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Research Article

Nexus Between Political Stability and Economic Stability: Case Study of Arab Countries

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ABSTRACT

The research aims to Explain and measure measure the impact of political stability on economic stability and identify the direction of the reciprocal relationship between the two, focusing on 15 Arab countries during a period marked by significant political and economic transformations from 1996 to 2022. The researcher employed a model that considers the influence of political stability on financial stability, using the Political Stability Index from the World Bank (2022) WGI and the GDP growth rate as a representative indicator of economic stability, sourced from the World Bank (2022) WDI. The study also accounted for other variables that influence political and economic stability, incorporating them as control variables in the model. Population growth (annual %) Average years of schooling for the population is 25+, Control of Corruption, Gross capital formation (% of GDP)

The study utilized the Autoregressive Distributed Lag (ARDL) model with the Pooled Mean Group (PMG) approach to analyze both short- and long-term relationships and the "Toda-Yamamoto" method was employed to test causality between political and economic stability. The results indicate a positive long-term relationship between political and economic stability, with causality tests confirming a bidirectional relationship. Finally, the findings suggest that political stability is a crucial factor in achieving economic stability in Arab countries and vice versa, indicating that improvements in either can strengthen the other.

Keywords: Political stability, economic stability, Arab countries, ARDL PMG, , Toda-Yamamoto.

INTRODUCTION

The relationship between politics and economics often raises important questions about how one influences the other, extending to a debate on which has a more significant impact. In this research, we aim to explore the nature of this relationship and determine its direction. Specifically, we ask: What role does political stability play in achieving economic stability in Arab countries? And, can economic stability enhance political stability?

The importance of this research stems from the political and economic turmoil experienced by many Arab countries, which hold significant geopolitical and economic relevance globally. These countries are a crucial part of the Middle East and North Africa region, rich in natural resources, particularly oil and natural gas, making them a focal point for international interests. As a result, they have faced extended periods of political and economic instability due to political crises, social unrest, internal conflicts, and international interventions, all of which have had direct impacts on their economic performance.

Looking at these crises, Arab countries have undergone substantial transformations and major events during the period from 1996 to 2022. For example, armed conflicts such as Algeria's "Black Decade" (1991-2002) and Sudan's civil war (1983-2005) resulted in the secession of South Sudan. Iraq experienced a dramatic regime change in 2003, followed by sectarian strife and political instability. The Arab Spring revolutions in Tunisia, Egypt, Libya, and Syria in 2011, and the subsequent changes in political systems, as well as the events in Yemen, further reflect the region's instability. Additionally, economic challenges, including oil price fluctuations and global financial crises, have impacted these countries.

These factors make studying the relationship between political and economic stability in Arab countries a vital and timely subject, especially given its direct effect on the well-being and future of the region's populations. Furthermore, the implications of such events extend to the regional and global levels. To the best of our knowledge, no research has thoroughly examined the direction of the relationship between political and economic stability or explored their causality in Arab countries over this period.

Our study aims to provide research-based conclusions that measure the impact of political stability on economic stability and determine the direction of the reciprocal relationship between them. By focusing on selected Arab countries during the period from 1996 to 2022, we aim to identify political and economic weaknesses in these countries and develop effective policies to enhance stability in both political and economic dimensions.

Although some may assume that economic stability results from political stability, or vice versa, we hypothesize that the relationship can go both ways. It is more accurate to assume a bidirectional relationship, where political and economic stability influence each other reciprocally.

The study will use a quantitative approach to achieve its objectives. It will measure the reciprocal influence between political and economic stability by using the Political Stability Index as the main explanatory variable and the GDP growth rate as the dependent variable representing economic stability. Additionally, the model will control other variables such as population growth rate, average years of schooling for individuals over 25, the Corruption Control Index, and the investment ratio, applying advanced econometric techniques for analysis.

Concepts

The various concepts of political stability are controversial and diverse. Political stability as a concept lacks clear boundaries. It is equated with the length of government tenure and its ability to persist without sudden or unconstitutional changes, or even constitutional ones (Keith, 2015. 230; Hurwitz, 1973. 449; Zamani, 2020, 777-778). This perspective, as described by (Alesina et al.1992, 189-195), focuses on governments' longevity and capacity to avoid abrupt or unconstitutional shifts. Other interpretations emphasize institutional stability and the absence of structural changes in the fundamental composition of the political system (Ake, 1975. 273; North, 1990. 3).

Furthermore, political stability is understood through the absence of violence, terrorism, and internal or external conflicts (Russett, 1964. 97-100; Blondel, 1968. 180-203; Taylor & Herman, 1971. 28-37). It also hinges on legitimacy and equitable power-sharing among the different groups within a population (Needler, 1968. 889-897; Carmignani, 2009. 418). According to some, it is tied to economic development (Lipset, 1959. 91; Reimeingam, 2014. 55-66, Duff & McCamant 1968. 1125) argue that political stability reflects a societal trait linked to the system's ability to deliver services effectively, ensuring security and justice.

The Economic and Social Commission for Western Asia (ESCWA) defines political stability based on a system's resilience to internal and external shocks, and on the selection of competent, good governance, as discussed by. (Besly et al, 2011. 1329-1354, Helland & Sørensen 2011. 3). A secure environment, free from political violence, and stable economically, politically, and socially are essential components (Venâncio de Vasconcelos, 2020. 1).

We can conclude that these various concepts of political stability have both strengths and weaknesses. Most focus on isolated, singular metrics, which might offer precision in measurement but at the expense of broader theoretical realities. For example, the classical notion linking political stability with government longevity would imply that Libya under 42 years of the same regime in 2010 would have been more politically stable than Belgium, which went 535 days without a government during the same period. Yet, Belgium's political stability index was rated higher (3.5) compared to Libya (2.5) according to World Bank governance indicators.

From these perspectives, political stability emerges as a hierarchical and synergistic phenomenon. It reflects societal awareness and depends on fairness in meeting economic needs, sustained by civil liberties and international relations or political dimensions.

Economic Stability: Economic stability, despite having a universal goal—achieving the best economic performance and preventing structural imbalances—varies in its definitions and approaches depending on the size and type of the economy. Some scholars argue that all economies are stable unless subjected to extreme fluctuations (Drausi, 2013, 447). (Hausmann & Gavin, 1996. 29) suggest that such fluctuations are relative and part of the economy's natural stability. Economic stability can be defined as a state of equilibrium as long as deviations remain limited (Samuelson, 1983. 333; Hansson & Helgesson, 2003, 221).

(Stiglitz, 2003, 28-33) considers economic stability as a harmonious mix of social and economic factors, with the government playing a key role. Amartya Sen and Thomas Piketty emphasize social justice and the equitable distribution of wealth to create balance and ensure the welfare of all individuals (Othmania, 2018, 124-130; Gotoh, 2021, 2-18). Others highlight the impact of varied economic policies on economic stability (Pasini, 2013, 235; Haberler, 1967, 32), while some link it to the fundamental structure of the economy (Sundrum, 1990). (Abessolo 2003, Barro, 1996, 5698) equate economic instability with political instability, stating that it generates uncertainty, leading to a vicious cycle of slow growth and further economic instability.

Some have focused on single variables in defining economic stability. (Mankiw, 2009, 258, Özpençe, 2017, 42) equate it with economic growth, while (Brozen, 1958, 1069) emphasizes unemployment rates and stable price levels. (Stein, 1956, 1159-1160) focuses on the absence of sharp or cumulative price movements, and (Bach, 1950, 156) ties economic stability to optimal growth rates aligned with labor forces, production factors, and available resources, with stable prices.

THE MECHANISMS OF INFLUENCE BETWEEN POLITICAL AND ECONOMIC STABILITY

Political unrest, manifesting as violent protests, civil wars, coups, ideological tensions, foreign interventions, ethnic and sectarian divisions, frequent governmental changes, corruption, and mismanagement, disrupt economic activities by creating uncertainty in economic conditions. This uncertainty discourages investors and hampers economic growth. Conversely, political stability facilitates stable government policies capable of implementing economic plans and enhancing the investment environment, increasing certainty, and encouraging domestic and international investments. A stable political environment provides legal and security guarantees for capital, leading to increased production, job opportunities, and reduced unemployment. This generates societal satisfaction and minimizes social unrest, thus further driving economic growth and enhancing overall economic stability (Najah, 2016, 15).

On the other hand, economic stability contributes to political stability by increasing public trust in government institutions. As citizens grow confident in the government's ability to manage the country's affairs and improve essential services such as education and healthcare, it leads to better living standards through new job creation, increased income, reduced poverty and inequality, and lower unemployment rates. As a result, the likelihood of political opposition, protests, or acts of violence decreases, fostering political stability. Economic stability also attracts domestic and foreign investments, leading to economic growth. This, in turn, creates a more stable political environment, allowing governments to implement their developmental policies without obstruction, including effective anti-corruption measures. Furthermore, targeted inflation rates enhance the nation's production capacity, balancing the balance of payments, strengthening the national currency, and contributing to overall societal well-being, positively impacting political stability (Weiner & Hoselitz, 1961, 1).

LITERATURE REVIEW

Recent research suggests that a country's economic performance is influenced by economic determinants and political and institutional factors. Likewise, economic performance may significantly affect political and institutional aspects (Telatar et al., 2010, 3839). The body of research exploring this relationship is diverse. Some scholars believe that economic stability is a prerequisite for achieving political stability. For instance, (Weiner & Hoselitz, 1961, 1; Paldam, 1998, 171; Javaid et al., 2024; Al-Shin, 2016, 516) argue that economic stability helps to resolve political issues, prevent political instability, and avert violence, which may lead to authoritarianism or chaos. (Campos and Nugent, 2002, 12-13) further explain that economic changes may alter the balance of power among ruling parties, potentially leading to political instability. Similarly, (Sigelman & Simpson, 1977, 124; Feierabend, 1971, 195; Lichbach, 1989, 43; Alesina & Perotti, 1996, 18-19) link political discontent and violence—factors contributing to political instability—to income inequality, deprivation, and poverty, suggesting that poor economic distribution fuels political unrest. (Londregan and Poole, 1990, 151) also, poor living conditions can trigger coups and forceful removal of governments.

On the other hand, another perspective argues that political stability is a precondition for economic stability and growth. (Younis et al., 2008, 203; Diken et al., 2018, 154; Nomor & Iorember, 2017, 45; Acar, 2020, 29) demonstrate a positive relationship between political stability and economic growth, suggesting that political stability leads to economic stability. (Diken) further notes that in the short term, political stability may not have a significant impact on growth. In line with this, (Abdelhameed & Rashdan, 2021, 18) argue that political instability negatively affects

economic stability by directly influencing growth rates and investment levels. (Ghanayem et al., 2023, 1-2) provide compelling evidence supporting the notion that political stability has a considerable impact on inflation fluctuations, which, in turn, affect economic stability.

(Meyera, 2019, 639) shows that political stability, supported by institutional quality, plays a critical role in economic growth. He argues that combating corruption and fostering political stability have positive effects on economic stability. (Abdelkader, 2015, 1-18) suggests that political instability presents ambiguous effects on economic growth in Egypt. For instance, changes in government and the assassination of the executive authority in 1981 had a significant positive impact on economic growth, whereas the 2011 revolution and the resignation of the executive had a negative and insignificant effect on growth.

A third perspective posits a bidirectional relationship between political and economic stability. Supporters of this view, including (Olson, 1963, 552; Georgiou et al., 2015, 1; Dalyop, 2018, 217; Kirikkaleli, 2021, 1; Milasaite & Micic, 2022, 1), argue that political stability is a critical indicator of economic stability and vice versa. (Papaioannou, 2020, 41; Blum & Gründler, 2020, 41) suggest that there is a negative relationship between political instability and economic growth, emphasizing that this relationship is bidirectional.

In contrast, some argue that there is no clear relationship between political and economic stability. (Almula, 2021, 297-298) finds no causal relationship between political stability and economic growth in certain Middle Eastern countries. Additionally, (Rizwanul & Hussain, 2020, 1) highlight that there is a statistically insignificant negative relationship between political stability and economic growth in Pakistan.

These findings underline the pivotal role of political stability in fostering economic stability, and vice versa, in various contexts, across different countries, and over different time periods. Countries with higher political stability tend to experience more sustainable economic growth compared to those suffering from political instability. This phenomenon is evident in countries like Libya after the 2011 regime change, where political instability led to a sharp decline in economic growth and deteriorating infrastructure. For example, Libya's growth rate in 2010 was 5%, and although it recovered briefly in 2011, it plummeted to -18% in 2013 due to civil war, while the United Arab Emirates' political stability has bolstered economic growth and attracted investments, making it one of the fastest-growing economies in the region.

Similarly, Chile achieved political stability following a period of rapid economic growth in the 1980s and 1990s through substantial economic reforms, including market liberalization and foreign investment encouragement. This economic boom contributed to the peaceful transition of power from a military to a democratic regime in 1990 (Fuentes & Sapelli, 2021, 4-25).

DATA AND METHODOLOGY

The main objective of this study is to derive research conclusions that measure the impact of political stability on economic stability and determine the direction of their mutual relationship. This will be accomplished by analyzing selected Arab countries based on economic, political, and cultural considerations, as shown in Table 1. The study utilizes annual data from the World Development Indicators, Worldwide Governance Indicators, and Human Development Indicators, covering the period from 1996 to 2022. The political stability index is the primary explanatory variable, while GDP growth rate is a proxy for economic stability. Control variables that will be included to explain the model are population growth rate, average years of schooling for those aged 25 and over, control of corruption, and the percentage of investment to GDP (Gross Capital Formation % of GDP). These variables control potential impacts on the model, as shown in Table 2.

Table (1) Selected Arab countries in alphabetical order

	Country	Political system	Economy type	State of peace	**ps** Income Groups
1	Algeria	Republic	Oil-Based	Medium	Lower-Middle-Income
2	Bahrain	Monarchy	Diversified	Medium	High-Income
3	Egypt	Presidential Republic	Diversified	Medium	Lower-Middle-Income
4	Iraq	Parliamentary Republic	Oil-Based	Very Low	Upper-Middle-Income
5	Jordan	Monarchy	Diversified	High	Lower-Middle-Income
6	Kuwait	Monarchy. Emirate	Oil-Based	High	High-Income

7	Lebanon	Parliamentary Republic	Diversified	Low	Lower-Middle-Income
8	Libya	Parliamentary Republic	Oil-Based	Very Low	Upper-Middle-Income
9	Morocco	Monarchy	Diversified	Medium	Lower-Middle-Income
10	Oman	Monarchy. Sultanate	Oil-Based	High	High-Income
11	Qatar	Monarchy. Emirate	Oil-Based	High	High-Income
12	Saudi Arabia	Monarchy	Oil-Based	Medium	High-Income
13	Sudan	Republic	Agricultural	Very Low	Low-Income
14	Tunisia	Presidential Republic	Diversified	Medium	Lower-Middle-Income
15	United Arab Emirates	Semi-Monarchy	Oil-Based	High	High-Income

Source prepared by the researcher based on (World Bank Analytical Classifications) ، (Britannica, 2024) ، (Peace. Global Peace Index 2022)

Table (2) Description of study variables

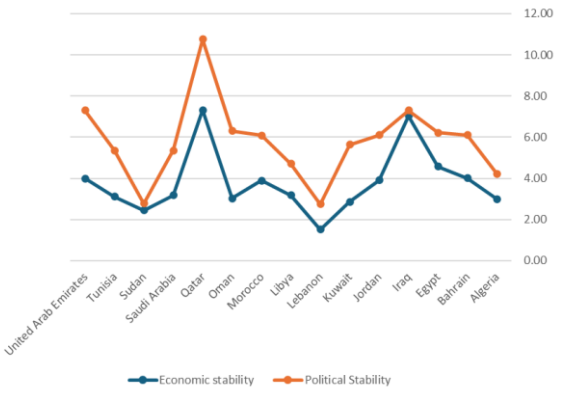
Variables	Variable symbol in the study		Source
GDP growth (annual %)	Y	Dependent	World Bank (2022)، WDI
Political Stability and Absence of Violence/Terrorism	X1	Independent	World Bank (2022)، WGI
Population growth (annual(%	X2	Control	World Bank (2022)، WDI
Average years of schooling for the population is 25+	X3	Control	Global Data Lab (2022)، Subnational HDI، V7
Control of Corruption	X4	Control	World Bank (2022)، WGI
Gross capital formation (% of GDP(	X5	Control	World Bank (2022)، WDI

Source: Prepared by the researcher

The study adds 2.5 to each observation of the political stability index and control of corruption to eliminate negative values, thus converting the score range from 0 to 5 instead of the original -2.5 to 2.5, as provided by the source.

Figure 1 illustrates the average state of Arab countries for both the political and economic stability indices during 1996-2022. The overall trend, based on the synchronous movement of the two curves, indicates a positive long-term bidirectional relationship between political and economic stability, especially when observing the temporal patterns of both variables. This confirms a mutual influence and interaction between political and economic stability. Some fluctuations and disparities can be observed in certain Arab countries due to economic crises and political events, such as the U.S. invasion of Iraq in 2003, the Arab Spring revolutions in 2011, oil price volatility, and the COVID-19 pandemic in 2020.

Figure 1: Average Growth Rates and Political Stability Index for Selected Arab Countries (1996-2022)



Source: Prepared by the researcher

Empirical Results

I. Unit Root Test

Table (3) shows the results of the Leven, Lin, and Cho t-test (LLC) for economic stability, political stability, population growth, average years of education, control of corruption, and investment ratio. Both the economic stability variable and population growth, along with average years of education, were stable at this level. However, the remaining variables stabilized at the first difference.

Unit root test table (3)

(Leven. Lin & Cho t test statistic)

	At level		1st Difference		
Variables	Statistic	p-value	Statistic	p-value	Integration order
Y	-4.418	0.000***			I(0)
X1	-1.156	0.123*	-4.94	0.000***	I(1)
X2	-3.072	0.001***			I(0)
X3	-5.706	0.000***			I(0)
X4	-1.447	0.073**	-8.011	0.000***	I(1)
X5	-1.576	0.057**	-8.898	0.000***	I(1)

Note: (**) significant at 1% ، (***) significant at 5% ،and (*) not

Source: Author's calculations using EViews 10

Based on the above and as indicated by the unit root test results, we conclude that the variables are integrated at I (0) and I (1). Therefore, we can say that the model's integration order is I(1). From these results, we assume that our variables are integrated at the same level; this is why we continue to test for cointegration using the tests by Pedroni (1999), Kao (1999), and Fisher for confirmation.

II. Cointegration Test

Table (4) presents the results of the cointegration tests by Pedroni, indicating a cointegrated relationship among the variables across eight statistical panels where the p-values were less than 5%. The Kao test also showed that the p-value for the ADF statistic was less than 5%. Furthermore, the results of the Fisher test in the first and second vectors showed that the p-values were below 5%. Therefore, we conclude that there is a cointegration relationship among the variables under study, which confirms the rejection of the null hypothesis of no cointegration among the variables.

Cointegration Test Table (4)

Pedroni Residual Cointegration Test				
Series: Y X1 X2 X3 X4 X5				
Alternative hypothesis: common AR coefs. (within-dimension)				
	Statistic	Prob.	Weighted Statistic	Prob.
Panel v-Statistic	2.071	**0.0191**	-0.706	0.7599
Panel rho-Statistic	-3.047	**0.0012**	-1.188	0.1173
Panel PP-Statistic	-18.429	**0.0000**	-10.528	**0.0000**
Panel ADF-Statistic	-5.977	**0.0000**	-4.332	**0.0000**
Phillips-Peron results (non-parametric)				
Alternative hypothesis: individual AR coefs. (between-dimension)				
	Statistic	Prob.		
Group rho-Statistic	0.343	0.6344		
Group PP-Statistic	-16.623	**0.0000**		
Group ADF-Statistic	-4.978	**0.0000**		

Kao Residual Cointegration Test

Series: Y X1 X2 X3 X4 X5

	t-Statistic	Prob.
ADF	2.557	**0.0053**
Residual variance	158.0253	
HAC variance	9.506251	

Johansen Fisher Panel Cointegration Test

Series: Y X1 X2 X3 X4 X5

Hypothesized No. of CE(s)	Fisher Stat.* (from trace test)	Prob.	Fisher Stat.* (from max-eigen test)	Prob.
None	494.7	**0.0000**	313.0	**0.0000**
At most 1	232.4	**0.0000**	124.5	**0.0000**
At most 2	128.8	**0.0000**	70.27	**0.0000**

Source: Author's calculations using EViews 10

Based on the existence of a cointegrated relationship among Between variables, and according to the unit root test (LLC), which showed that all study variables stabilized after taking the first difference, we can now analyze the methodology using the ARDL model and evaluate the long-term and short-term relationships.

EMPIRICAL RESULTS:

After confirming the requirements for using the PMG/ARDL model as per Pesaran et al. (1999), which are the stability of the model at the first difference and the existence of cointegration among the study variables, we will begin this section by applying the PMG/ARDL model to verify the existence of short-term and long-term effects of the explanatory variables on the dependent variable, as well as to examine the existence or absence of causality between the variables under study.

A. Long-term Results:

The long-term results displayed in Table (5) show the following:

1. There is a positive effect of political stability (X1) on economic stability (Y), indicated by the regression coefficient value of (0.494), which is significant with a p-value of (0.0316). This result suggests that economic stability will change by (0.494) percentage points for every one-percentage-point change in political stability. This finding aligns with the works of (Papaioannou, 2020: 21-22; Blum & Gründier, 2020: 41; Nomor & Iorember 2017: 45).

From an economic interpretation perspective, this result indicates that political stability plays a crucial and decisive role in enhancing and increasing economic growth. Political stability in countries provides governments with the efficiency and time needed to develop and implement effective economic policies, whether they are fiscal or monetary policies aimed at promoting economic growth or at least preventing the deterioration of economic conditions through developmental economic projects, such as improving infrastructure, enhancing education, and strengthening the health system. Political stability creates a more stable economic environment, which increases investor confidence in governments and provides them with a clear outlook on government and institutional policies in anticipating high investment returns. Consequently, this encourages them to direct their capital toward starting new investment projects, contributing to job creation for individuals. Conversely, instability threatens investments, as highlighted by (Kaufmann, Kraay, & Mastruzzi, 2009: 71), which reduces unemployment rates and increases confidence in government, thereby contributing to achieving economic stability for countries. Conversely, political instability exposes a country to poor economic performance, slow growth, and declining economic stability rates.

Arab societies suffer from political instability due to factors related to the nature of political authority structures, as well as divisions and a lack of collective agreement on their legitimacy, along with the weakness of their political and structural frameworks (Hoor, 2020: 138).

Some international reports issued by international organizations illustrate the state of political stability in Arab countries and its effects on economic stability. For instance, the World Bank's report on the Middle East and North Africa (MENA Economic Monitor 2022) indicated that politically stable Arab countries, such as those in the Gulf, recorded economic growth rates of 5.5% in 2022, with Qatar achieving a growth rate exceeding 7% from 1996 to 2022. In contrast, Lebanon, which experiences political instability, recorded growth rates of only 1.6% during the same period (Belhaj et al., 2022).

Additionally, the International Monetary Fund (IMF, 2020) estimates that the slowdown in economic growth is about 3 percentage points annually due to political instability in conflict-affected countries like Libya and Iraq. Moreover, political instability has negative effects on neighboring countries, where GDP growth typically declines by about one percentage point on average, and the cumulative impact on GDP per capita increases over time. Furthermore, countries experiencing violent changes or coups in power face continuous declines in investment and trade disruptions in the years following the coup, resulting in decreased growth and economic stability (IMF, 2020: 4).

The OECD report on strengthening governance and competitiveness in the Middle East and North Africa for achieving stronger and more inclusive growth notes that political instability, poor security conditions, weak infrastructure, a lack of regional connectivity, corruption, as well as regulatory, legal, and administrative obstacles in Arab countries have undermined investor confidence. Foreign direct investment flows decreased from their peak of 5.3% of GDP in 2006 to less than 1% in 2015, leading to reduced growth and economic stability (OECD, 2016: 37).

According to the report by the United Nations Economic and Social Commission for Western Asia (ESCWA, 2023), the crises and political events that have shaken political stability have produced significant economic challenges for Arab countries, negatively affecting growth and economic stability. For example, Lebanon is suffering from an economic crisis due to political stalemate and ongoing conflict in southern Lebanon, along with the events at the Beirut port and the repercussions of the Syrian crisis, which have overshadowed its economic condition. The GDP has contracted for five consecutive years from 2018 to 2022, with inflation rates soaring to 171%, an unemployment rate of 29.6%, and a current account deficit of 6.2% of GDP for 2022. The national currency lost 98% of its value in 2023 (ESCWA, 2023: 4). Additionally, multidimensional poverty rates rose from 42% in 2019 to 82% in 2021, with multidimensional extreme poverty affecting 40% of the poor, equivalent to 34% of the total population according to the report on Multidimensional Poverty in Lebanon (ESCWA, 2021: 29).

Results of Control Variables: Moving on to the results of the control variables, we find the following:

2. **Positive Impact of Population Growth (X2) on Economic Stability (Y):** The regression coefficient value was (0.824), and this effect is significant with a p-value of (0.000). This result indicates that for every one percentage point change in population growth, economic stability will change by (0.824) percentage points. This result aligns with studies by Mamingi & Perch (2013, pp. 201-102), Sibe et al. (2016, pp. 215-216), and Ben Fariha et al. (2024, p. 162).

This result sparks considerable debate, as there is a vast body of economic literature suggesting that population growth is a hindrance to economic growth. However, economists have not reached conclusive results regarding the impact of population growth on economic growth. Despite this, the relationship is complex and caught in a dilemma between two opposing schools: the classical school led by Malthus, who believes that population growth threatens economic growth, and the endogenous growth school, led by Kremer and Weil, which posits that population growth supported by technological advancement can serve as a catalyst for economic growth (Galor & Weil, 1999, pp. 150-154; Kremer, 1993, pp. 681-716).

The positive impact observed in Arab countries may be attributed to the remittances of Arab migrants. Under the pressure of poverty in Arab countries, especially those with scarce resources, some residents migrate to Europe, America, the Gulf states, and other countries worldwide. These remittances from overseas workers play a crucial role in fueling economic growth.

Egypt is among the top countries globally for receiving remittances from abroad, ranking fifth in 2022 with remittances exceeding 31 billion and accounting for more than 6.7% of GDP during the period from 2016 to 2022. Lebanon ranked 29th globally in 2022, with remittances accounting for 16% of GDP during the same period, while Jordan saw remittances from abroad account for 11.2% of GDP from 2016 to 2022 (Ratha et al., 2023; World Bank data).

On the other hand, both economic growth and population growth may be affected by the same variables. In wealthy oil-producing countries that possess mineral wealth (oil and gas), these resources contribute to supporting both economic growth and population growth.

3. **Negative Impact of Average Years of Schooling (X3) on Economic Stability (Y):** The regression coefficient value was (-0.642), and this effect is significant with a p-value of (0.000). This result indicates that an increase of one year in the average number of years of schooling will result in a decrease in growth by 0.642

percentage points. This finding aligns with studies by Pritchett (2001, pp. 379-380) and Benhabib & Spiegel (1994, pp. 166-167).

This result raises eyebrows, as education is typically considered one of the key drivers of growth rather than an impediment. However, in the context of education and its relationship with the labor market in developing and Arab countries, certain specificities come into play. This economic result can be reflected through several factors that may play a significant role in explaining this outcome, including institutional, cultural, social, and economic factors.

- **Educational Institutions:** The decline in educational quality in Arab countries has led to a decrease in the skills and productive innovations of graduates, resulting in reduced workforce effectiveness. Moreover, some Arab countries focus on traditional education, where educational institutions suffer from excessive administrative centralization and rely on outdated curricula, which should shift towards curricula based on skills and competencies that have increasingly become essential for raising economic growth rates and ensuring sustainability.

The Human Development Report (Learning to Realize Education's Promise, 2018) indicates that there are three necessary dimensions of education: first, the weakness of learning outcomes; second, poor management and governance, and a lack of orientation in education; and third, significant disparities among learners due to political challenges, leading to the persistent low levels of education (World Bank, 2018).

- **Gap Between Education and the Labor Market:** The gap between education and demand in the labor market in Arab countries underscores the results we obtained, as poorly directed education policies aimed at achieving economic growth have resulted in what students study not aligning with local economic needs and labor market requirements.

A report by ESCWA (2013, pp. 70-71) titled "Arab Countries in Transition: Short- and Medium-Term Economic Challenges" states that while "Arab youth possess high qualifications in terms of their level of degrees, they lack the appropriate skills for the labor market in the region." Approximately 40% of educated individuals in Arab countries do not have qualifications that align with the requirements of the private sector, representing the highest regional rate globally. Although Arab countries spent 5% of their GDP on education, higher than East Asian and Latin American countries, which spent 3-4% from 1970 to 2008, their educational outputs have proven to be the poorest in the International Student Assessment Program (PISA), as well as in Europe and Central Asia.

Additionally, the OECD report (2022) notes that in a few countries (such as Germany and Switzerland), employment tends to be linked to study programs, whereas in most developing countries, these jobs are unrelated to academic curricula. Consequently, when the labor market does not absorb the graduates and the conditions are unfavorable and incompatible with the type of education, it leads to an increase in unemployment levels, which negatively impacts growth and economic stability (OECD, 2022, p. 48).

- **Other Deficiencies:** These include social restrictions on women's participation in the labor market, a high rate of repeaters, a fixation on public sector jobs, and weak training programs.

Therefore, these combined or individual factors contribute to explaining the inverse relationship we observed between average years of schooling and economic stability in our study.

4. **Positive Impact of Control of Corruption Index (X4) on Economic Stability (Y):** The regression coefficient value was (4.583), and this effect is significant with a p-value of (0.000). This result indicates that for every one unit change in the corruption control index, economic stability will change by (4.583). This finding is consistent with economic theory and corroborated by studies by Sayyed et al. (2017, p. 20), Al-Obeidi & Al-Zouari (2023, p. 496), Leite et al. (2019, p. 2972), Absadykov (2020, p. 11), Ushahemba et al. (2022, p. 173), Wahyudi et al. (2023, p. 1034), and Abdillah et al. (2020, p. 166).

The positive relationship between the corruption control variable and economic stability reflects the widespread corruption in Arab countries despite the adoption of political and economic reforms and the establishment of anti-corruption agencies. Nevertheless, rampant corruption significantly affects increased growth rates, as it reduces investment, limits public trust in government institutions, and hampers economic stability.:

The accumulation of capital stock leads to a decline in investment flows due to the increased investment cost from paying bribes. This also distorts the government spending structure and results in resource utilization inefficiency by directing it toward less productive sectors and projects that contribute less to growth. The Transparency International report of 2020 reveals that only Gulf countries, particularly the UAE, Qatar, and Saudi Arabia, rank among the

leading countries in controlling corruption. In contrast, most other Arab countries have declined and reached the bottom of the corruption perception index.

5. **Positive Impact of Investment Ratio on Economic Stability**: There is a positive effect of the investment ratio (X5) on economic stability (Y), as indicated by the regression coefficient value of (0.124). This effect is statistically significant, with a p-value of (0.000). This result suggests that a one-unit change in the investment ratio will lead to a change of (0.124) in economic stability. This can be interpreted as an increase in investment ratio, such as in infrastructure spending, machinery, or other capital assets, resulting in an increase in overall economic output and, consequently, greater economic stability. This result aligns with the study by Pasara & Garidzirai (2020,6).

B. Short-term Results:

As shown in Table (5), the relationships associated with the variables indicate the absence of a short-term relationship except for the corruption control variable (X4), which showed a 10% significance level on economic stability. This negative short-term effect is not significant, as indicated by the p-value of (0.0611), although it aligns with the study by Ushahemba et al. (2022,174). This effect may occur due to the disruption of certain economic activities until investigations and legal actions against corrupt individuals are completed, as well as the restructuring of the economy, leading to a redirection or reduction of government spending.

The error correction term (COINTEQ01) indicates a causal relationship among the study variables, with a value of (−0.917) that is statistically significant at 5%. Thus, we confirm the existence of a causal relationship among the study variables, which will be explained through the Toda-Yamamoto Causality Test. The absolute value of the error correction term suggests that if a short-term shock occurs, approximately (91%) of the effects of that shock can be eliminated within about a year and a month, returning to the long-term equilibrium state.

Table (5): Results of the ARDL Model Estimation

Dependent Variable: D(Y)				
Method: ARDL				
Date: 07/28/24 Time: 18:31				
Sample: 2000 2022				
Included observations: 345				
Maximum dependent lags: 4 (Automatic selection)				
Model selection method: Akaike info criterion (AIC)				
Dynamic regressors (2 lags‹ automatic): X1 X2 X3 X4 X5				
Fixed regressors: C				
Number of models evalulated: 8				
Selected Model: ARDL(4‹ 2‹ 2‹ 2‹ 2‹ 2)				
Note: final equation sample is larger than selection sample				
Long Run Equation				
Variable	Coefficient	Std. Error	t-Statistic	Prob.*
X1	0.494	0.228	2.167	**0.0316**
X2	0.824	0.125	6.574	**0.0000**
X3	-0.642	0.153	-4.194	**0.0000**
X4	4.583	0.550	8.329	**0.0000**
X5	0.124	0.026	4.659	**0.0000**
Short Run Equation				
Variable	Coefficient	Std. Error	t-Statistic	Prob.*
COINTEQ01	-0.917	0.344	-2.662	0.0085
D(Y(-1))	0.004	0.219	0.019	0.9844
D(Y(-2))	-0.002	0.179	-0.014	0.9881
D(Y(-3))	0.131	0.081	1.619	0.1071
D(X1)	1.845	1.486	1.241	0.2161
D(X1(-1))	4.498	1.932	2.327	0.0211

D(X2)	-1.413	3.731	-0.378	0.7053
D(X2(-1))	1.315	3.926	0.335	0.7380
D(X3)	-9.964	9.266	-1.075	0.2837
D(X3(-1))	-3.721	8.577	-0.433	0.6649
D(X4)	**-19.072**	**10.117**	**-1.885**	**0.0611**
D(X4(-1))	-10.376	4.658	-2.227	0.0272
D(X5)	0.103	0.117	0.881	0.379
D(X5(-1))	0.272	0.128	2.117	0.035
C	-3.761	2.738	-1.373	0.171
Mean dependent var	-0.009	S.D. dependent var		13.291
S.E. of regression	3.975	Akaike info criterion		4.459
Sum squared resid	2765.126	Schwarz criterion		6.733
Log likelihood	-673.077	Hannan-Quinn criter.		5.359

Source: Author's calculations using EViews 10

Fourth: The Toda-Yamamoto Causality Test (1995) for Causality

To explore the causal relationship between economic stability and political stability in Arab countries, we will investigate the causal relationship using the Toda-Yamamoto causality test (1995), which is based on the Wald statistic, distributed according to the chi-squared distribution. Before analyzing the causal relationship, it is necessary to determine the following (Dambure & Ziramba, 2016, 59-60):

1. Determining the Maximum Integration Order (d-max): This is done using the unit root test to verify the degree of integration among the variables. This was previously conducted in Table (3) using the LLC Unit Root Test, where the test results showed that the integration order of all variables is I (0) or I (1), meaning (d-max=1).

2. Determining the Optimal Lag Order: This is obtained by estimating the Vector Autoregressive Model (VAR) for the variables at their levels, which can be achieved by testing the optimal lag length (VAR Lag Order Selection) by selecting the lowest value for each criterion corresponding to the optimal time lag, using the criteria HQ, SC, AIC, FPE, LR. The test results in Table (6) indicate that the lowest value for the criteria (LR, FPE, AIC, HQ) was at a lag length of (2), except for the SC criterion, which indicated that the best lag order is (1). Therefore, according to the consensus of the results of the four criteria above, we conclude that the best lag order is the second, where the lowest value of the four criteria was found. Thus, (k=2).

Table (6): Results of the VAR Lag Order Selection Test

VAR Lag Order Selection Criteria						
Endogenous variables: Y X1 X2 X3 X4 X5						
Lag	LogL	LR	FPE	AIC	SC	HQ
0	-5026.201	NA	18235.78	26.8384	26.90123	26.86335
1	-2758.913	4449.931	0.123806	14.9382	**15.37802***	15.11281
2	-2666.54	**178.3416***	**0.091671***	**14.63754***	15.45434	**14.96182***

Source: Author's calculations using eviews 10

3. Causality Testing: This is based on the adjusted Wald test (MWald) aimed at testing the restrictions imposed on the parameters of the developed autoregressive vector (VAR) model. The lag order (p) can be obtained by adding the maximum integration order to the optimal lag length:

$P = k + (d\text{-}max)$

Substituting the values:

$P = 2 + 1 = 3$

Where (P) is the lag order, (k) is the optimal lag length, and (d-max) is the maximum integration order. After obtaining the lag order (p), which is (3), we can now begin the Toda-Yamamoto causality test using the VAR Granger Causality/Block Exogeneity Wald Tests.

The null hypothesis in this test states that there is no causality between the variables, meaning the p-value is greater than (0.05) or (0.1). The alternative hypothesis indicates that there is a causal relationship between the variables if

the p-value is less than (0.05) or (0.1). The test is applied with a maximum integration order of I (1) and an optimal lag length of (2).

The results of the Toda-Yamamoto causality test in Table (7) reveal a bidirectional causal relationship between political stability and economic stability, as indicated by the accompanying p-values in the test. The test results confirm that political stability and economic stability are deeply interconnected. On one hand, uncertainty associated with an unstable political environment may undermine economic stability. On the other hand, weak economic stability may lead to government collapse and political unrest, as explained below.

1. The p-value for the causality test from political stability to economic stability indicates a strong causal effect of political stability on economic stability, with a p-value of (0.005). This result means we can reject the null hypothesis (no causal relationship) with a very high level of confidence.

The best explanation for the causality effect of political stability on economic stability, especially in Arab countries, is related to the events and turmoil experienced by Arab Spring countries, which practically illustrate the causal relationship from political stability to economic stability, as seen in Tunisia and Egypt. For example, political instability accompanying political transitions led to a decline in economic growth from 4.3% in 2010 to 2% in 2011, resulting in rising unemployment rates. Subsequent events in Libya also caused the return of migrants to Tunisia and Egypt, which led to a decrease in remittances sent to these countries, further increasing unemployment rates and significantly reducing investments. The uncertainty arising from political instability contributed to declining stock market indicators, widening interest rate spreads on sovereign bonds, increasing volumes of non-performing loans, and capital flight, particularly in Egypt, along with a downgrade of the credit ratings of both countries (IMF, Regional Outlook Report for the Middle East and North Africa, 2012).

Moreover, the economies of neighboring countries to the Arab Spring countries were also affected by the political instability occurring in these countries, including Jordan, where the political events in Syria had repercussions on the Jordanian economy, creating an economic crisis due to the influx of over 620,000 Syrian refugees into Jordan. This caused significant harm to Jordan's economic performance and slowed its economic growth (IMF, Regional Economic Outlook Report for the Middle East, North Africa, Afghanistan, and Pakistan, 2015).

In both cases, whether a country enjoys political stability with a strong and secure political structure free from internal and external conflicts, along with the government's ability to manage crises at minimal costs, this will reflect positively on increasing growth rates and economic stability. Conversely, if a country experiences political instability, this will negatively affect economic stability and all its variables. Therefore, the most significant factor affecting economic stability is political stability, as it eliminates uncertainty regarding the future. This is demonstrated by Asteriou & Price (2001,386) from two perspectives: First, reducing ambiguity and providing clarity regarding the future of the state, thus enhancing political stability, which contributes to economic stability. Second, a decline in investments and a decrease in public trust in the government.

2. The p-value for the causality test from economic stability to political stability, which appeared as (0.0792), indicates a weak to moderate causal effect, as it is at the 10% significance level. Although this value is not low enough to assert a strong causal relationship conclusively (based on common thresholds like 5% or lower), it suggests a potential causal significance that economic crises and poor economic performance may impact political stability.

The significance of economic stability is well-established in both theoretical and empirical literature. Weak economic performance leads to a decline in public support for the regime. In democratic states, where the constitution allows for early termination of government and/or continuation until the end of its term, the government's longevity is often contingent upon fundamental economic conditions. In authoritarian systems, although change may take longer due to repressive methods, it ultimately breeds a level of public discontent that can lead to uprisings against the ruling authority. Consequently, political stability will be undermined in either case. This aligns with the evidence presented by Merlo (1998) and Carmignani (2002), who provide empirical data suggesting that adverse economic conditions weaken the government's or political system's grip on power.

The realities and events witnessed in Arab countries have demonstrated that poor economic performance and instability—manifested through high unemployment rates, increasing poverty levels, poor living conditions, wealth inequality, high inflation rates, rising public debt, and weak government spending—contribute to eroding trust in the economy and destabilizing the political landscape. As a result, the likelihood of public dissent and social rebellion against governments increases, potentially escalating into protests, demonstrations, and armed conflicts that can culminate in the overthrow of governments. For instance, the economic deterioration in Tunisia, coupled with a lack

of freedoms, significantly destabilized the political situation, with economic growth dropping to 2.9% in 2010 from 6% in 2007. Unemployment rates climbed to 13%, while poverty reached 15.5% and extreme poverty stood at 4.6% in 2010. Additionally, the government's budget deficit continued to rise, reaching -3% of GDP in 2011, alongside the economic inequalities perpetuated by the government, culminating in the political upheaval that led to the fall of the regime in 2011 (World Bank; IMF Regional Economic Outlook for the Middle East and North Africa, 2012).

Londregan and Poole (1990) inversely link political instability in Arab countries to per capita GDP and economic growth rates. Higher average income and faster-growing economies reduce the likelihood of coups or military attempts, thereby leading to political stability.

From the above, it can be concluded that there exists a reciprocal causal relationship between political and economic stability, though the strength of their impact may vary. This relationship can be described as complementary.

Table 7: Testing the Causal Relationship - Toda-Yamamoto

VAR Granger Causality/Block Exogeneity Wald Tests			
Dependent variable: Y			
Excluded	Chi-sq	Prob.	Direction of causality
X1	10.58745	**0.0050**	X1 → Y
Dependent variable: X1			
Excluded	Chi-sq	Prob.	Direction of causality
Y	5.072738	**0.0792**	Y → X1 (prob10%)

Source: Author's calculations using eviews 10

CONCLUSIONS:

The study examined the nature of the relationship between political stability and economic stability in fifteen Arab countries from 1996 to 2022. It concluded that political stability is a key supportive factor for long-term economic stability. This indicates that a stable political climate significantly contributes to economic growth, which can foster greater political stability, underscoring the importance of maintaining political stability as a fundamental pillar of economic stability. This result reinforces the evidence of a two-way causal relationship between political and economic stability, supported by major political events in the Arab world, such as the U.S. invasion of Iraq, the so-called Arab Spring revolutions, fluctuations in oil prices, and global financial crises, demonstrating that the stability of countries politically and economically is an interactive process between political dimensions and economic variables.

Political stability reflects a country's economic state and vice versa; this synergistic relationship serves as the cornerstone for successful cooperation and yields prosperity for people worldwide. Thus, Arab governments urgently need to ensure sustainable political and economic stability.

The study also found that investment significantly influences economic growth rates, alongside the importance of controlling corruption, which is crucial for sustaining growth and economic stability. Investment and anti-corruption measures can serve as conduits for achieving economic stability and enhancing political stability through growth.

Furthermore, population growth was found to stimulate economic growth, which is surprising given the rapid population growth in Arab countries. However, some countries with rich oil economies support both population and economic growth. Additionally, remittances from overseas workers significantly contribute to economic growth, especially in resource-limited Arab countries. The increase in the number of educated individuals in Arab countries has been shown to weaken economic growth rates, indicating that educational policies are often not adequately aligned with market needs and growth requirements.

To ensure sustainable political stability, it is essential to enhance democratic institutions, curb corruption, foster political participation, improve regional and global external relations, reduce bureaucracy, and promote transparency, thereby maintaining a favorable investment and economic growth environment. Additionally, profound educational reforms should be implemented to restructure educational systems and direct them toward meeting market demands, enabling the transformation of increased schooling years into tangible economic and political gains. It is also crucial to support anti-corruption efforts in a manner that balances short-term costs with long-term gains, promoting transparency and accountability across all sectors while learning from the instability

lessons in Arab countries, thereby building strong economies and political systems that uphold civil liberties and party pluralism, which collectively enhance a state's ability to adapt to political and economic crises.

Finally, it is recommended that the relationship between political stability and economic stability be studied as a complementary relationship, taking into account the nature of the political system and various dimensions necessary for its stability while considering the country's economic conditions.

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