periods of instability.

Keywords: Political Instability, Economic Cost, Institutional Quality, Foreign Direct Investment, Human Capital.

Introduction

Economic growth remains a central objective of national development because it contributes to improvements in income, employment, living standards, investments, and the productive capacity of an economy. However, economic growth does not occur independently of the political and institutional environment in which economic activities take place. Political stability, effective institutions, policy predictability, and a favourable investment climate are important conditions for sustaining economic activity. Recent evidence continues to demonstrate that political instability and uncertainty can impose significant costs on economic performance by weakening investment, reducing output, and disrupting productive activities (Dirks & Schmidt, 2024). In this regard, understanding the relationship between political instability and economic growth is particularly important for countries that have experienced prolonged political tensions, conflict, and institutional fragility.

The Middle East provides an important context for examining this relationship. The region has considerable economic resources, strategic geographical importance, and substantial oil and gas reserves, yet several countries have experienced political instability, armed conflict, institutional weaknesses, and persistent economic uncertainty. Recent World Bank evidence indicates that growth in the Middle East remained subdued in 2024, partly because of heightened uncertainty associated with regional conflict. The World Bank estimated regional growth at 2.2 percent in 2024 and noted that conflict was imposing substantial human and economic costs across the region (World Bank, 2024). The persistence of political and security challenges therefore raises important questions about the extent to which political turmoil constrains economic growth and development in the region.

Political instability can affect economic growth through several interconnected channels. One of the most important is investment. Political uncertainty increases the risks associated with long-term economic decisions because investors may be uncertain about future government policies, taxation, regulations, property rights, security, and the overall business environment. As uncertainty increases, firms may postpone or reduce investment, while foreign investors may redirect capital toward more stable economies. Foreign direct investment (FDI) represents another important channel through which political instability can influence economic growth. FDI contributes to capital

formation, employment, technological transfer, productivity, and integration into international markets. However, investors generally require a predictable political and institutional environment before committing resources to long-term projects. Political turmoil, conflict, and institutional uncertainty can therefore discourage foreign investment or result in the withdrawal of existing capital. The significance of this channel is particularly relevant in the Middle East, where differences in political stability and institutional conditions have produced substantial variations in investment environments across countries. The continuing conflict-related uncertainty in the region has also affected private-sector activity and investment prospects (World Bank, 2025).

Political instability can further affect economic growth by disrupting productive activities and damaging physical infrastructure. Conflict can interrupt trade, transportation, energy supply, tourism, manufacturing, and other economic activities. It can also divert government expenditure away from productive development toward security and emergency responses. The economic consequences may persist even after the immediate political crisis has ended because damaged infrastructure, weakened businesses, reduced investor confidence, and disrupted markets can constrain recovery. For example, the World Bank's 2025 assessment of Lebanon estimated the economic cost of the conflict affecting the country at approximately US$14 billion, including physical damage and economic losses resulting from reduced productivity, foregone revenues, and increased operating costs (World Bank, 2025). This demonstrated that the economic cost of political turmoil can extend beyond immediate reductions in output to broader losses in productive capacity.

Human capital represents another important pathway linking political instability to economic growth. Education, skills, health, and knowledge contribute to productivity and long-term economic development. Political violence and prolonged instability can disrupt educational institutions, health services, labour markets, and employment opportunities. They can also encourage the migration of skilled workers and professionals, resulting in a loss of human capital. These effects are particularly damaging because the loss of human capital can reduce an economy's productive capacity over an extended period. Recent research on Middle Eastern countries identified human-capital erosion, alongside investment

disruption and institutional degradation, as important mechanisms through which political instability affected economic growth (Iyrot & Hamouch, 2026).

The institutional environment is also central to understanding the economic consequences of political instability. Institutions include the rules, laws, governance arrangements, and organizations that structure economic and political interactions. Effective institutions can enhance economic performance by protecting property rights, enforcing contracts, reducing uncertainty, and providing predictable conditions for investment and production. Political instability, on the other hand, may weaken institutional effectiveness and undermine confidence in government and economic policies. Recent IMF evidence indicates that the economic effects of uncertainty are particularly significant in the Middle Eastern countries partly because of vulnerabilities associated with weaker institutions (IMF, 2025). This supported the argument that institutional quality can influence both the magnitude and persistence of the economic consequences of political instability.

The selected countries in this study are Egypt, Jordan, Iraq, Lebanon, Saudi Arabia, and Syria. These Middle Eastern countries provided an important basis for analysis because they differ considerably in their political conditions, institutional environments, economic structures, and experiences of political turmoil. Iraq, Lebanon, and Syria have experienced particularly severe and prolonged political and conflict-related disruptions, while Egypt and Jordan have faced different forms and degrees of political and economic uncertainty. Saudi Arabia provided an important contrasting case because of its relatively different political environment and resource-based economic structure. Examining these countries together makes it possible to assess how political instability affected economic growth under different institutional and economic circumstances.

Methodology

This study adopted a qualitative research methodology based on thematic analysis to examine the relationship between Political Instability and Economic Growth in the selected Middle Eastern Countries. The study relied exclusively on secondary data obtained from credible and authoritative sources. These include peer-reviewed academic journals, books, government publications, policy documents, reports from the World Bank, International Monetary Fund, and other relevant scholarly sources.

Data were analyzed using qualitative thematic analysis, which involved reviewing and interpreting documentary evidence to identify recurring themes, patterns, and relationships concerning political instability and economic growth in the selected Middle Eastern countries.

Conceptual Clarifications

Political Instability

In this study, political instability is conceptualised as a condition characterised by political conflict, uncertainty, social unrest, violence, institutional disruption and interruptions to established political processes. The concept extends beyond the occurrence of armed conflict to encompass uncertainty surrounding government continuity, policy direction, institutional effectiveness and the broader political environment in which economic decisions are made. This conceptualisation is particularly relevant to Egypt, Jordan, Iraq, Lebanon, Saudi Arabia and Syria, which exhibit considerable differences in political conditions, institutional capacity and economic structure. Iraq, Lebanon and Syria have experienced prolonged conflict and substantial institutional disruption, whereas Egypt and Jordan have experienced different forms and degrees of political and economic uncertainty. Saudi Arabia provided an important comparative case because of its relatively distinctive political environment and hydrocarbon-dependent economic structure (World Bank, 2025). Such cross-country variation provided an appropriate basis for examining whether and how political instability translates into different economic outcomes.

The economic significance of political instability arises primarily from its effects on the incentives and expectations that shape economic activity. Political uncertainty can discourage domestic and foreign investment, disrupt production and trade, increase the costs and risks of doing business, weaken investor confidence, and reduce the effectiveness of economic policies. Recent evidence from the Middle East indicated that conflict and geopolitical uncertainty can constrain economic activity and reverse development gains, with the effects potentially persisting beyond periods of acute political disruption (IMF, 2025; World Bank, 2025). Political instability is therefore treated in this study as the principal explanatory

condition influencing economic growth, operating through interconnected channels that include investment, foreign direct investment, productive activity, human capital, institutional quality and economic uncertainty. Evidence from Jordan, for instance, indicated a significant relationship between domestic political instability and economic growth (Al-Rawashdeh, 2019), while broader evidence from the Middle East suggested that political turbulence can adversely affect economic performance over both the short and long term. Accordingly, this study conceptualised political instability not merely as the presence of conflict, but as a multidimensional political condition whose intensity, duration and institutional consequences can shape the trajectory of economic growth across the six selected countries.

Economic Cost of Political Turmoil

Political turmoil has generated high economic costs across Egypt, Jordan, Iraq, Lebanon, Saudi Arabia, and Syria, although the channels through which these costs occur differ. In Egypt and Jordan, the effects are largely transmitted through regional trade, tourism, energy prices, shipping disruptions, and financial conditions. Egypt's exposure to regional instability can reduce tourism and foreign-exchange earnings while increasing import and transportation costs and placing pressure on investment and the exchange rate (International Monetary Fund [IMF], 2026a, 2026b). Jordan is similarly vulnerable because of its dependence on imported energy, tourism, external financing, and regional trade. Political instability can increase energy and transportation costs, reduce tourism revenues, disrupt trade, and place additional pressure on the country's external balance (IMF, 2026a). In Iraq and Saudi Arabia, the economic costs are closely connected to their dependence on the oil sector. Political instability and disruptions to energy infrastructure and export routes can reduce oil production and exports, thereby lowering government revenues and foreign-exchange earnings. For Iraq, this can place considerable pressure on public expenditure and investment, while in Saudi Arabia, prolonged regional instability may also affect investor confidence and delay investment and economic diversification under Vision 2030 (IMF, 2026a).

The economic consequences are particularly severe and persistent in Lebanon and Syria, where prolonged political instability and conflict have contributed to substantial economic scarring. In Lebanon, renewed

conflict has damaged infrastructure, displaced communities, disrupted supply chains, weakened tourism and domestic demand, and interrupted the country's fragile economic recovery (World Bank, 2026a). These effects can reduce productive capacity and increase inflation, unemployment, and reconstruction requirements. Syria represents an even more severe case because years of conflict have destroyed infrastructure, weakened institutions, disrupted production and trade, reduced investment, and contributed to significant losses of human capital. The World Bank (2025a) estimated Syria's physical reconstruction needs at approximately US$216 billion following more than a decade of conflict. The Syrian experience demonstrates that the economic cost of political turmoil can continue long after active conflict declines because rebuilding infrastructure, restoring institutions, reintegrating workers, and recovering lost human capital require substantial time and resources. Overall, the experiences of these six countries demonstrate that political turmoil can reduce current economic activity while also weakening investment, infrastructure, employment, institutional quality, and potential economic output over the longer term (IMF, 2026a; World Bank, 2025a).

Human Capital and Economic Growth

The relationship between human capital and economic growth differs across Egypt, Jordan, Iraq, Lebanon, Saudi Arabia, and Syria, largely because of differences in political stability, economic structure, and the ability of institutions to utilize skilled workers. In Egypt and Jordan, investment in education and health provides an important foundation for productivity and long-term growth, but regional instability can limit the benefits by weakening employment opportunities, investment, tourism, and private-sector activity. Egypt's large and relatively young population provides considerable human-capital potential, yet economic and institutional constraints have prevented skills from being fully translated into productive employment. Jordan has traditionally placed considerable emphasis on education and possesses a relatively educated workforce, but unemployment and limited opportunities for skilled workers can weaken the contribution of human capital to growth. These conditions are consistent with the findings of M'Hamedi and Boumedienne (2024) and Gaidi et al. (2025), who found that human capital has a positive but relatively modest effect on economic growth in Middle Eastern countries. Saudi Arabia provided a

different case because its substantial financial resources have allowed greater investment in education, skills development, technology, and diversification. However, the effectiveness of these investments depends on reducing dependence on oil and creating sufficient private-sector employment opportunities for skilled workers. This supports Kaci's (2024) argument that the rentier structure of Middle Eastern economies can weaken the relationship between human capital and economic growth when the demand for highly skilled labour remains limited.

The relationship is considerably more difficult in Iraq, Lebanon, and Syria, where political instability and conflict have directly undermined human-capital accumulation. In Iraq, conflict and prolonged underinvestment have damaged education infrastructure and weakened learning outcomes, limiting the ability of the education system to produce the skills required for sustained productivity and diversification (International Monetary Fund [IMF], 2026). Lebanon has experienced prolonged political and economic instability that has disrupted education, employment, investment, and access to essential services, while economic pressures have encouraged skilled workers to migrate, resulting in a loss of human capital and productive capacity**.** Syria represented the most severe case, as prolonged conflict has damaged schools, universities, health facilities, and other essential infrastructure while displacing millions of people and contributing to the loss of skilled workers. The World Bank (2025) emphasized that Syria's prolonged conflict has generated extensive damage to physical and human capital, creating major challenges for economic recovery and reconstruction. More recently, the World Bank (2026c) approved US$225 million in financing to restore water and health services in Syria, further illustrating the continuing need to rebuild essential infrastructure and strengthen the provision of health services as part of the country's recovery process. Across these six countries, therefore, political instability can weaken the contribution of human capital to economic growth not necessarily because education and health have no economic value, but because instability can prevent individuals from applying their skills productively. This reinforces the broader findings of M'Hamedi and Boumedienne (2024), Kaci (2024), and Gaidi et al. (2025) that the economic returns to human capital depend substantially on the institutional and socioeconomic environment in which human capital is utilized.

Foreign Direct Investment (FDI)

The relationship between FDI and political instability can be observed differently across Egypt, Jordan, Iraq, Lebanon, Saudi Arabia, and Syria because these countries differ in their levels of political risk, institutional quality, security conditions, and dependence on natural resources. In Egypt, political and economic uncertainty can discourage foreign investors by increasing concerns about exchange-rate volatility, regulatory uncertainty, and the security of long-term investments. Nevertheless, Egypt's large domestic market, strategic location, and ongoing efforts to attract investment mean that FDI remains an important source of capital and technology. In Jordan, political stability relative to some neighbouring countries has helped maintain its attractiveness to foreign investors, although regional conflicts, geopolitical tensions, and uncertainty can weaken FDI inflows. Jordan's limited natural-resource base also makes FDI particularly important for supporting private-sector development, employment, and diversification. These cases are consistent with the argument of Alharthi et al. (2024) that investment conditions and diversification are important for reducing vulnerability to external shocks.

In Iraq, political instability, security concerns, institutional weaknesses, and dependence on oil can create significant barriers to FDI outside the hydrocarbons sector. Although the country possesses substantial investment opportunities, particularly in energy and infrastructure, insecurity and regulatory uncertainty can increase the risk premium required by foreign investors. Lebanon faces similar challenges, but political instability has been compounded by economic and financial crises, weakening investor confidence and making long-term investment more difficult. In Syria, prolonged conflict and political instability have severely damaged the investment environment by disrupting infrastructure, weakening institutions, increasing security risks, and limiting access to international markets. Consequently, FDI is likely to remain constrained until greater political and economic stability is achieved. Saudi Arabia, by contrast, has greater capacity to attract FDI because of its financial resources, infrastructure, relatively strong institutions, and economic-reform programmes aimed at diversification beyond oil. The Saudi case particularly reflects Alharthi et al.'s (2024) argument that FDI is increasingly important for Gulf economies seeking to diversify away from hydrocarbons. Across the six countries,

therefore, political instability can affect economic growth through FDI by delaying investment decisions, increasing perceived risk, raising financing costs, and redirecting capital toward more stable economies. At the same time, as Douch (2025) emphasized, the relationship between security conditions and FDI is not uniform: some security-related expenditure or improvements in infrastructure may strengthen perceptions of stability and thereby support investment. Thus, the effect of political turmoil on FDI depends not only on the existence of instability but also on its intensity, duration, institutional consequences, and the government's ability to provide a predictable and secure investment environment.

Institutional Quality

Institutional quality is an important factor in explaining differences in economic performance across Egypt, Jordan, Iraq, Lebanon, Saudi Arabia, and Syria. Strong institutions characterized by effective government, regulatory quality, rule of law, political stability, and control of corruption can reduce uncertainty, protect property rights, encourage investment, and improve the implementation of economic policies. AlShammari, Al-Adwani and AlDhafeeri (2024) found that institutional quality significantly influences economic performance in Middle Eastern countries, while Boussaidi and Hakimi (2025) showed that institutional quality affects how financial and economic activities translate into growth. These findings suggest that countries with stronger and more effective institutions are generally better positioned to withstand political and economic shocks.

The six countries demonstrated these differences clearly. Jordan and Saudi Arabia have relatively greater institutional capacity, which can help them manage regional shocks and implement economic reforms, while Egypt has maintained institutional continuity but faces challenges involving regulatory effectiveness and governance. Iraq and Lebanon illustrated how institutional weaknesses, corruption, political uncertainty, and governance problems can intensify the economic effects of instability. Syria represents the most severe case, where prolonged conflict has significantly weakened institutions and economic capacity. Overall, institutional quality can therefore moderate the relationship between political instability and economic growth: strong institutions can reduce the negative effects of instability by maintaining policy continuity and investor confidence, whereas

weak institutions can amplify these effects through uncertainty, corruption, weak regulation, and ineffective public administration.

Theoretical Framework

This study adopted Institutional Theory as developed by John W. Meyer and Brian Rowan (1977). The theory provided a useful framework for explaining how institutional structures, legitimacy, norms, and stability influence the behaviour of organisations and economic actors. Meyer and Rowan (1977) argued that organizations operate within institutional environments where established rules, norms and expectations provide legitimacy and stability. This perspective is relevant to the present study because political instability can weaken the legitimacy and effectiveness of state institutions, increase uncertainty and reduce the predictability of the economic environment. In countries experiencing persistent political turmoil, weakened institutions may reduce the enforcement of laws, protection of property rights and consistency of economic policies, thereby discouraging domestic and foreign investment, disrupting production, and encouraging capital flight. Thus, political instability can affect economic growth not only through direct disruptions such as conflict but also indirectly through the deterioration of the institutional environment that supports economic activity.

A major strength of Meyer and Rowan's (1977) institutional perspective is its emphasis on institutional legitimacy, stability, and the wider institutional environment, making it useful for comparing countries with different levels of political stability. It recognises that the existence of formal institutions does not necessarily guarantee their effectiveness and that economic actors respond to the institutional conditions surrounding them. However, the theory has limitations for this study because its original focus is primarily on organizations and institutional legitimacy rather than directly explaining economic growth. Concepts such as legitimacy, institutionalisation, and institutional expectations can also be difficult to measure quantitatively. Furthermore, the theory gives less attention to specific economic mechanisms such as capital accumulation, productivity, human capital and technological progress. Therefore, Institutional Theory is most effective in this study because it explains how political instability-induced reductions in investment, human capital, and productivity can

ultimately translate into lower economic growth.

Results and Discussions

Thematic Analysis of Political Instability

Representative quote	Initial code	Category	Theme
Political conflict, uncertainty, social unrest, violence, institutional disruption	Political conflict; uncertainty; social unrest; violence; institutional disruption	Dimensions of political instability	Multidimensional nature of political instability
Uncertainty surrounding government continuity, policy direction, institutional effectiveness	Government uncertainty, policy uncertainty, institutional uncertainty	Political and institutional uncertainty	Political instability as uncertainty
Iraq, Lebanon and Syria have experienced prolonged conflict and substantial institutional disruption	Prolonged conflict, institutional disruption; fragile institutions	Country-level variation	Unequal exposure to political instability
Egypt and Jordan have experienced different forms and degrees of political and economic uncertainty	Political uncertainty, economic uncertainty, varying intensity	Country differences	Country-specific manifestations of instability
Saudi Arabia provided an important comparative case because of its relatively distinctive political environment and hydrocarbon-dependent economic structure	Distinctive political environment, resource dependence	Comparative political-economic structures	Institutional and structural differences across countries

Political uncertainty can discourage domestic and foreign investment	Reduced investment, investor uncertainty	Investment effects	Political instability and investment decisions
Disrupt production and trade	Production disruption, trade disruption	Economic activity	Political instability and productive activity

Findings: The thematic analysis indicated that political instability is a multidimensional phenomenon that influences economic performance through uncertainty, institutional disruption, investment decisions, and disruptions to production and trade. The findings showed that instability extended beyond armed conflict to include political uncertainty, social unrest, violence, and uncertainty regarding government continuity and policy direction. These conditions can weaken investor confidence and constrain economic decision-making. The analysis also revealed substantial cross-country variation. Iraq, Lebanon, and Syria have experienced more prolonged conflict and institutional disruption, whereas Egypt and Jordan have faced different degrees of political and economic uncertainty. Saudi Arabia provided a contrasting case in which stronger fiscal capacity, institutional resources, and a hydrocarbon-based economic structure may enhance the capacity to absorb certain shocks. Thus, the economic effects of political instability are conditioned by institutional capacity, economic structure, resource dependence, and the intensity and duration of instability.

A key finding is the role of investment as a transmission mechanism. Political uncertainty increases perceived risk, reduces investor confidence, and may delay or discourage domestic and foreign investment, thereby weakening capital formation and economic growth. At the same time, instability can directly disrupt production and trade through insecurity, infrastructure damage, supply-chain interruptions, and restricted market access. Overall, the findings suggested that political instability can adversely affect economic growth through both financial-investment and real-economic channels**,** although the magnitude of these effects varies according to country-specific institutional and structural conditions.

Thematic Analysis of Economic Cost of Political Turmoil

Representative quote	Initial code	Category	Theme
Political turmoil has generated significant economic costs across Egypt, Jordan, Iraq, Lebanon, Saudi Arabia, and Syria	Economic costs of turmoil; cross-country economic effects	Broad economic consequences	Political turmoil as a source of economic costs
The effects are largely transmitted through regional trade, tourism, energy prices, shipping disruptions, and financial conditions	Trade disruption, tourism losses; energy-price pressures, shipping disruption; financial pressures	External and regional transmission channels	Regional and external transmission of economic shocks
Egypt's exposure to regional instability can reduce tourism and foreign-exchange earnings	Reduced tourism, lower foreign-exchange earnings	Tourism and external-sector effects	Declining foreign-exchange and tourism revenues
Increasing import and transportation costs and placing pressure on investment and the exchange rate	Higher import costs, higher transport costs; investment pressure, exchange-rate pressure	Trade and financial pressures	Rising costs and financial vulnerability
Jordan is similarly vulnerable because of its dependence on imported energy, tourism, external financing, and regional trade	Energy dependence, tourism dependence; external financing dependence, trade dependence	Structural economic vulnerability	Exposure through economic dependence
Political instability can increase energy and transportation costs, reduce tourism revenues, disrupt trade	Higher energy costs, higher transport costs, tourism losses; trade disruption	Domestic and external economic disruption	Disruption of economic activity and revenues
In Iraq and Saudi Arabia, the economic costs are closely connected to their dependence on the oil sector	Oil dependence, resource dependence	Natural-resource dependence	Political turmoil and resource-dependent economies

Prolonged regional instability may also affect investor confidence and delay investment and economic diversification under Vision 2030”	Reduced investor confidence, delayed investment, delayed diversification	Investment and structural transformation	Political uncertainty and delayed economic diversification

Findings: The thematic analysis indicated that political turmoil imposes high and interconnected economic costs across the six countries, primarily through trade disruptions, tourism losses, higher energy and transportation costs, financial pressures, and reduced investor confidence. However, the magnitude of these effects varies according to country-specific economic structures and exposure to external shocks. Egypt and Jordan are particularly vulnerable because of their dependence on tourism, regional trade, imported energy, transportation, and external financing, which can intensify pressures on foreign-exchange earnings, exchange rates, investment, and macroeconomic stability.

In Iraq and Saudi Arabia, the economic consequences of political turmoil are closely linked to oil dependence, which can affect government revenues, investment confidence, and diversification efforts. In Saudi Arabia, prolonged regional instability may also complicate the implementation of Vision 2030 by delaying investment and weakening confidence in diversification projects. Overall, the findings suggest that greater economic diversification, stronger external buffers, and reduced dependence on vulnerable sources of income are essential for enhancing resilience to political and regional shocks.

Thematic Analysis of Foreign Direct Investment (FDI)

Representative quote	**Initial code**	**Category**	**Theme**
Political and economic uncertainty can discourage foreign investors	Political/economic uncertainty discourages investment	Investor uncertainty	Political instability undermines FDI attractiveness

Increasing concerns about exchange-rate volatility, regulatory uncertainty, and the security of long-term investments	Exchange-rate risk, regulatory uncertainty, investment insecurity	Perceived investment risks	Political instability undermines FDI attractiveness
Egypt's large domestic market, strategic location, and ongoing efforts to attract investment	Large market, strategic location, investment promotion	Investment advantages	Country-specific factors can mitigate political risk
Political stability relative to some neighbouring countries has helped maintain its attractiveness to foreign investors	Relative political stability	Political stability	Political stability supports FDI
Regional conflicts, geopolitical tensions, and uncertainty can weaken FDI inflows	Regional conflict, geopolitical uncertainty	External security pressures	Regional instability constrains FDI
Jordan's limited natural-resource base also makes FDI particularly important for supporting private-sector development, employment, and diversification	Dependence on FDI for diversification and employment creation	Developmental importance of FDI	FDI supports economic diversification and resilience
Political instability, security concerns, institutional weaknesses, and dependence on oil can create significant barriers to FDI outside the hydrocarbons sector	Political instability, insecurity, weak institutions, oil dependence	Structural investment barriers	Institutional and resource-related vulnerabilities shape FDI
Insecurity and regulatory uncertainty can increase the risk premium required by foreign investors	Security risk, regulatory risk, higher risk premium	Cost of political risk	Political instability increases the cost of investment

Findings: The thematic analysis indicated that political instability increases the cost and risk of foreign investment, thereby reducing the attractiveness of FDI. Political and economic uncertainty, exchange-rate volatility, regulatory unpredictability, and security concerns increase perceived investment risk and may raise the risk premium required by foreign investors. These conditions can discourage or delay investment decisions and constrain capital inflows.

However, the findings also showed that the effects of political instability are country-specific. Egypt's large domestic market and strategic location, and Jordan's relative political stability, can partly offset political risks and sustain investment attractiveness. In contrast, Iraq and other resource-dependent economies face additional barriers arising from insecurity, institutional weaknesses, and oil dependence. Overall, the findings suggested that political stability, institutional quality, economic diversification, and a predictable investment environment are critical for attracting and sustaining FDI, particularly in economies exposed to regional instability.

Thematic Analysis of Institutional Quality

Representative quote	Code	Category	Theme
Strong institutions characterized by effective government, regulatory quality, rule of law, political stability, and control of corruption	Effective government; regulatory quality; rule of law; political stability; corruption control	Dimensions of institutional quality	Institutional quality as a foundation for economic performance
Can reduce uncertainty, protect property rights, encourage investment	Reduced uncertainty; property-rights protection; investment promotion	Institutional mechanisms supporting investment	Good institutions create a favourable investment environment
Improve the implementation of economic policies	Effective policy implementation	Government effectiveness	Institutional capacity strengthens economic policy effectiveness
Institutional quality significantly influences economic performance in Middle Eastern countries	Institutional quality–economic performance relationship	Institutional determinants of growth	Institutional quality is a determinant of economic growth

Institutional quality affects how financial and economic activities translate into growth	Institutions mediate economic activities and growth	Institutional mediation	Institutions mediate the relationship between economic activity and growth
Countries with stronger and more effective institutions are generally better positioned to withstand political and economic shocks	Institutional resilience, shock absorption	Resilience to external shocks	Strong institutions enhance economic resilience
Jordan and Saudi Arabia have relatively greater institutional capacity	Stronger institutional capacity	Comparative institutional strength	Institutional capacity differentiates country outcomes
Institutional weaknesses, corruption, political uncertainty, and governance problems can intensify the economic effects of instability	Weak institutions; corruption, political uncertainty, poor governance	Institutional vulnerabilities	Weak institutions amplify the effects of political instability

Findings: The thematic analysis indicated that institutional quality is a fundamental determinant of economic performance and resilience. Effective government, regulatory quality, rule of law, political stability, and corruption control can reduce uncertainty, protect property rights, improve policy implementation, and create a more favourable environment for investment and economic activity. Stronger institutional capacity, as observed comparatively in Jordan and Saudi Arabia, can therefore enhance countries' ability to withstand political and economic shocks.

Conversely, institutional weaknesses amplified the economic effects of political instability. Corruption, weak governance, political uncertainty, and ineffective institutions may reduce investor confidence, weaken policy effectiveness, and constrain the translation of economic activity into sustained growth. Overall, the findings suggest that institutional quality moderates the relationship between political instability

and economic growth, with stronger institutions reducing vulnerability to instability and weaker institutions intensifying its adverse economic consequences.

Conclusion

This study examined the relationship between political instability and economic growth in Egypt, Jordan, Iraq, Lebanon, Saudi Arabia, and Syria using qualitative thematic analysis of secondary evidence. The findings demonstrated that political instability has a predominantly adverse effect on economic growth, although its magnitude and transmission mechanisms differ across countries. Political instability operates not only through direct conflict and violence but also through political and economic uncertainty, institutional disruption, reduced investment, weakened foreign direct investment, disruptions to production and trade, and the erosion of human capital.

The analysis further demonstrated that the economic consequences of political turmoil are strongly conditioned by country-specific institutional and structural characteristics. Countries exposed to prolonged conflict and institutional fragility, particularly Iraq, Lebanon, and Syria, experience more severe and persistent economic disruptions, including damage to infrastructure, loss of human capital, reduced investment, and weakened productive capacity. Egypt and Jordan face significant vulnerabilities arising from their exposure to tourism, regional trade, imported energy, external financing, and geopolitical uncertainty, while Saudi Arabia's stronger institutional and financial capacity provides greater resilience, although its dependence on hydrocarbons creates continued exposure to external and regional shocks.

A central finding of the study is that institutional quality plays a critical moderating role in the relationship between political instability and economic growth. Strong institutions can reduce uncertainty, protect property rights, support investment, improve policy implementation, and enhance the capacity of economies to absorb shocks. Conversely, weak institutions, corruption, ineffective governance, and policy uncertainty can amplify the economic effects of political instability. This finding is consistent with the study's Institutional Theory framework, which emphasized the importance of stable and legitimate institutional structures in shaping economic behaviour and outcomes.

Overall, the study concluded that political stability is an important prerequisite for sustainable economic growth, but stability alone is insufficient. Long-term economic resilience requires effective institutions, economic diversification, a predictable investment environment, human-capital development, strong external and fiscal buffers, and regional cooperation. The evidence therefore suggested that policies aimed at strengthening institutional capacity, reducing structural dependence, protecting investment, and preventing conflict are essential for mitigating the economic costs of political instability and creating the conditions for sustained and inclusive economic growth across the Middle East.

Recommendations

Based on the findings, the study recommends the following:

1. Strengthen institutional quality and governance. Governments should improve regulatory effectiveness, rule of law, public-sector accountability, and corruption control to reduce uncertainty and strengthen economic confidence. Promote economic diversification. Countries highly dependent on oil, tourism, or other vulnerable sources of income should accelerate diversification into productive sectors such as manufacturing, services, technology, and other non-resource activities to reduce exposure to political and external shocks.

2. Create a more predictable investment environment. Strengthening regulatory stability, investor protection, exchange-rate management, and security conditions can reduce perceived political risk, lower investment costs, and attract and retain FDI. Strengthen economic and external buffers. Building adequate foreign-exchange reserves, improving fiscal resilience, strengthening energy security, and developing resilient trade and transport systems can help countries absorb regional disruptions more effectively.

3. Protect and support investment during periods of instability. Governments should maintain policy continuity and provide credible institutional mechanisms that reduce uncertainty and encourage both domestic and foreign investment, particularly in sectors that contribute to long-term diversification. Strengthen regional economic cooperation. Greater regional cooperation in trade, energy, transportation, and investment can reduce the economic spillovers of political instability and improve the resilience of interconnected economies.

4. Prioritize political stability and conflict prevention. Sustainable economic growth ultimately requires a stable political environment. Efforts to strengthen inclusive governance, institutional continuity, and conflict-prevention mechanisms should therefore form an integral part of economic development strategies. Strengthen social and human capital resilience. Governments should invest in education, healthcare, employment creation, and social protection to reduce the socioeconomic consequences of political instability. Strengthening human capital can support labour-market stability, maintain productive capacity, and enhance the ability of households and firms to withstand periods of political and economic disruption.

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