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The Rise of State Terrorism and its Economic Implications for the Middle East: The September Qatar Attack as a Turning Point

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The Middle East has entered an unprecedented phase of strategic turmoil. Israel is aggressively deploying excessive military force, backed by American military superiority, through cross-border operations without any mandate or justification under the Charter of the United Nations – including, recently, its attack on Qatar on 9 September 2025. Such policies practices are more than tactical transgressions. They represent flagrant violations of international law, and are driving an escalating pattern of systematic state terrorism that threatens the entire international order. The effects of this strategy are no longer limited to the arena of military conflict, but have taken on economic and social dimensions, obstructing processes of development, increasing the fragility of economies, and forcing governments to re-prioritize spending to serve the demands of security – at the expense of education, health, and infrastructure.

Israel's violations of international legal norms raise fundamental questions about the future of the global order and the rule of law. Its repeated resort to the use of force outside the framework of international law undermines the principle of refraining from the use of force, establishing a dangerous precedent that could tempt other states to adopt the same approach, threatening to dismantle the system of collective security. The undermining of legal norms also directly impacts investors' confidence in the stability of the institutional environment, as they harbour growing doubts over whether contracts will be honoured, property rights guaranteed, and trade agreements implemented. The collapse of these norms opens the way to an international system dominated by the logic of force alone, increasing the likelihood of conflict and undermining opportunities for international cooperation.

Re-Prioritizing Economic Diversification and Bolstering the Efficiency of Governance in the Gulf

A new calculus is emerging, particularly in the Gulf Cooperation Council (GCC) countries, which presents an awkward dilemma: pursue ambitious development programmes, or expand defence budgets? These countries have accumulated massive financial reserves over the past two decades, to the point where in total they hold approximately 14 percent of global sovereign wealth fund assets. However, today they face a dual challenge: the need to finance major infrastructure projects and strategic industries that form the cornerstone of their ambitious national visions, while simultaneously modernising their defence systems in response to escalating security threats. This pressure is compounded and further complicated by structural pressures on oil prices arising from the global shift towards renewable energy, improved energy efficiency, and protectionist policies that are reshaping the map of supply and demand in global energy markets.

The Middle East region today faces major, complex challenges. When one party bolsters its military strength and continually uses it in an aggressive manner, as Israel is doing, this pushes other parties to adopt the same approach, fuelling a regional arms race that consumes vast resources and increases the likelihood of large-scale military confrontations. This accelerating militarization is creating a new geo-economic reality for the region, with profound developmental, economic, and social repercussions.

The "guns-versus-butter trade-off" has been proposed to explain the potential shift in public spending as a process of rebalancing the distribution of resources between military spending and social development.¹ In many developing countries, increased defence expenditures typically lead to reduced budgets for education, health, and infrastructure – sectors that constitute the foundation for the accumulation of human capital and enhanced productivity in the long term. Consequently, sidelining these sectors threatens to slow economic growth, deepen social inequalities, and increase the vulnerability of societies to economic and political shocks.

However, the GCC states present a starkly different model. Their large financial resources and sovereign reserves mean they can continue to finance their basic social budgets without directly compromising health, education, and infrastructure services. Therefore, the regional arms race will not necessarily impact direct social spending. Yet it will affect the ability of these countries to implement the economic diversification programmes and strategic investments that form the backbone of their medium- and long-term national visions, such as Saudi Vision 2030 and the United Arab Emirates' Centennial Plan 2071.

In other words, the greatest challenge lies not in the decline of basic services, but in the potential need to postpone or cut back on major economic transformation projects aimed at building new sectors such as technology, renewable energy, advanced industries, and tourism. Qatar, for example, is promoting tourism as one strategic focus of its drive for economic diversification, but any military attack will inevitably impact this sector. Tourists place great importance on security and safety, meaning that the recent Israeli attacks will have already had a direct effect on their choice of travel destinations.

In this context, the new considerations imposed by Israel's aggressive policies and systematic state terrorism can be viewed not only as a form of pressure, but also as a motivation for GCC states to reassess their economic priorities. Beefing up defence expenditures could prompt decision-makers to review their countries' development and investment portfolios and focus on projects that will achieve the highest possible economic and social returns. Such a shift could help them allocate resources to more efficient projects, strengthen financial oversight, and develop mechanisms for evaluating performance and outputs, thereby reducing waste and improving the effectiveness of public spending.

Enhancing transparency, while linking development projects to clear and specific performance indicators, could contribute to improving governance efficiency and help enhance states' ability to attract private sector investment. In this sense, the financial pressure resulting from a regional arms race could turn into an opportunity to launch structural reforms that enhance the effectiveness of public finance management and accelerate the transition to more diversified and resilient economies.

¹ Stefano Sacchi, Gregorio Buzzelli & Caroline de la Porte, "'Guns versus Butter' in Public Opinion: The Politicization of the Warfare-welfare Trade-off," *Journal of European Public Policy* (2025), accessed on 15/9/2025, at: <https://acr.ps/1L9GP0R>.

Potential Channels of Economic Impact

At present, it is difficult to determine with any accuracy the potential economic impacts of the geopolitical and security escalation underway in the region, or to determine the channels via which these effects will arrive. The degree of their impact will depend largely on the extent to which Israel persists in its practices, the intensity of its state terrorism, and the manner in which these events interact on the ground.

What is certain is that the continuation of such an approach would plunge the region – and indeed the entire world – into extremely complex and interconnected dynamics, negatively impacting international trade and supply chains and casting a dark shadow over the global economic outlook. Middle Eastern economies will doubtless stand out among those most affected, given the worsening security and geopolitical repercussions already afflicting them – as well as new pressures resulting from US President Donald Trump's protectionist measures and his approach to international economic policy.

Investor Confidence Under Strain

The GCC countries – first and foremost the UAE, Qatar, and Saudi Arabia – have long provided exceptionally safe havens for global investment, thanks to the political and security stability they have enjoyed for decades and their accumulation of sovereign wealth that now exceeds \$6 trillion. This has enabled them to attract major strategic partnerships with international companies seeking financial backers for their cross-border projects, as well as strengthening their positions as reliable destinations for global capital.

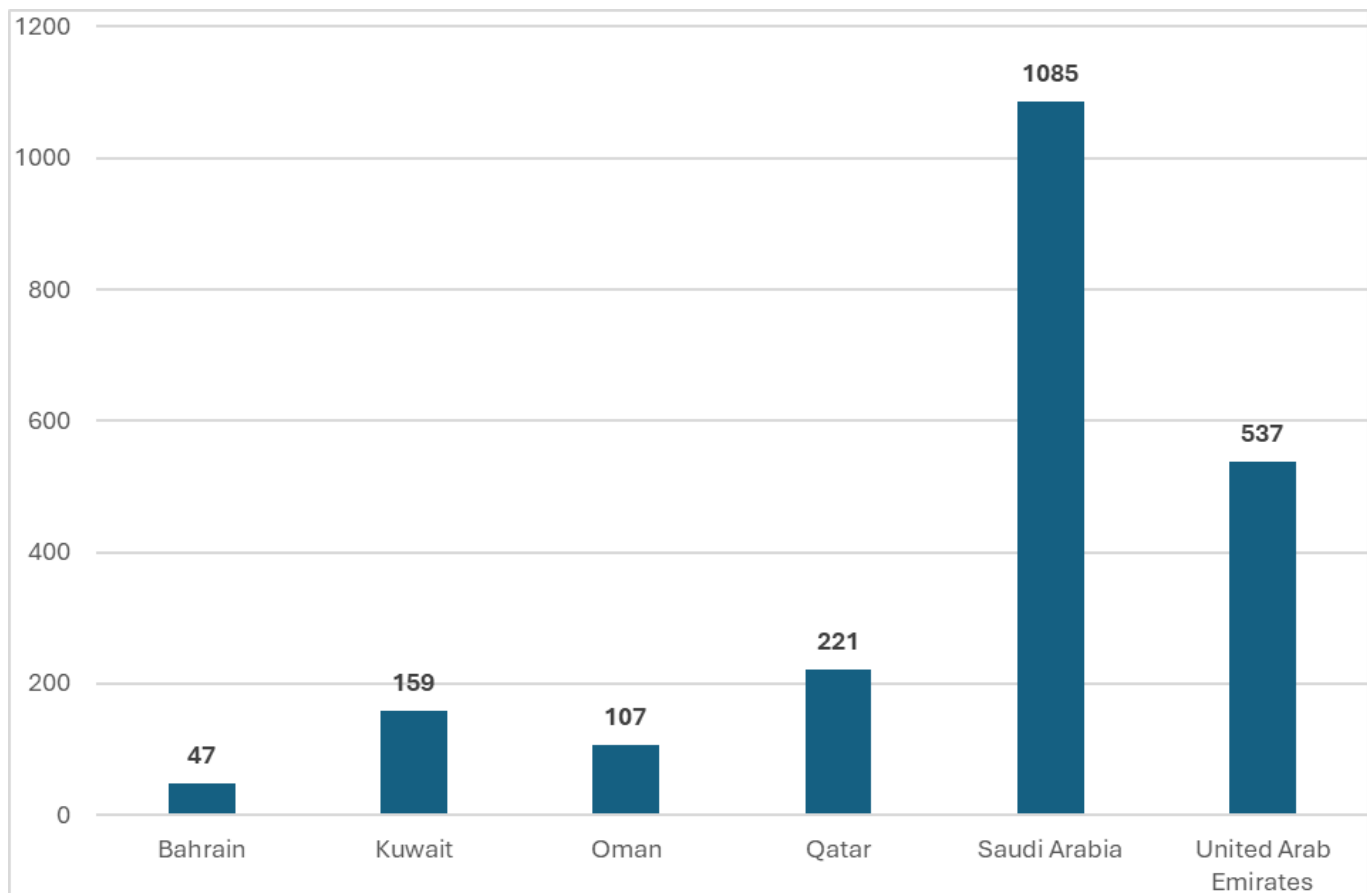
However, Israel's persistent policy of state terrorism – with direct support from the US – and its unprecedented military aggression against Qatari territory constitute a powerful shock to this model of "geopolitical immunity" in which the Gulf states have invested heavily. This could lead to a series of profound economic repercussions that threaten to reshape the investment environment, and have already tested the stability of the region to an unprecedented degree.

The first potential repercussion is the erosion of the GCC countries' sovereign creditworthiness. Such developments may prompt global credit ratings agencies such as Moody's, S&P, and Fitch to reassess the assumptions underlying their high ratings for these economies, which are primarily based on the GCC states' security, political stability and reputation as safe havens for capital. Even if these agencies do not immediately downgrade their ratings, the simple act of issuing warnings or changing their outlooks to "negative" could be enough to prompt investors to demand higher geopolitical risk premiums, leading to a hike in borrowing costs and raising the pressure on public budgets.

A rise in interest rates of just half a percentage point would be enough to add billions of dollars annually to the region's debt servicing costs, given that the sovereign debt of the Gulf states exceeds

\$2.2 trillion. This increase in financing costs poses a direct challenge to the financing of major projects associated with these countries' economic transformation visions (such as Saudi Vision 2030, Qatar Vision 2030, Kuwait Vision 2035 and Oman Vision 2040), as it could complicate financing processes and delay the implementation of plans. This would place additional pressure on economic diversification programmes, which may force governments to review their investment priorities.

Figure 1: Public Debts of Gulf Cooperation Council Countries (\$ billion)



Source: International Monetary Fund, *World Economic Outlook: A Critical Juncture Amid Policy Shifts* (Washington, DC: IMF, 2025).

If the uncertainty persists, it will place pressure on both the nature and the sources of capital flows, especially given the lack of effective guarantees that the Gulf countries will be able to curb Israel's aggressive policies. Global capital reacts quickly during periods of risk aversion, as investment funds tend to reduce or liquidate their positions in the markets most vulnerable to volatility. The exit of even a limited portion of foreign portfolio investments from Gulf markets could lead to capital outflows worth billions of dollars, exacerbating pressures on stock and bond markets and heightening their volatility. A deeper risk lies in the impact on long-term strategic investments. Multinational companies may put off or even cancel plans to set up regional headquarters, factories, or logistics centres, fearing that the region will become an arena for geopolitical score-settling. This would undermine one of the fundamental pillars of the Gulf states' economic diversification plans.

Israel's Escalating Aggression: A Threat to Stability and a Catalyst for Reshaping Alliances

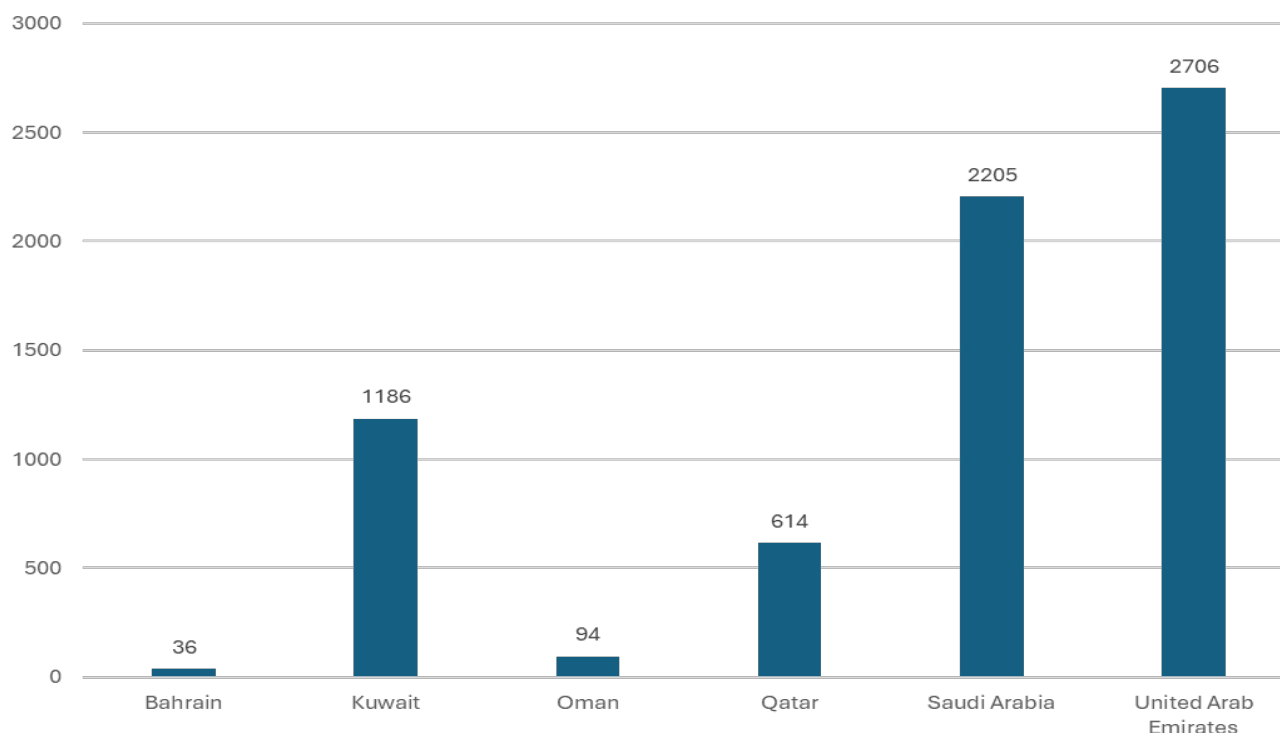
The impact of Israel's aggression cannot be measured solely by the number of casualties or the extent of material losses, but also by its far-ranging economic impact, which could affect various components of the region's economic structure. Stability is a fundamental pillar underpinning the economies of the Gulf states, representing an attractive umbrella for global capital and talent. Any crack in this pillar not only threatens existing investments, but could undermine the foundations of future visions for development. To tackle this, governments may find themselves forced to inject exceptional financial assistance packages and offer unconventional guarantees and facilities to reassure markets and restore the confidence of global investors. This would increase the financial and political costs of the current crisis.

Israel's attack is therefore a wake-up call for the GCC states, clearly exposing the limits of their near-unilateral reliance on the traditional system of alliances, which has proven incapable of guaranteeing Gulf sovereignty or deterring foreign violations. This political shock is pushing the Gulf states to accelerate their transitions to more comprehensive risk diversification strategies, which essentially require them to diversify their cross-border partnerships by reengineering their international relations, along several parallel tracks.

One of the most prominent options available to the Gulf states is that of accelerating their engagement in multipolar blocs, notably BRICS, and transforming this accession from a mere economic measure into an explicit, political declaration of a desire to position themselves within a more balanced global order. Saudi Arabia and the UAE, which together manage sovereign assets worth nearly \$5 trillion, view BRICS not only as an economic engine representing approximately 40 percent of the world's population and 37.3 percent of global GDP,² but also as a geopolitical platform that gives them greater room for manoeuvre, free from Western hegemony over key international economic and political decisions.

² Spencer Feingold, "BRICS: Here's what to Know about the International Bloc," *World Economic Forum*, 20/11/2024, accessed on 15/9/2025, at: <https://acr.ps/1L9GPzO>.

Figure 2: GCC sovereign wealth fund assets (US\$ billion)



Source: "Global SWF Data Platform," Global SWF (September 2025), accessed on 15/9/2025, at: <https://acr.ps/1L9GPq9>.

The shock of the Doha attack could also spur increased efforts to establish alternative financial systems that reduce reliance on Western payment systems such as SWIFT, which would thus give the Gulf states greater flexibility and immunity against potential pressures in the future. This trend correlates with the Gulf states' efforts to diversify their military partnerships and sources of arms, amid a growing realization that relying on the American security umbrella alone is no longer sufficient.

If the countries of the region, under the impact of Israel's systematic aggression, are serious about drawing strategic lessons from events in the region both before and since 7 October 2023, this could prompt them to redirect their defence procurement toward countries that are more credible and less aligned with Israeli interests in the region.

China is a prominent example of this, given the accelerating development of its military industry and its transformation into a major source of arms exports around the world.³ Türkiye, too, has emerged as a leading global exporter of drones,⁴ while South Korea has become a major exporter of advanced conventional weapons, and has already begun signing arms contracts with Gulf states such as Saudi Arabia and the UAE.⁵ These countries, among others, offer more reliable, technically neutral alternatives to military exports from the US and certain European countries aligned with Israel.

³ Helena Legarda & Jacob Gunter, "China's Arms Industry is Increasingly Global, but don't Expect it to Supplant NATO's Counterparts any Time Soon," China Global Competition Tracker, no. 2, *Mercator Institute for China Studies (MERICS)*, 28/8/2024, accessed on 15/9/2025, at: <https://acr.ps/1L9GPV3>.

⁴ "Bayraktar TB2 Emerges as the World's Most Exported Drone This Year," *Defence Security Asia*, 20/11/2024, accessed on 15/9/2025, at: <https://acr.ps/1L9GP9a>.

⁵ Hoshik Nam & Wilder Alejandro Sanchez, "South Korea's Growing Role as a Major Arms Exporter: Future Prospects in Latin America," *War on the Rocks*, 21/08/2024, accessed on 15/9/2025, at: <https://acr.ps/1L9GPb8>.

In parallel, these developments give additional impetus to the Gulf states' efforts to localise their military industries, with the aim of increasing their self-sufficiency and reducing their dependence on foreign sources for vital military goods and services.

At the level of international partnerships, deeper cooperation with China could allow the Gulf countries to link their economies more closely to the vast Chinese economy, thus giving Beijing a direct strategic stake in the stability of the region. This could help balance against Western influence and strengthen the Gulf states' negotiating position. In short, the Israeli attack on Doha was not so much a starting point for multilateralism as a watershed moment that added political legitimacy to this process and urgency to its acceleration. It also provided Gulf governments with a strong argument to domestic audiences, both elites and the general public, for continuing this approach at an accelerated pace, as it has transformed from a long-term strategic option into a national security necessity imposed by the new reality.

Towards a Collective Arab Response and Political and Economic Solidarity

Israel's escalating aggression, backed by unconditional US military and political support, highlights the urgent need to strengthen Arab unity and re-establish the system of regional alliances in the face of this growing threat. The dilemma is no longer solely a security or military one. Rather, it has expanded to take on direct financial and economic dimensions. Several Arab countries close to Israel face structural economic challenges and mounting financial pressures, making them particularly vulnerable should the US administration take retaliatory measures in response to any unified Arab position taking a firm and pragmatic approach to confronting Israeli-US policies. This is ever more likely, given the Trump administration's explicitly transactional approach. This necessitates the development of proactive strategies to mitigate the impact on the most economically vulnerable countries and bolster their resilience, within a coherent, collective Arab stance.

In such a scenario, resource-rich Arab countries will need to put up their resources to offset the impact on their regional allies. No defence alliance can enjoy true credibility without tangible financial and economic support. Such a perspective underlines the need to establish compensation funds, concessional financing, and targeted investment packages aimed at protecting frontline states from the repercussions of such potential punitive measures from the US, whether in the form of cuts to aid, trade restrictions, or a clampdown on external financing channels.

Bolstering such a joint Arab economic safety net would send a clear message of political solidarity, as well as representing a realistic economic strategy aimed at ensuring that countries such as Jordan and Egypt can remain stable partners within any emerging regional security architecture. Without such support, their ability to commit to an effective defence alliance will remain limited, making them more vulnerable to external pressure and undermining the cohesion of the entire alliance.

















































