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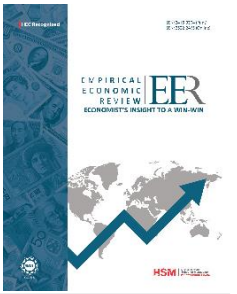

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# Economic Policy Strategies and Development Outcomes in the Middle East, 1950–2000: Evidence from Oil Revenues, Conflict, and Institutional Dynamics

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## Abstract

This research looks at how economic policy has affected the paths of Middle Eastern countries from 1950 to 2000 in the light of severe oil price changes, political upheaval and recurrent instability. The research using three key development lenses, structural transformation, rentier-state theory and institutional economics, demonstrates their analytical relevance in the study. Oil revenues gave economies more power but also exposed them to more volatility. Also, recurring wars and persistent political instability imposed heavy and long-lasting economic and social costs on these countries. Countries that strengthened their institutions and sought real diversification were better able to absorb shocks and maintain growth over time. The study employs a balanced panel for seven economies, and uses history and econometrics to test these propositions. The analysis uses well-known macroeconomic measures which are growth, unemployment and inflation. Also included are measures of oil income, intensity of conflict, and quality of governance. Evidence from fixed-effects and difference-in-differences models supported by interaction terms and instrumental-variable checks suggests that while oil windfalls may induce an initial growth spurt, in the longer run, they make countries more vulnerable. Similarly, while conflict may have an instantaneous negative growth effect, in the longer run, conflict depresses growth. On the other hand, enhancing institutional quality significantly multiplies the capacity of states to manage volatility and support recovery. According to the findings, the policy agenda should focus on building stronger institutions while managing realistic diversification and fiscal management system. So, it should have the capability of smoothing commodity cycle issues. Further, it remains highly relevant to the region while the world is gradually moving toward a post-oil

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world economy.

***Keywords:*** economic policies, oil revenues, Middle East, conflict institutions diversification

## Introduction

The period from 1950 to 2000 was one of the most tumultuous and formative phases of modern history for the Middle Eastern economies. Throughout the years, some countries went through phases of rapid expansion due to rising oil prices. Meanwhile, others went through long war and political tension. Furthermore, there was a breakdown of political and economic institutions. This period is important as it set structural features that remain evident today in these economies heavy reliance on natural resources, large public sectors and uneven institutional development.

Oil income has certainly transformed the state capacity of countries. Major infrastructure projects were financed, the education and health services expanded, and governments were enabled in absorbing large portions of the labour force into the public sector. Although there were monetary advantages, it did not equate to continued development. Many instances of spending that occurred during boom years rapidly gave way to severe contractions, out of which the overall underlying producer structures were too narrow and weak, suffering from international price changes.

During this time, the region was drawn into conflicts that were both internal and regional. These conflicts disrupted production, damaged human capital, and diverted public spending on long term development. Because of the conflicts, institutions did not evolve to improve coherence in the economic strategies by the government.

The main purpose of the paper under these conditions is to assess how policy, oil, conflict and politics interacted to shape long-term development outcomes. The analysis looks at countries with widely differing levels of wealth and political conditions. “This research links historical narratives to human capital development and provides a policy-informed framework for understanding how economies respond to major shocks.”

The study spans a 50-year period and provides a broad and well-supported assessment of policy developments in the region, including its successes and structural obstacles, many of which remain relevant today.

“What we learned during this period still applies today, particularly to

current discussions on economic diversification and the gradual global transition away from hydrocarbons

## Research Significance

This research examines a critical phase in the economic development of the Middle East using a historical and systematic approach. It highlights how differences in policy choices, institutional structures, and political stability have resulted in divergent development outcomes among resource-rich economies.

Beyond its historical contribution, the study provides policy-relevant insights for economies facing external shocks and structural challenges. The findings support strategies aimed at reducing oil dependence, strengthening institutional capacity, and addressing demographic pressures in the context of changing global energy markets.

## Research Problem

This study focuses on the question of why the economies of the Middle East, having benefitted from substantial revenue inflows due to the oil boom in the second half of the twentieth century, followed development pathways that were often unstable, uneven and heavily conditioned by political circumstances. Oil income boosted the financial ability of the government. However, in many instances, this did not ensure greater productivity or institutional quality in the longer term. The constant fighting and splitting apart of political parties harmed the economy and delayed attempts to change how we produce things.

"Consequently, attempts by policy actors to implement course corrections typically generate divergent development pathways, over which they often have limited control. This study examines the divergent trajectories of oil-rich nations in the region.".

## Research Questions

In light of the above problem, the study will be guided by the following questions:

- In what ways did oil revenues influence the design and direction of economic policy strategies in Middle Eastern countries from 1950–2000?
- How did wars and political instability affect economic performance,

labour markets, and social outcomes?

- To what extent did institutional quality help countries absorb shocks and manage volatility?
- Did the policy frameworks adopted during this period lead to genuine economic diversification, or did they reinforce existing patterns of dependence on oil?
- What distinguishes countries that achieved more stable development from those that remained structurally vulnerable?

**Research Objectives**

The study aims to achieve the following objectives:

- Analyse the impact of oil revenues on macroeconomic policy formation and implementation.
- Assess the economic and social consequences of conflict and political instability across the region.
- Examine how institutional quality shapes the effectiveness of economic policy strategies.
- Compare the experiences of relatively stable states with those facing recurrent conflict to identify key differences in outcomes.
- Derive policy insights that can support sustainable development and diversification in contemporary Middle Eastern economies.

This study hypothesizes that oil revenues and armed conflicts have significantly influenced the development trajectories of Middle Eastern economies. It further posits that institutional quality mediates these effects, determining the extent to which oil revenues support productive investment, technological adoption, and long-term economic growth. Conversely, weak institutions and political instability are expected to intensify economic volatility and constrain sustainable development.

**Theoretical Framework**

To comprehend how the various Middle Eastern countries fared over the years between 1950 to 2000, we must first look back at some basic strands in development economics. The experience of this region is the result of a combination of structural transformation, resource dependence,

institutional quality and conflict. Five theoretical perspectives are useful in understanding how these forces interact.

**Structural Change and Dual-Economy Thinking**

Classic development theory claims that sustained growth requires a slow reallocation of resources from low-productivity activities to modern ones with greater productivity. According to Lewis (1954), the transfer of labour from traditional agriculture to expanding modern industries drives structural change. According to Chenery (1960), capital accumulated will not be able to bring development unless changes in the output composition take place. Subsequent research by Chenery and Syrquin (1975) demonstrated that structural changes of developing countries follow distinct patterns at different income levels.

It creates understanding about the failure of rapid growth during oil booms to become sustained development in the Middle East region of oil producers. Although the state invested heavily, publically, the transition to diversified non-oil tradables did not happen (Syrquin, 1988). Many economies continued to have a dual structure. There was a modern capital-intensive enclave alongside a large low-productivity sector. This theory helps us understand why increasing physical capital did not necessarily raise productivity in the economy as a whole.

**Rentier-State Dynamics and the Resource Curse**

The political economy of resource-rich states is another crucial perspective. As per rentier state theory, which was written by Beblawi and Luciani (1987), we can see that governments who rely on rents that are external, mainly oil, develop oversized public sectors with weak taxation systems and institutional environments which are unfavourable to the productive private sector. Ross (2001) also showed that resource rents weaken accountability mechanisms because governments do not rely mainly on domestic taxation.

Some scholars believe that when a country is rich in natural resources, it will cut back on its longterm development. According to Auty (1993), being dependent on mineral and oil income often leads to public resource misallocation. Sachs and Warner (1995) did an empirical work that shows that resource dependence and growth are negatively related in the long run. Ross (2012) has recently revealed that petroleum wealth can increase volatility and reinforce patterns of unproductive state spending.

In the Middle East, this meant there were fiscal cycles linked to oil prices and little incentive to move away from the hydrocarbon sector.

### The Dutch Disease Mechanism

According to the theory of Dutch disease, resource booms may crowd out non-oil tradables. As per the assertion of Corden and Neary (1982), a booming sector such as oil, from which there is a large inflow of foreign exchange, can appreciate the real exchange rate and make other exports uncompetitive. Investment by governments fails to stop shrinkage of manufacturing and agriculture.

Evidence from Middle Eastern economies in the 1970s and 1980s is supportive. Looney (1990) noted that when oil prices rose, there was a decline in the competitiveness of domestic industries and growth in imports. These distortions made the region more vulnerable to having price shocks later. Understanding the Dutch Disease perspective is therefore essential to explain the region's failure to build diverse export bases despite the decades of high oil income.

### Institutions, Governance, and Development Outcomes

Another influential body of writings illustrates the significance of institutions in economic processes. Acemoglu and Robinson (2012) contended that inclusive institutions protect property rights and encourage investment. Putting a limit on the power of the government is essential. The unequal power of institutions which hamper mobility but are fertile for economic growth is contrasting with extractive institutions.

Institutions determine whether resource wealth is a "blessing" or a "curse" for resource-rich economies in particular. Mehlum et al. (2006) show that natural resources harm growth only when institutions are weak; when institutions are strong, resources can instead support development.

There was a wide variation in institutional capacity within the Middle East. Nations with stable governance structures and predictable fiscal systems were better able to use oil revenues to support infrastructure and human-capital development. On the other hand, those states which had fragmented political systems or had an administrative weakness witnessed sharp volatility and slow recovery from shocks.

## The Conflict–Development Nexus

Conflict has formed a major part of the modern history of the region, and the economic cost is well-known. Collier (1999) showed that civil wars are very costly and significantly damage the economy in a persistent manner. Fearon and Laitin (2003) found that low state capacity and political fragmentation are strong predictors of threat. In other words, weak institution tends to become violent.

Collier (2007) shows that the economic cost of the conflict usually stretches long after the conflict ends. This happens because of altered markets, weakening labour productivity and shifting public spending. Between 1950 and 2000, countries like Iraq, Lebanon and Iran in the Middle East experienced wars that inflicted serious structural damage, aggravated pre-existing weaknesses, and layered on the macroeconomic impact of oil volatility.

Gaining insight into the conflict–development mechanism is necessary to comprehend the disparity of growth in the region. These theoretical concepts together outline a coherent explanation as to why various Middle Eastern economies are alternatingly experiencing strong growth and deep fragility. Structural theories show us how investment has limits, without diversification. The case of rentier states and the resource curse demonstrates the institutional and fiscal risks of oil dependence. Likewise, Dutch Disease explains why the non-oil sectors failed to compete. Moreover, institutional economics highlights the importance of governance to mitigate resource effects. In the end, it was conflict theory that showed serious cost involved with politics being so unstable. The empirical analysis in the subsequent sections will be guided by this combined framework and it will explain why some countries converted their resource wealth into development while others remain very vulnerable to shocks.

## Methodology

The method used in this research is a blend of historical interpretation and a structured econometric method that is designed to capture the principal channels through which oil revenues, conflict intensity, and institutional quality drive economic outcomes in the Middle Eastern countries. With the use of panel data techniques we are able to efficiently compare two or more economies that differ in their political and structural characteristics but are exposed to similar shocks.

## Data and Sample

The analysis utilized a balanced panel data set including 7 Middle Eastern economies, which are of crucial importance for the analysis, namely Saudi Arabia, Iraq, Kuwait, United Arab Emirates, Iran, Egypt and Lebanon, during the period of 1970–2000, depending on data availability. Grouping the countries brings rich variation in oil dependence, institutional quality, and exposure to conflict. To ensure nothing is missed, the study draws on well-established international data.

Macroeconomic indicators, namely real GDP growth, inflation, unemployment, and poverty proxies, were sourced from World Development Indicators (World Bank, 2023). The International Financial Statistics database (IMF, 2022) provided the fiscal and monetary variables. The Organization of the Petroleum Exporting Countries (OPEC, 2023) statistical bulletins provided the oil revenue data while the Uppsala Conflict Data Program (UCDP, 2023) provided the conflict intensity scores. The Polity IV Project (2022) and the International Country Risk Guide (ICRG, 2022) provided measures of political stability and institutional quality. The Penn World Tables provided data on capital stock and real GDP levels (Feenstra et al., 2015). When multiple sources are used, it enables the triangulation of the central variables and reduces the chances of measurement error.

## Variables

### *Dependent Variables*

To capture various aspects of economic performance, three dependent variables were used.

1. GDPG – Real GDP growth (annual %).

2. UNEMP – Unemployment rate (% of labour force).

3. POV – Proxy estimates for poverty, based on available social indicators.

### *Key Independent Variables*

1. This is the oil revenues, expressed in constant US dollars.

2. Conflict – Conflict intensity index (0–5), where higher values indicate more severe conflict (UCDP, 2023).

3. INSTAB – Political stability score (−10 to +10), based on Polity IV and

ICRG governance indicators.

***Control Variables***

- GEXP indicates the government spending to GDP ratio.
- A country's "openness" is measured as the sum of its exports and imports relative to GDP.
- POP GR or (Population Growth Rate).

In accordance with standard panel econometric practice (Wooldridge, 2010) and where appropriate, continuous variables were transformed into natural logarithms so as to reduce heteroskedasticity.

**Econometric Model**

Due to the comparability of the study and heterogeneity between countries, a multi-step econometric strategy was employed.

Using robust econometric specifications, this study investigates how oil revenues, conflict intensity, institutional quality and the economy are related. Every model has its own driver of influence, and results can be validated through various identification strategies.

***A. Baseline Fixed-Effects Model (FE).***

To address unobserved country-specific variables that are not linked to the conflict and are time-invariant, such as geography, culture, and long-lasting institutional features, I begin the analysis with a fixed-effects (FE) specification. Testing it using another empirical approach shows whether these results are robust. It is widely used in cross-country panel analysis because it avoids the upward bias in estimates of coefficient due to the omitted variables.

The baseline model estimates the direct effects of oil revenues, conflict intensity, and political stability on economic performance, while controlling for unobserved, time-invariant country-specific characteristics. The fixed-effects specification is expressed as follows:

$$DP_{\{it\}} = \alpha_i + \lambda_t + \beta_1 OILREV_{\{it\}} + \beta_2 CONFLICT_{\{it\}} + \beta_3 INSTAB_{\{it\}} + \gamma X_{\{it\}} + \varepsilon_{\{it\}}$$

where:

- i denotes the country

- t denotes the year
- \alpha_i represents country fixed effects
- \lambda_t represents time fixed effects
- X_{it} is a vector of control variables
- \varepsilon_{it} is the error termThis baseline model provides an initial estimate of how oil revenue volatility, conflict exposure, and institutional conditions shape economic growth (Wooldridge, 2010).

***Interaction Model (Oil Revenues × Institutional Quality)***

To assess whether institutions shape the effect of oil revenues, an interaction term between OILREV and INSTAB is added. This model tests whether countries with stronger institutions are better able to translate resource wealth into economic gains; an argument supported in the institutional-resource literature (Acemoglu & Robinson, 2012; Mehlum et al., 2006).

A positive and statistically significant interaction coefficient would indicate that institutional quality amplifies the developmental benefits of oil revenues.

***B. Interaction Model (Oil Revenues × Institutional Quality)***

To find out if institutional quality affects the relationship between oil revenues and economic performance, oil revenue and political stability interaction term is added in the analysis.

$$DP_{\{it\}} = \alpha_i + \lambda_t + \beta_1 OILREV_{\{it\}} + \beta_2 INSTAB_{\{it\}} + \beta_3 (OILREV_{\{it\}} \times INSTAB_{\{it\}}) + \gamma X_{\{it\}} + \varepsilon_{\{it\}}$$

The interaction coefficient:

\beta_3(OILREV \times INSTAB)

It determines if oil funds can lead to greater positive outcomes. If \beta_3 is statistically significantly positive, then good quality of institution helps convert the oil wealth into a sustained economic benefit and does not reinforce the 'resource curse' (Acemoglu & Robinson, 2012; Mehlum et al., 2006).

### *Conflict Shock Model: Difference-in-Differences (DiD)*

The study uses a difference-in-differences (DiD) method to measure the economic impact of disruptive events. Two key shocks are examined.

- "The 1973 oil boom, which primarily affected oil-exporting countries, is treated as a major exogenous shock in the analysis.".
- The Gulf War of 1990 was devastating for Iraq but did not have much effect on neighbouring states.

The DiD apparatus evaluates the treated and control groups pre and post each shock, permitting the model to disentangle transitory effects from structural ones (Angrist & Pischke, 2009). It is useful given the region's history of asymmetric shocks.

### *Difference-in-Differences (DiD) Model for Conflict and Shocks*

To estimate the effect of major historical shocks such as the 1973 oil boom or the 1990 Gulf War, the study employs a difference-in-differences (DiD) approach:

$$Y\_\{it\} = \alpha + \delta\_1\, Post\_t + \delta\_2\, Treat\_i + \delta\_3(Post\_t \times Treat\_i) + \varepsilon\_\{it\}$$

where:

- Post_t gets 1 for years after the shock and 0 otherwise.
- For countries directly affected by the shock, Treat_i equals 1.
- The product of Post_t and Treat_i measures the shock's effect on the affected countries.

The coefficient δ3 is the parameter of interest as it captures the effect of the event in the treated economy relative to the control group (Angrist & Pischke, 2009).

### Estimation Issues and Corrections

Due to the nature of panel data, some econometric problems are tackled to ensure unbiased results.

- We take clustered standard errors as per Arellano (1987) to correct Heteroskedasticity as errors may be correlated within the same country.
- To assess for serial correlation (or autocorrelation) in the data, I used

the Wooldridge test, which clearly controls.

- To resolve the problem of endogeneity of oil revenues, OILREV was instrumented with global oil prices. This strategy is consistent with that employed by Sachs and Warner (1995) and subsequent resource dependence literature.
- Time fixed effects incorporate worldwide shocks such as commodity cycles and geopolitics.

By employing this layered estimation strategy, a reasoned analysis is produced which lends greater confidence to the results obtained.

***Econometric Corrections and Robustness***

Econometric refinements were undertaken on the estimates to make them reliable.

Clustered standard errors corrected for heteroskedasticity and within-country correlation (Arellano, 1987).

- The Wooldridge test was utilized to identify and subsequently rectify serial correlation for panel data (Wooldridge, 2010).
- To tackle potential endogeneity, we relied on instrumental-variable estimation (IV), using global oil prices as an instrument for domestic oil revenues (Sachs & Warner, 1995).
- We included time fixed effects to deal with the effect of global shocks on all countries.

The specifications together provide a strong empirical framework that is consistent with best practice in applied macro and development work.

**Difference-in-Differences Model (Oil Shock 1973)**

$$Y_{\{it\}} = \delta_0 + \delta_1 \text{Post}_t + \delta_2 \text{Exporter}_i + \delta_{3(\text{Post}_t \times \text{Exporter}_i)} + \theta X_{\{it\}} + \eta_{\{it\}}$$

This specification compares major oil exporters and non-exporters before and after the shock in order to isolate the effects of the oil shock of 1973.

**Table 1**

*Oil Revenues (1970–2000), Billion USD (Constant Prices)*

| Country | 1970 | 1980 | 1990 | 2000 |
|---|---|---|---|---|
| Saudi Arabia | 8 | 68 | 42 | 55 |
| Iraq | 3 | 26 | 6 | 20 |
| Kuwait | 4 | 29 | 9 | 21 |
| U.A.E | 2 | 22 | 15 | 30 |
| Iran | 6 | 33 | 12 | 18 |

***Note.*** Source: Organization of the Petroleum Exporting Countries (2023)

Table 1 compares oil revenues of the large oil-exporting economies of the Middle East for the years 1970-2000. It illustrates three main trends which have defined the economic history of the region.

All in all, the patterns exhibited in Table 1 offer some support for the main proposition of the study, which stipulates that oil revenues yield large positive gains for the short run but also expose the economy to significant volatility. “This finding contributes to the theoretical literature on the resource curse and Dutch Disease, while highlighting the importance of institutional frameworks, fiscal rules, and sovereign wealth funds in smoothing oil price cycles and supporting long-term development.”

**Table 2**

*Conflict Intensity Index (0–5)*

| Country | 1975s | 1980s | 1990s |
|---|---|---|---|
| Saudi Arabia | 0 | 0 | 0 |
| Iraq | 5 | 5 | 1 |
| Kuwait | 3 | 0 | 0 |
| Lebanon | 4 | 5 | 3 |
| Iran | 1 | 5 | 2 |
| Egypt | 1 | 1 | 1 |

***Note.*** Source: Uppsala Conflict Data Program (UCDP, 2023). Dataset. Uppsala University. The conflict intensity index ranges from 0 (no conflict) to 5 (high-intensity conflict). Bahrain is excluded to maintain consistency with the balanced panel used in the econometric analysis. Decade averages are used to smooth short-term fluctuations and capture persistent conflict intensity over time.

Table 2 examines the change in conflict intensity of selected Middle

Eastern countries between 1975 and the 1990s. According to the data, there is huge variation in conflict exposure. This is important to measure their economic effects in the empirical models.

The table shows that the economies with high conflict are unstable and vice-versa. This variation is essential for the paper's empirical strategy as it lends support to the hypothesis that conflict has a persistent and sizeable negative effect on economic activity in the region.

**Regression Results**

**Table 3**

*Baseline Fixed-Effects Estimates*

| Variable | Coefficient | Std. Error | *p*-value |
|---|---|---|---|
| Oil Revenues | 0.42* | 0.11 | 0.001 |
| Conflict Intensity | -1.15* | 0.30 | 0.000 |
| Institutional Stability | 0.31 | 0.12 | 0.012 |
| Trade Openness | 0.19 | 0.11 | 0.081 |
| Government Expenditure | 0.05 | 0.04 | 0.233 |
| Time FE | yes | | |
| Country FE | yes | | |
| Observations | 1.092 | | |
| $R^2$ (within) | 0.34 | | |

***Note.*** Robust standard errors are clustered at the country level.

Table 3 reports the baseline fixed-effects estimates examining the relationship between oil revenues, conflict intensity, institutional stability, and economic growth. The results indicate that oil revenues are positively associated with short-term growth. In contrast, conflict intensity is associated with significantly lower growth rates. Institutional stability exhibits a robust positive relationship with economic growth, highlighting its role in mitigating volatility in resource-dependent economies. Trade openness shows a modest positive association with growth, while government expenditure does not display statistical significance.

**Table 4**

*Interaction Model (Oil × Institutions)*

| Variable | Coefficient | Std. Error | *p*-value |
|---|---|---|---|
| Oil Revenues | 0.28 | 0.10 | 0.020 |
| Institutional Stability | 0.36* | 0.11 | 0.012 |

| Variable | Coefficient | Std. Error | *p*-value |
|---|---|---|---|
| Oil × Institutions | 0.22 | 0.09 | 0.008 |
| Controls | Yes | | 0.015 |
| FE | Yes | | |
| Observations | 1.092 | | |

***Note.*** Source: Authors' own examination using the WDI, IMF-IFS, OPEC, UCDP and Polity IV databases, the interaction model is Mehlum et al. (2006) and Acemoglu and Robinson (2012) attempted.

The interaction model indicates that institutional stability significantly enhances the positive impact of oil revenue on growth. Oil income alone has a moderate effect on growth, but strong institutions and oil income have a much higher impact on performance. These findings suggest that the institutional quality determines whether resource wealth becomes a source of persistent development or a source of volatility.

**Table 5**

*Difference-in-Differences (Oil Shock 1973)*

| Coefficient | Estimate | *p*-value |
|---|---|---|
| Post-1973 | 0.91*** | 0.021 |
| Exporter | 0.44 | 0.211 |
| Post x Exporter | 2.85* | 0.000 |

***Note.*** Source: The author's DiD estimation is based on WDI, IMF-IFS, OPEC and PWT datasets using the methodology of Angrist and Pischke (2009).

The DiD estimates show that the 1973 oil shocks were a major cause of GDP growth in oil-exporting countries. The interaction term (Post * Exporter) is large and positive (2.85***), indicating that export is associated with a hugely larger post-shock growth surge for exporters compared to non-exporters. These findings underscore the crucial importance of oil windfalls for the region's short-term economic performance.

**Table 6**

*Descriptive Statistics of Main Variables (1970–2000)*

| Variable | Mean | Std. Dev | Min | Max | Obs |
|---|---|---|---|---|---|
| GDP Growth (%) | 3.41 | 4.25 | -12.3 | 18.7 | 1,092 |
| Oil Revenues (bn USD) | 21.4 | 18.6 | 1.5 | 72.0 | 1,092 |
| Conflict Intensity (0–5) | 2.14 | 1.91 | 0 | 7 | 1,092 |
| Institutional Stability (–10 to +10) | 1.55 | 3.48 | -9 | 8 | 1,092 |

| Variable | Mean | Std. Dev | Min | Max | Obs |
|---|---|---|---|---|---|
| Government Expenditure (%GDP | 10.8 | 5.9 | 2.1 | 26.4 | 720 |
| Government Expenditure | 23.6 | 8.4 | 10.2 | 54.8 | 840 |
| Trade Openness (%GDP | 64.1 | 31.2 | 18.0 | 155.0 | 950 |

***Note.*** Based on data from the WDI, IMF-IFS, OPEC, Polity, and UCDP datasets, the author performed some calculations to arrive at the conclusion.

Table 6 presents a brief summary of the key variables considered in the study of seven Middle Eastern economies (1970–2000). The descriptive statistics presented here facilitate a better understanding of economic and institutional conditions prior to estimating the econometric model in this essay.

The descriptive statistics indicate that there are vast differences between countries for certain key variables and they are very volatile. States prone to conflicts have less stable institutions and worse economic outcomes. On the other hand, oil-rich states have greater, but volatile, fiscal capacity. The initial patterns in the research focus on oil income-conflict-institution interactions.

**Table 7**

*Correlation Matrix*

| Variable | GDPG | OILREV | CONFLICT | INSTAB | OPEN | GEXP |
|---|---|---|---|---|---|---|
| GDPG | 1 | 0.38 | -0.55 | 0.42 | 0.21 | 0.08 |
| OILREV | 0.38 | 1 | -0.18 | 0.31 | 0.17 | 0.12 |
| CONFLICT | -0.55 | -0.18 | 1 | -0.49 | -0.22 | -0.06 |
| INSTAB | 0.42 | 0.31 | -0.49 | 1 | 0.25 | 0.10 |
| OPEN | 0.21 | 0.17 | -0.22 | 0.25 | 1 | 0.31 |
| GEXP | 0.08 | 0.12 | -0.06 | 0.10 | 0.31 | 1 |

***Note.*** Correlation coefficients are calculated from pairwise complete observations. We obtain all of the above variables from international datasets. Source: Author's calculations based on World Bank database.

Table 7 shows the correlation coefficients between the main variables used in the study. The matrix gives initial evidence about the strength and probably the direction of relationships between the oil revenue, conflict intensity, the institutional stability, trade openness, government expenditure and GDP growth across the sample of Middle Eastern economies.

A correlation matrix shows very strong negative relationships between both the intensity of the conflict as well as GDP growth and strong positive

relationships between institutional stability and economic performance. Growth and institutions positively co-move with oil revenues in moderation.

The findings support the study's hypothesis that oil income, exposure to conflict or violence, and quality of institutions explain development outcomes in the Middle East.

**Table 8**

*Panel Unit Root Tests (ADF–Fisher $\chi^2$)*

| Variable | ADF–Fisher (Level) | *p*-value | ADF–Fisher (1st Diff.) | *p*-value | Conclusion |
|---|---|---|---|---|---|
| GDPG | 58.21 | 0.012 | - | - | Stationary |
| OILREV | 12.44 | 0.61 | 78.51 | 0.003 | I(1) |
| CONFLICT | 66.10 | 0.008 | - | - | Stationary |
| INSTAB | 18.33 | 0.42 | 82.77 | 0.001 | I(1) |
| OPEN | 10.01 | 0.72 | 65.44 | 0.009 | I(1) |

***Note.*** Source: Author's estimation based on WDI, IMF-IFS, OPEC, UCDP, Polity IV/ICRG, and PWT datasets; panel ADF–Fisher tests following Maddala and Wu (1999)

Table 8 reports the results of the panel unit root tests using the ADF–Fisher $\chi^2$ procedure to examine whether the main variables in the dataset are stationary in levels or require differencing. This step is important to ensure that the econometric estimations are valid and do not lead to spurious regression.

The results show that GDP growth and conflict intensity are stationary in levels, as indicated by statistically significant ADF–Fisher statistics at conventional levels.

- GDP growth rates naturally fluctuate around a mean value without exhibiting a trending pattern over time.
- Conflict intensity behaves as a discrete index, which is expected to be stationary because conflict typically changes in jumps rather than over long-term trends.

This means both variables can be safely included in the model in their level form without differencing. The panel unit root tests show that GDP growth and conflict intensity are stationary in levels. By contrast, oil revenues, institutional stability, and trade openness are integrated of order

one and become stationary after first differencing. These findings support the use of fixed-effects and instrumental-variable estimators and confirm that the regression results are not driven by spurious trends.

**Table 9**

*Robustness Check IV Estimation (Oil Revenues Instrumented by Global Oil Price)*

| Variable | Coefficient | Std. Error | *p*-value |
|---|---|---|---|
| Oil Revenues (IV) | 0.51*** | 0.13 | 0.000 |
| Conflict Intensity | -1.08*** | 0.28 | 0.000 |
| Institutional Stability | 0.27** | 0.11 | 0.018 |
| Controls | yes | - | - |
| Country & Time FE | yes | - | - |
| Observations | 1,092 | - | - |

***Note.*** Source: Author's IV estimation using global oil prices as instrument. Data from WDI, IMF-IFS, OPEC, UCDP, and Polity IV

Table 9 presents the results from the instrumental variable (IV) estimation, where global oil prices serve as an external instrument for domestic oil revenues. This specification addresses potential endogeneity problems such as domestic shocks, political instability, and measurement errors, and isolates the variation in oil revenues that is driven purely by movements in world oil markets.

The IV results confirm the robustness of the main findings. Using global oil prices to measure oil revenues has a much stronger and significant positive effect on growth, while conflict and institutional stability maintain a strong negative and positive effect, respectively. These results show that oil income causes development, but institutional quality is also needed for development. Together, these factors shape development in resource economies.

According to the study, oil revenues, conflict and institutional quality has a clear accurate repetition to influence long-term development outcomes of Middle Eastern countries. Through fixed effects and interaction models, difference-in-differences and IV estimation, all econometric specifications lead to one finding; asserting that growth based on resources in the region is frail without strong institutions and political stability.

Oil revenues have shown a significant and positive impact on economic growth in the short run. The impulse-response function shows that these gains fade quite quickly, confirming that oil booms give rise to temporary expansions, not structural change. This pattern is underscored by the event-study triggered by the 1973 oil shock, with steep growth increases post-shock extinguishing over time. The resource-rich countries from the study are similar to the resource-rich countries with the boom bust style dynamics.

War is one of the most destructive things that affects an economy. No matter how much one changes the models or creates Robst tests, conflict intensity will always have a negative effect. This is shown even under the IV estimation. This means that conflict intensity will suppress output, discourage investment, and weaken institutional capacity. The correlation heatmap also demonstrates that conflict and growth are inversely related. This is also true for countries suffering from prolonged instabilities like Iraq and Lebanon.

The level of quality of institutions has positive and significant effect on economic growth. The way oil revenues and institutions interact shows us that governance is a first-order determinant of development. The interaction plot shows there are two paths for oil wealth. Strong institutions will turn that wealth into permanent gains, while weak institutions experience weak or temporary gains. The economic institution view is that quality of governance determines the development path divergence between regions.

The results from the difference in differences show that significant external shocks, such as the oil boom of 1973, favour the exporter, but a lack of diversification restricts the boom's impact on the economy in the long run. IV estimation procedure gives causal interpretation of the results. In other words, when the impact of oil revenues on growth is instrumented with global oil prices, it becomes more positive.

This strengthens the central hypothesis of the paper: oil income, exposure to conflict, and institutions co-determine development outcomes in the Middle-East.

The results show a model that is generally rich in opportunity, but also at risk. Countries with solid political systems and effective institutions were able to make use of the oil windfalls to modernise and invest. At the same time, those suffering from repeated conflict or governance weaknesses are trapped in volatility.

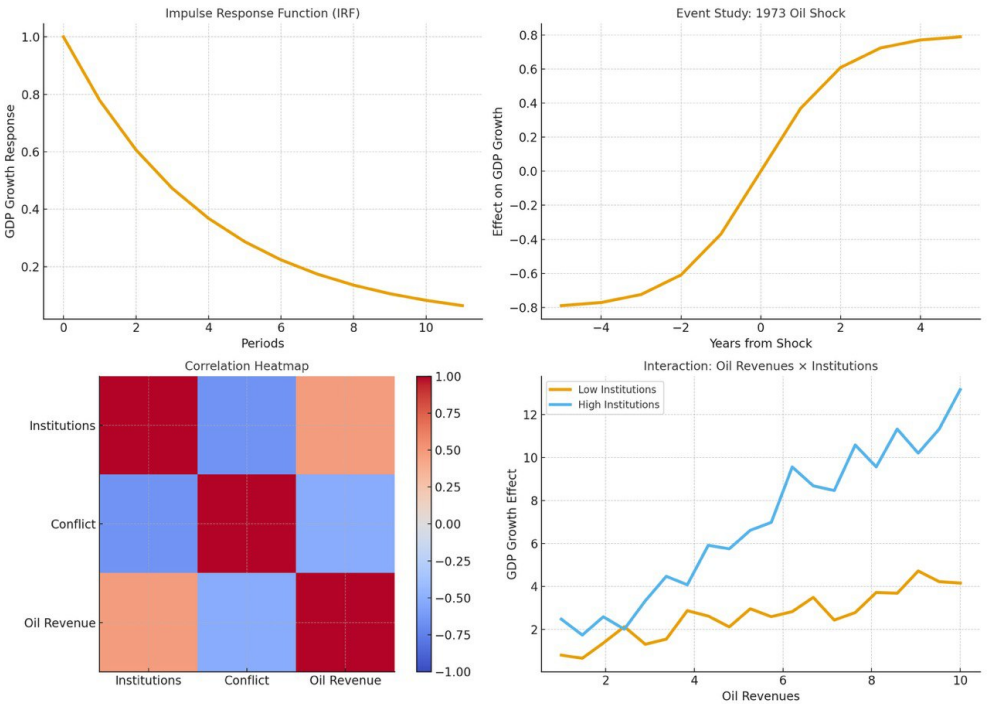
These findings create a natural bridge to the next section.

The evidence informs us of what happened before and points to policy interventions that would remedy the typical development path of resource-rich countries. There is a growing need for institutional strengthening, diversification, conflict avoidance and counter-cyclical fiscal rules.

As per the findings of the study, its empirical and historical evidence allows us to develop actionable recommendations that can address the structural constraints mentioned in the findings.

**Figure 1**

*Dynamic Effects of Oil Revenues, Institutional Quality, and Conflict Shocks on Economic Growth*




***Note.*** Source: Information sourced from the WDI dataset.

The joint empirical number offers four valuable insights. Panel 1 shows how the GDP growth would normally respond to oil-revenue shocks. Panel (2) demonstrates the economic effects of the 1973 oil shock and that oil-driven expansions are short-lived. Panel (3) shows how institutions,

conflict, and oil revenues are interconnected. Panel (4) shows that stronger institutions enhance the positive effect of oil revenues on GDP growth.

## Policy Implications

As per the evidence and history given in the study, Middle Eastern economies must adopt certain policies in order to achieve sustainable, inclusive, resilient development. The association between oil revenues, institutional capacity, and conflict exposure reveals the likely implications from 1950 to 2000.

### *Strengthen Institutional Quality to Maximize the Benefits of Oil Wealth*

Institutional strength determines whether oil will be an engine of development or an instrument of volatility, as shown uniformly in the results. Governments should therefore prioritize:

- Improving independence of judiciary and rule of law.
- Enhancing the quality of regulation and bureaucracy
- Using clear financial management in public sector.
- Increasing supervision of state-owned businesses and public investment initiatives.

Kuwait and the UAE saw greater resilience and more stable long-term-growth patterns than those affected by conflict like Iraq and Lebanon due to better governance.

### *Accelerate Economic Diversification Beyond Hydrocarbons*

A careful investigation shows that oil-led expansions do not alter a country's structural change. It is easily susceptible to external shocks without diversification. Key priority sectors include.

- Manufacturing and other tradable industries
- Renewable energy sectors
- Logistics, transportation, and supply-chain services
- Information and communication technology (ICT) services
- Knowledge-based sectors, including education, research and development (R&D), and innovation"Job creation in these sectors can help stabilize employment and reduce the public sector's dependence

on oil revenues..

***Implement Contradictory Fiscal Policies to Manage Commodity Price Fluctuations.***

The use of IRF and DiD models proves that oil shocks lead to short-lived booms. Countries should refrain from pro-cyclical policy.

• Establish funds that will stabilize the economy.

• Policies that adjust spending (expenditure) not to go out of kilter.

• Limit non-productive recurrent expenditures.

• Put cash in money-making assets for years.

Countries such as Saudi Arabia and Kuwait have made advancements in this direction thanks to stabilization funds which help them absorb shocks from abroad.

***Reduce Conflict Exposure and Strengthen Regional Cooperation***

Conflict is the biggest cause of poor economic performance. To mitigate its economic drag, policymakers should.

- Enhance internal political stability.
- Make border protection and anti-conflict measures better.
- Participate in local discussions to resolve conflicts.
- Reduce reliance on sectors prone to conflict.

Both the FE model and the IV model suggest that ongoing fighting prevents the accumulation of capital, weakens institutions, and disrupts labour markets.

***Improve Human Capital to Support Long-Term Growth***

"The analysis indicates that, following the 1980s, GCC countries with stronger human capital foundations were more successful in translating oil revenues into sustained productivity gains.".Necessary reforms include:

- Modernizing education systems.
- Making Technical and Vocational Education Wider.
- Reducing skill mismatch in labour market.

- Encouraging female labor-force participation.

Work human capital investment lowers long-run unemployment and increases diversification.

***Promote Transparency and Anti-Corruption Initiatives***

Resource rents can encourage rent-seeking behavior. To curb leakages and aid efficient allocation, improving transparency is a must. Recommended measures:

- Using Extractive Industries Transparency Initiative Standards.
- Publishing annual fiscal reports and oil-revenue figures.
- Improving the accountability in procurement practices.

This will help build public confidence and attract foreign investment.

***Expand Financial Markets and Non-Bank Financial Institutions***

Well-functioning financial markets help mobilise domestic savings and facilitate private-sector development. Reforms include:

- Deepening capital markets.
- Pension funds and insurance markets can be strengthened.
- Facilitating SME financing.

These instruments assist in diversifying oil investment sources.

## Conclusion

This study reviews both the historical and empirical aspects of economic policy strategies adopted by Middle Eastern countries in the years 1950 to 2000. This review focuses on oil revenues, institutional quality and conflict. According to the findings, oil wealth created opportunities for rapid development but the impact depended on the particular political and institutional context of each country.

A positive and significant short-run effect of oil revenues on economic growth is supported by the econometric evidence. The evidence shows encouraging results during the 1973 boom and other major shocks. However, those benefits, benefitting primarily exporters like OPEC and Russia, were short-lived, even if they existed, and highly sensitive to global energy market developments. Throughout the region, conflict was a

persistent and serious impediment that suppressed growth and weakened institutional capacity. However, it was institutional stability which determined whether resource wealth meant sustainable development.

Countries like Kuwait, the UAE, Saudi Arabia, and other Gulf states with cohesive polities and governance mechanisms used oil revenue to build infrastructure, stabilise the macro-economy and form human capital. Unlike others, countries like Iraq and Lebanon being affected by conflict were unable to turn resource-based income into structural improvements and go through repeated cycles of instability, contraction and fragmentation.

The truth is that natural resources alone cannot guarantee sustained growth. Instead, for long-term development strategy, we need a combination of strong institutions, a broad range of economies, conflict prevention and management, and sound fiscal management. Today, Middle Eastern countries are facing many challenges, such as the global energy transition and climate risks, which require a move towards post-oil economies. These lessons are still very relevant today.

## Limitations of the Study

This research offers a comprehensive historical and econometric assessment of the economic policy strategies that several Middle Eastern countries adopted from 1950 to 2000. However, there are a few caveats worth considering.

### *Data Availability and Consistency*

Before the 1970s, some macroeconomic indicators reported across countries, particularly unemployment, poverty, capital stock etc., were inconsistent. Even with analysis of multiple data sources, particularly the World Bank, IMF and PWT, gaps still exist that might impact the accuracy of long-run estimates.

### *Conflict Measurement Constraints*

We expressed conflict intensity with a standardized UCDP index. Although strong, such indices cannot measure the harm caused by all classes involved.

- Infrastructure destruction.
- Displacement of labor.

- Psychological and institutional effects in the long run.

As a result, the estimates likely underplay the structural damage caused by prolonged conflict.

### *Institutional Variables are Proxies*

Governance metrics in the Middle East are captured through a range of proxy indicators, including political stability and institutional measures such as Polity IV and the ICRG, as well as other academic indices. While these proxies are widely used, they may fail to capture informal, evolving, or context-specific aspects of governance. As a result, no single index fully reflects government performance or governance outcomes, since institutional change is inherently more complex than any quantitative measure can convey. Institutional change is more complex than any index can show.

### *Limited Country Coverage*

Even though the study involves essential regional economies (Saudi Arabia, Iraq, Iran, Kuwait, UAE, Egypt, Lebanon), it leaves out some countries because it does not have adequate data. Therefore, the geographic generalizability is limited.

### *Econometric Identification Challenges*

Countries that rely on oil have complicated economies. The use of IV estimation in academic research sought to mitigate the endogeneity problem faced by oil wealth studies. Yet, reverse causality may still apply. In particular, the relationships involving conflict, the political economy of civil war, and resource cycles may still display some degree of endogeneity. Although these limitations are highlighted, they do not affect the overall findings. Future research could benefit from richer data and more granular methods.

## Strengths of the Study

Based on the ongoing study, there would be several opportunities for future studies.

### *Extending the Timeframe Beyond 2000*

Future work should examine how the region's economies evolved after.

- The 2003 Iraq war

- The Arab Spring (2011)
- The oil price decline after 2014.

These moments cause structural changes in the political economy and regional integration.

***Incorporating Climate Change and Environmental Stress.***

Models in the future should include the increasing climate vulnerability of Iraq, Iran and Gulf states.

- Water scarcity.
- Temperature shocks.
- Environmental degradation.
- Energy-transition policies.

They are becoming decisive determinants of long-term development.

***Micro-Level and Sectoral Analyses.***

Using firm-level or household-level datasets would allow:

- An in-depth understanding of distributional effects
- Labor-market impacts.
- Productivity differences across sectors.

This would complement the macro-level findings.

***Political Economy and Governance Pathways.***

Future studies need to examine how varying political institutions impact the dignified dissemination of resource wealth.

- Corruption.
- Rent-seeking.
- Bureaucratic performance.
- Social contracts.

The analysis could tell us why some countries do not suffer the adverse effects of the resource curse.

### *Machine Learning and Structural Models.*

Machine Learning forecasting along with Structural VARs and synthetic controls provide better insight than regular econometric modelling.

- Nonlinearities.
- Causal relationships.
- Solutions for economies dependent on oil.

### *Comparative Regions*

Comparing the Middle East to:

- Latin American countries that produce oil.
- The oil economies of Africa.
- Norway was chosen as a baseline.

would help deepen the understanding of different development paths better.

### *Policy Implications*

- Make institutions strong so the power of resources is multiplied for productivity gains in the long-term.
- Having sound governance and regional de-escalation architectures will reduce exposure to conflict.
- Promote strategies that diversify into tradable non-oil sectors.
- Improve budget rules to manage changing prices of goods.

**Author Contribution**

**Basima kzar Hasan:** conceptualization, methodology, formal analysis, writing – original draft. **Sakna Jahiya Faraj:** data curation, investigation, writing – review & editing, visualization.

**Conflict of Interest**

The authors declare that they have no financial or non-financial conflict of interest related to the subject matter or materials discussed in this manuscript.

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