



The Impact of Geopolitical Conflicts on Foreign Direct Investment (FDI) in the Middle East and Africa

Nguyen Thi Ngoc Mai

Institute of South Asian, West Asian and African Studies

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***Corresponding Author:** Nguyen Thi Ngoc Mai

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Abstract

Foreign Direct Investment (FDI) is a critical driver of economic development in the Middle East and Africa (MEA), contributing to infrastructure development, technology transfer, and job creation. However, the persistent geopolitical conflicts and instability in these regions create a complex environment that significantly influences FDI inflows. This paper investigates the impact of geopolitical conflicts on FDI in the Middle East and Africa from 2000 to 2022, using panel data analysis and a gravity model approach. The study finds that geopolitical instability negatively affects FDI inflows, although the magnitude varies by country and sector. Furthermore, institutional quality, governance, and regional integration efforts moderate this relationship. The paper concludes with policy recommendations to mitigate risks and attract more stable and sustainable FDI.

Keywords: FDI, MEA, geopolitical conflicts, instability, inflows, panel data, gravity model, negative impact, institutional quality, governance, regional integration, policy recommendations, sustainable FDI.

Original Research Articles

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1. Introduction

Foreign Direct Investment (FDI) is widely recognized as a critical engine for economic growth and development in many regions around the world, and this is particularly true for the Middle East and Africa. These two regions are endowed with vast reserves of natural resources, ranging from hydrocarbons to minerals, as well as significant pools of human capital that represent both a labor force and potential innovation drivers. As such, they have a substantial potential to leverage foreign capital inflows to accelerate infrastructure development, foster technological advancement, and create employment opportunities that can contribute to sustainable economic progress. FDI often brings not only financial resources but also managerial expertise, access to international markets, and enhanced productivity, all of which are essential for

transforming emerging economies.

However, the landscape for attracting and retaining foreign direct investment in the Middle East and Africa remains fraught with numerous challenges, primarily due to persistent and, in some cases, escalating geopolitical conflicts. These conflicts manifest in various forms, including protracted civil wars, interstate hostilities, terrorism, and widespread political instability. Such conditions have far-reaching implications for investor confidence as they elevate perceived risks, increase operational uncertainties, disrupt economic activities, and often lead to the destruction of infrastructure and loss of human capital. Consequently, geopolitical turmoil serves as a formidable barrier that deters foreign investors from committing capital, particularly in sectors that are sensitive to stability and predictability. The negative impact of these conflicts



on FDI has been well-documented by scholars such as Asiedu (2006) and Busse and Hefeker (2007), who highlight the strong inverse relationship between political instability and foreign investment inflows in the region.

Despite significant and ongoing policy initiatives aimed at improving the investment climate, enhancing institutional quality, and strengthening legal frameworks, the enduring presence of geopolitical conflicts continues to overshadow these efforts. Policymakers have sought to implement reforms that create more transparent, predictable, and investor-friendly environments; however, the underlying security and political risks often undermine these gains. For example, countries within the Gulf Cooperation Council (GCC) generally enjoy higher levels of political stability and institutional development relative to many African nations, which helps them attract a larger share of global FDI. Nevertheless, even the GCC has not been immune to geopolitical tensions, as exemplified by the Qatar blockade from 2017 to 2021, which introduced significant uncertainty and disrupted regional economic dynamics. Similarly, many African countries are grappling with prolonged conflicts and fragile state conditions that perpetually erode investor confidence and restrict the full potential of foreign investment to catalyze development (UNECA, 2020).

Given this complex interplay between geopolitical conflict and investment flows, this paper seeks to address an important gap in the existing empirical literature by conducting a thorough quantitative analysis focused specifically on the Middle East and Africa (MEA) region. We aim to unpack the multifaceted ways in which geopolitical instability affects FDI inflows across different countries and economic sectors within this diverse and strategically significant region. More precisely, our research endeavors to achieve three primary objectives: First, to quantify the extent to which geopolitical conflicts reduce FDI inflows and identify patterns or trends that may emerge over the study period. Second, to explore how these adverse effects vary between countries that differ in terms of their political contexts, economic structures, and development levels, as well as across various sectors

such as manufacturing, services, and extractive industries. Third, to investigate the potential moderating roles played by institutional quality-encompassing governance, rule of law, and regulatory effectiveness-and regional economic integration frameworks, such as the African Continental Free Trade Area (AfCFTA) and the GCC Customs Union, which may help mitigate the negative impact of geopolitical conflicts on foreign investment.

Through this comprehensive empirical approach, we intend not only to provide valuable insights into the dynamics of FDI in conflict-prone environments but also to inform policymakers and investors about strategies to enhance resilience, foster regional cooperation, and create conducive environments for sustainable investment in these geopolitically sensitive yet economically promising regions.

2. Literature review

The intricate relationship between geopolitical stability and Foreign Direct Investment (FDI) has been a focal point of extensive scholarly inquiry, reflecting its critical importance to economic development and international capital flows. Foundational economic theories, particularly those rooted in international business and investment frameworks, argue that political stability plays a fundamental role in creating an environment conducive to foreign investment. According to Dunning's (1993) Eclectic Paradigm, one of the central conditions for attracting FDI is the reduction of uncertainty and risk, which political stability helps to ensure. Stable political environments are associated with consistent regulatory frameworks, protection of property rights, and effective enforcement of contracts, all of which reduce transaction costs and enhance the predictability sought by foreign investors. In such settings, investors feel more confident that their capital will be safeguarded and that economic policies will not abruptly change, thereby facilitating long-term planning and commitment.

On the other hand, the presence of geopolitical conflicts-ranging from civil wars and insurgencies to interstate hostilities and terrorism-creates an environment rife with risk and unpredictability. Such

instability often leads to elevated transaction costs, including increased security expenses, disruptions in supply chains, and difficulties in accessing markets. Moreover, conflicts can damage critical infrastructure, displace labor forces, and reduce the overall attractiveness of a country as an investment destination. Blomström and Kokko (1998) emphasize that these heightened risks act as powerful deterrents to FDI, especially in sectors sensitive to stability and operational continuity. The uncertainty arising from conflicts also exacerbates capital flight and insurance costs, further diminishing inflows of foreign capital.

Empirical research has consistently supported these theoretical linkages. For example, Busse and Hefeker (2007) conduct a cross-country analysis and identify a robust negative correlation between political risk indicators-such as political violence, government instability, and policy unpredictability-and FDI inflows worldwide. Their findings underscore the broad applicability of the political risk-FDI nexus across diverse institutional and economic contexts. Similarly, Asiedu (2006) specifically focuses on the African continent and documents that countries afflicted by conflicts and political turmoil receive disproportionately low levels of FDI relative to their more stable counterparts. This underinvestment has profound implications for economic growth, employment generation, and poverty alleviation in conflict-affected states.

However, the sensitivity of FDI to geopolitical instability is not uniform across all sectors. Certain industries, particularly extractive sectors like oil, gas, and mining, often display a degree of resilience to political risks due to their strategic importance and the nature of investment contracts involved. Kobrin (1979) notes that long-term, capital-intensive contracts in the extractive industries provide firms with legal and economic protections that can buffer against short-term political fluctuations. Furthermore, the substantial rents generated by resource wealth can sometimes incentivize governments to maintain minimal levels of stability to attract and retain foreign investors, even in politically volatile settings.

Within the specific context of the Middle East, geopolitical conflicts have played a particularly salient role in shaping FDI patterns. Regional wars, sanctions, and diplomatic disputes have intermittently disrupted investment flows, creating an environment marked by high volatility and uncertainty. Nonetheless, the Gulf Cooperation Council (GCC) countries, endowed with abundant hydrocarbon resources, have managed to maintain relatively higher levels of FDI compared to their neighbors, largely owing to their considerable resource wealth and sustained efforts at implementing economic reforms and diversification strategies. Alfaro et al. (2004) highlight that resource wealth, coupled with targeted policy reforms, has helped GCC states buffer against some of the adverse impacts of regional instability on FDI.

Recent academic and policy-oriented studies further emphasize the critical role that institutional quality, governance improvements, and regional economic integration frameworks play in mitigating the negative consequences of geopolitical conflicts on FDI. Reports by the United Nations Economic Commission for Africa (UNECA, 2020) and the International Monetary Fund (IMF, 2022) stress that stronger governance mechanisms-such as enhanced rule of law, transparent regulatory environments, and anti-corruption measures-can improve investor confidence even in conflict-affected regions. Moreover, regional cooperation initiatives, including economic blocs and trade agreements, can foster greater political stability and provide collective assurances that support foreign investment despite localized conflicts. These mitigating factors thus represent promising avenues through which countries in the Middle East and Africa can attract and sustain FDI, even amidst complex geopolitical challenges.

3. Methodology

3.1 Data and sample

This study utilizes a comprehensive panel dataset spanning the years 2000 to 2022, encompassing 35 African countries alongside the six member states of the Gulf Cooperation Council (GCC). The selection of countries is grounded in data availability and relevance to the geopolitical and

economic contexts under examination. The choice of this temporal scope allows us to capture pre-and post-conflict periods as well as significant policy changes such as the establishment of the African Continental Free Trade Area (AfCFTA) and notable geopolitical events within the GCC.

Foreign Direct Investment (FDI) inflow data, our primary dependent variable, are sourced from two reputable and widely used databases: the United Nations Conference on Trade and Development (UNCTAD) and the World Bank's World Development Indicators (WDI). These sources provide harmonized and comparable figures of annual FDI inflows measured in current US dollars, allowing for robust cross-country and temporal comparisons.

To capture the complex nature of geopolitical conflicts affecting these regions, we integrate conflict intensity and frequency measures from multiple credible sources. The Political Risk Services (PRS) Group's International Country Risk Guide (ICRG) offers composite political risk indices, which include dimensions such as political violence,

government stability, and social unrest. Complementing this, the Uppsala Conflict Data Program (UCDP) provides granular event-level conflict data, including armed conflicts, non-state violence, and terrorism incidents, thereby enabling a nuanced assessment of conflict dynamics.

In addition to these core variables, the analysis controls for several critical determinants of FDI inflows. Gross Domestic Product (GDP) data, as a proxy for economic size and market potential, are obtained from the World Bank's WDI. Trade openness is measured by the ratio of total trade (exports plus imports) to GDP, reflecting the degree of economic openness and integration with global markets. Institutional quality is assessed through the Worldwide Governance Indicators (WGI), which capture dimensions such as rule of law, government effectiveness, regulatory quality, and control of corruption. Finally, to account for the role of regional economic integration, we include a dummy variable indicating membership in regional trade agreements or economic blocs such as the AfCFTA for African countries and the GCC Customs Union.

3.2 Model Specification

The empirical model follows a gravity framework extended to incorporate geopolitical conflict measures:

$$FDI_{it} = \beta_0 + \beta_1 Conflict_{it} + \beta_2 GDP_{it} + \beta_3 TradeOpen_{it} + \beta_4 InstQual_{it} + \beta_5 RegionalInt_{it} + \epsilon_{it}$$

Where:

- FDI_{it} = Foreign Direct Investment inflows to country i at time t
- $Conflict_{it}$ = Geopolitical conflict index (measuring intensity and frequency)
- GDP_{it} = Gross Domestic Product (economic size)
- $TradeOpen_{it}$ = Trade openness
- $InstQual_{it}$ = Institutional quality
- $RegionalInt_{it}$ = Dummy for membership in regional economic integration

To address potential econometric challenges, including heteroskedasticity and the presence of zero FDI inflows in some country-year observations, the model is estimated using panel fixed effects to control for unobserved country-specific heterogeneity. Additionally, we apply the Poisson pseudo-maximum likelihood (PPML) estimator,

which has become standard in gravity-type models because it effectively handles heteroskedasticity and zero-inflated data without requiring log-linearization of the dependent variable. This approach also provides consistent estimates even in the presence of heteroskedastic errors, improving the robustness and reliability of our findings.

By integrating geopolitical conflict variables within this rigorous econometric framework, our model aims to provide a nuanced and comprehensive understanding of how political instability shapes FDI flows in the Middle East and African regions, while accounting for other structural and institutional factors.

4. Results and analysis

4.1 Descriptive statistics

The analysis of Foreign Direct Investment (FDI) inflows over the period from 2000 to 2022 reveals distinct patterns and substantial heterogeneity across regions and countries within the Middle East and Africa. On average, FDI inflows to Middle Eastern countries constituted approximately 3.2% of their GDP annually, slightly higher than the

average for African countries, which stood at around 2.7% of GDP. However, these averages mask significant variation both across individual countries and across time.

Within Africa, countries severely affected by ongoing geopolitical conflicts such as Libya, Somalia, and Yemen consistently exhibit persistently low levels of FDI inflows throughout the period. For instance, Libya's prolonged civil unrest and political fragmentation have deterred investors due to heightened risk and operational uncertainty. Similarly, Somalia's unstable political landscape and security challenges continue to act as a strong deterrent against foreign investment. Yemen's ongoing humanitarian crisis and conflict further exacerbate the investment climate, resulting in negligible foreign capital inflows.

Variable	Mean	Median	Std. Dev.	Min	Max
FDI (% of GDP) - Middle East	3.20	3.10	1.15	0.50	6.10
FDI (% of GDP) – Africa	2.70	2.40	1.30	0.10	7.80
Conflict Index	2.10	1.80	1.25	0.00	5.00
GDP (log, USD billions)	10.25	10.10	1.15	7.00	12.50
Trade Openness (%)	65.00	62.00	20.50	20.00	140.00
Institutional Quality (WGI)	0.10	0.15	0.40	-1.20	1.00
Regional Integration Dummy	0.35	0.00	0.48	0	1

Conversely, the Gulf Cooperation Council (GCC) countries display relatively more stable and robust FDI inflows, reflecting their institutional maturity, resource wealth, and more predictable business environments. Nonetheless, these countries are not immune to geopolitical shocks; for example, the Qatar blockade (2017–2021) resulted in significant, albeit temporary, declines in FDI inflows due to regional diplomatic tensions and economic restrictions. Such fluctuations highlight the sensitivity of FDI flows even in otherwise stable settings when subjected to geopolitical stress.

Moreover, descriptive statistics indicate marked differences in FDI inflows over time, with peaks

often corresponding to periods of relative regional stability or major economic reforms, and troughs coinciding with escalations in conflict or political turmoil. This temporal variation underscores the critical influence of geopolitical stability on the investment climate in these regions.

4.2 Regression results

Our econometric analysis using panel data regression models provides robust evidence supporting the significant and negative impact of geopolitical conflicts on FDI inflows across the Middle East and Africa. Specifically, the coefficient estimates reveal that a one-unit increase in the

geopolitical conflict index - reflecting heightened conflict intensity and frequency - corresponds to an average decrease of approximately 12% in FDI inflows, controlling for other factors such as economic size, trade openness, institutional quality,

and regional integration status. This relationship is statistically significant at the 1% level ($p < 0.01$), underscoring the strong deterrent effect that conflict exerts on foreign investment decisions.

Independent variable	Coefficient	Std. Error	p-value	Significance
Constant	0.850	0.110	<0.001	**
Conflict Index	-0.128	0.035	<0.001	**
GDP (log)	0.570	0.120	<0.001	**
Trade Openness (%)	0.007	0.003	0.025	*
Institutional Quality	0.210	0.070	0.004	**
Regional Integration Dummy	0.300	0.090	0.001	**

When disaggregating the results by region, the adverse effect of conflicts on FDI is notably more pronounced in African countries compared to the GCC states. This disparity is consistent with the generally higher levels of institutional robustness, governance quality, and economic diversification observed within the GCC, which appear to buffer some of the negative consequences of geopolitical turmoil. In Africa, weaker institutions, less effective governance, and prolonged internal conflicts amplify investor perceptions of risk, leading to steeper declines in FDI.

Further, consistent with extant literature, key economic fundamentals such as GDP and trade openness emerge as significant and positive determinants of FDI inflows. Larger economies and those more integrated into global trade networks attract more foreign capital, reflecting market size effects and ease of access to international markets. Institutional quality, measured by governance indicators including rule of law and regulatory effectiveness, plays a crucial moderating role: countries with higher institutional quality experience a mitigated negative impact of geopolitical conflicts on FDI. This finding suggests that stronger institutions can enhance resilience against political

risk by providing more stable and predictable business environments.

Additionally, membership in regional economic integration frameworks, such as the African Continental Free Trade Area (AfCFTA) for African countries and the GCC Customs Union for Gulf states, has a significant positive influence on attracting FDI. These cooperative arrangements appear to provide a form of collective insurance against geopolitical risks by fostering deeper economic ties, harmonizing regulations, and facilitating market access. Consequently, participation in such blocs helps offset some of the adverse effects of conflict on investment inflows.

4.3 Sectoral heterogeneity

A more granular analysis by economic sector reveals substantial heterogeneity in how geopolitical conflicts affect FDI across different industries. Extractive industries, including oil, gas, and mining, exhibit a relatively lower sensitivity to geopolitical instability compared to

Other sectors. This resilience can be attributed to several factors: the strategic importance of natural resources, long-term contractual agreements with

multinational corporations, and government incentives aimed at securing continued investment despite conflict. Moreover, extractive projects often require substantial upfront capital and infrastructure

investments that are not easily relocated, making firms more willing to tolerate political risk in exchange for resource access.

Region	Conflict coefficient	Std. Error	p-value	Notes
Africa	-0.158	0.042	<0.001	Stronger negative impact
GCC	-0.075	0.030	0.015	Less pronounced effect

In contrast, sectors such as manufacturing and services show markedly greater vulnerability to geopolitical conflicts. FDI inflows into manufacturing industries tend to decline sharply during periods of heightened conflict, reflecting investors’ higher risk aversion towards sectors that depend on stable supply chains, labor availability, and predictable regulatory environments. Similarly, the services sector, particularly tourism, finance, and telecommunications, suffers significant reductions in investment during conflict periods due to disruptions in consumer demand, workforce displacements, and increased operational uncertainties.

This sectoral heterogeneity underscores the importance of understanding investor risk preferences and strategic considerations when assessing the impact of geopolitical conflicts. It also highlights the need for tailored policy interventions that address the specific vulnerabilities of different economic sectors in conflict-prone environments.

5. Discussion

Our empirical findings strongly underscore that geopolitical conflicts serve as a fundamental and pervasive barrier to attracting foreign direct investment (FDI) throughout the Middle East and Africa (MEA) region. These conflicts create an environment of heightened uncertainty and risk, which significantly deters foreign investors who typically seek stable, predictable, and secure markets for their capital. Despite the considerable natural resource wealth enjoyed by many countries within the Gulf Cooperation Council (GCC), which provides a degree of insulation against external shocks and conflict-related instability, these

economies cannot rely solely on resource rents. The need for economic diversification is paramount in order to build resilience and reduce vulnerability to geopolitical shocks. Diversification efforts not only broaden the economic base but also attract a wider range of foreign investors who might otherwise be wary of investing in sectors dominated by natural resources subject to volatile global markets.

On the African continent, recent institutional reforms and the implementation of the African Continental Free Trade Area (AfCFTA) represent promising steps toward regional economic integration and improved investment climates. These initiatives aim to facilitate trade, harmonize policies, and strengthen economic ties between member states, potentially offsetting some of the negative impacts of local and regional conflicts. However, the success of such frameworks is contingent upon the attainment of sustained political stability and effective conflict resolution mechanisms at both the national and regional levels. Without addressing these fundamental issues, the economic potential of AfCFTA and related reforms may remain unrealized, as persistent conflicts continue to undermine investor confidence and hinder economic growth.

Moreover, our analysis highlights the critical mitigating role played by institutional quality in attracting and sustaining FDI inflows amid geopolitical uncertainties. Strong governance structures, transparent policy frameworks, robust legal systems, and effective enforcement of the rule of law create an environment that can partially offset the risks associated with political instability. Countries that demonstrate improvements in these institutional dimensions tend to experience greater

investor confidence, even in regions plagued by conflicts. Thus, governance reforms that promote transparency, accountability, and fairness are not merely desirable but essential components for transforming conflict-affected economies into attractive investment destinations.

Finally, regional economic cooperation frameworks - such as AfCFTA in Africa and the GCC customs union—provide valuable platforms for policy harmonization, regulatory convergence, and risk-sharing among member states. These cooperative arrangements can enhance economic stability by facilitating the pooling of resources to manage common risks, reducing transaction costs, and creating larger, more integrated markets that appeal to foreign investors. By fostering a collective approach to overcoming geopolitical risks, regional integration initiatives help improve the overall investment climate and strengthen the resilience of member economies against the adverse effects of conflicts. Consequently, policy efforts aimed at deepening regional cooperation should be prioritized as part of comprehensive strategies to attract and retain foreign investment in the MEA region.

6. Policy implications

Conflict resolution: Effective conflict resolution mechanisms are fundamental to mitigating the persistent geopolitical risks that undermine economic stability and deter foreign direct investment (FDI). This requires sustained diplomatic efforts at both bilateral and multilateral levels, involving proactive peacebuilding initiatives that address the root causes of conflicts, including ethnic tensions, resource disputes, and political grievances. Conflict prevention strategies, such as early warning systems, mediation by regional bodies, and inclusive dialogue processes, are equally crucial. These efforts must be supported by robust international cooperation and commitment to maintaining peace and security, as reducing geopolitical instability directly contributes to creating a safer and more predictable environment for investors.

Governance reform: Strengthening institutions and improving governance practices play a pivotal role in enhancing the resilience of countries against shocks arising from geopolitical conflicts. Governance

reforms should focus on promoting transparency, accountability, and the rule of law, thereby fostering trust among both domestic and foreign stakeholders. Effective public administration, reduction of corruption, and protection of property rights not only improve the investment climate but also enhance a country's capacity to manage conflicts when they arise. Building strong, independent judicial systems and ensuring that legal frameworks are consistently applied can further reassure investors that their investments will be protected, even in politically volatile contexts.

Economic diversification: Accelerating economic diversification is a critical strategy for both the African Union and GCC regions to reduce their high dependency on single commodities, such as oil and minerals, which expose them to market volatility and geopolitical risks. Diversification efforts should focus on developing value-added manufacturing, expanding the services sector, and promoting innovation and entrepreneurship. By broadening their economic base, these regions can create more resilient economies that attract a wider range of foreign investors and reduce the risks associated with fluctuating commodity prices and geopolitical shocks. Encouraging investments in emerging sectors such as renewable energy, digital technologies, and agro-processing can also enhance long-term sustainable growth and employment opportunities.

Regional integration: Expanding and deepening regional trade agreements and economic cooperation frameworks are essential to establishing stable, predictable, and competitive economic environments that are attractive to foreign investors. Regional integration efforts facilitate the harmonization of regulations, reduction of trade barriers, and improvement of cross-border infrastructure, which collectively lower transaction costs and increase market access. By creating larger integrated markets, these agreements enable countries to leverage economies of scale, diversify their export portfolios, and strengthen their bargaining power on the global stage. Furthermore, regional cooperation enhances collective resilience to external shocks and geopolitical risks by fostering policy coordination and risk-sharing mechanisms among member states.

Risk mitigation instruments: Developing and expanding access to financial instruments designed to mitigate political and geopolitical risks is vital for alleviating investor concerns in volatile regions. Instruments such as political risk insurance, guarantees, and hedging mechanisms can protect investors against losses resulting from expropriation, political violence, contract breaches, and currency inconvertibility. The establishment of regional and multilateral risk mitigation facilities can also play a significant role in encouraging investment by providing risk-sharing solutions and enhancing investor confidence. Additionally, public-private partnerships in risk management and innovative financing solutions tailored to conflict-prone areas can further support sustainable investment flows despite persistent uncertainties.

7. Conclusion

Geopolitical conflicts exert a profound and pervasive negative impact on foreign direct investment (FDI) inflows across both the Middle East and African regions, substantially constraining economic development prospects and investor confidence. These adverse effects are not uniform; rather, they vary significantly across individual countries, depending on the intensity and nature of conflicts, as well as across economic sectors, reflecting different risk sensitivities and investment horizons. For instance, sectors such as manufacturing and services typically experience sharper declines in investment during periods of instability, whereas extractive industries may demonstrate relatively greater resilience due to long-term contracts and strategic importance.

Importantly, our findings highlight that institutional quality-including governance effectiveness, rule of law, and transparency- and regional economic integration initiatives serve as critical mitigating factors. These elements help to cushion the shock of geopolitical turmoil by fostering more stable investment climates, facilitating policy coordination, and reducing transaction costs. Regional integration platforms such as the African Continental Free Trade Area (AfCFTA) and the Gulf Cooperation Council's customs union can enhance collective economic resilience, promote cooperation among member

states, and build investor confidence despite ongoing geopolitical challenges.

This evidence underscores the necessity of adopting multifaceted and comprehensive policy strategies that simultaneously address the root causes of geopolitical conflicts, improve institutional frameworks, and strengthen economic cooperation at both national and regional levels. Conflict resolution efforts through diplomacy, peacebuilding, and security sector reforms need to be prioritized alongside governance reforms aimed at institutional capacity building, anti-corruption measures, and legal system strengthening. At the same time, deepening regional trade and investment agreements can create more integrated and robust markets that are better equipped to withstand external shocks and political risks.

Looking ahead, future research agendas should delve deeper into micro-level dynamics by examining investor perceptions, risk assessments, and decision-making processes in geopolitically sensitive environments. Understanding how investors weigh political risks relative to economic opportunities can provide nuanced insights to better tailor investment promotion strategies. Additionally, there is a growing imperative to investigate the influence of emerging and strategically important sectors-such as the digital economy, renewable energy, and green investments-on FDI patterns in the context of geopolitical uncertainty. These sectors may offer new avenues for sustainable growth and diversification that are less vulnerable to traditional geopolitical disruptions. Such research could inform policymakers and stakeholders about how to leverage innovation and sectoral transformation to attract resilient and quality FDI, ultimately fostering inclusive economic development in the Middle East and Africa despite ongoing geopolitical challenges.

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