

BARBARIANS AT THE CITY GATES: VARIATION IN ECONOMIC GROWTH FROM CIVIL CONFLICT

SHAHRYAR MINHAS AND BENJAMIN RADFORD

ABSTRACT. Within the conflict literature there has been much disagreement about the relationship between civil wars, natural resources, and state economic performance. We find that this disagreement results from not accounting for the spatial disaggregation of conflict events within a country. Our hypothesis is that the economic impact of civil conflict is contingent on the conflict's location relative to major economic and labor resources within a state. We use subnational data on the spatial distribution of conflict, resources, and infrastructure to test the long-term impact of domestic conflict on state economic performance. To estimate the spatial distribution of conflict we use data from the PRIO Armed Conflict Location and Event Data. We combine the conflict location data with geospatial data on economic centers, natural resource locations, and infrastructure grids to generate spatial variables that approximate how far each conflict is from centers of interest. We then estimate the effect of the spatial variables on economic performance. By doing so, we are able to resolve tensions in the literature regarding the relationship between economic performance and civil wars.

Date: October 9, 2014.

We are grateful for comments on earlier versions of this paper received at the 72nd annual Midwest Political Science Association Conference in Chicago, April 2-6 2014.

1. INTRODUCTION

Understanding the effects of civil conflict has become an integral part of the study of economic development (Serneels and Verpoorten, 2013). From a theoretical perspective there is little consensus about the impact that conflict has on economic performance. While neoclassical models predict that recovery from conflict should be relatively quick, others such as Barro and Sala-i-Martin (2004) and Sachs (2006) argue that recovery will be extremely slow or even trapped in a low level equilibrium. Empirical analyses have borne no clear answers either as results on the economic ramifications of civil war vary depending on the cases and time periods included (Kang and Meernik, 2005).

Further few in the literature have sought to explain puzzling cases of domestic armed conflict having little impact on macroeconomic growth. Mexico, for example, has been engaged in a drug war since December 2006 and the number of deaths stemming from this civil conflict have only increased since that time. Yet, even as fatalities due to the drug war reached new peaks, in 2012, Vikram Pandit of Citigroup cited Mexico as being extremely well poised for growth and that its economy may surpass that of its much larger regional rival, Brazil, within a decade (Vardi, 2012). In that same year, Barron's ran a headline titled, "Is Mexico the New China?" (Kapadia, 2012). This contrasts greatly with the economic fortunes of other countries in the midst of civil war where economies have plummeted. Collier et al., 2003, for instance, describe civil war as "development in reverse." "The overall economic and political legacy from civil war," they write, "is thus sufficiently adverse that rapid recovery is unlikely."

Explaining variation in macroeconomic outcomes for countries enmeshed in internal conflict requires a better understanding of not only the spatial mechanisms through which conflict can affect growth but also the process of economic growth. Much of the economic development literature in the past few decades has stressed the importance of cities and towns as drivers of economic growth and development (Hanson, 2005). Venables (2005)

notes that the process of development and urbanization exists in virtually all countries and especially in the case of modern developing countries. Henderson (2000) finds that even a simple correlation across countries between the level of urbanization and GDP per capita is greater than 0.8. The key theme in this literature on economic development is that the spatial positioning of production is a central process through which economic prosperity is created (Krugman, 1991a).

Thus what happens when cities themselves are threatened? In this paper, we bridge the economic development literature on the importance of cities with extant literature on the effect of armed conflict to provide a novel explanation for the paradox of high macroeconomic growth in conflict ridden countries. Specifically, we argue that to explain variation in economic performance between countries in the midst of civil war, it is necessary to account for the spatial location of the conflict relative to major population and economic centers. Much of the extant literature has focused on examining the effect of conflict on economic growth at the national level. The implicit assumption of these approaches is that all civil wars are alike, whether they be occurring right outside the capital or on the fringes of the country. We argue that the location of conflicts relative to major cities and capitals will determine the effect of civil conflict on economic performance, and that conflicts only significantly dampen economic performance if they are proximate to major population and economic centers.

The rest of the paper proceeds as follows. We begin with a review of the literature on the relationship between economic growth and civil war. In section 2, we explain the mechanisms of our hypothesis through a number of descriptive cases. In section 3, we describe how we construct our measures capturing distance of conflicts between major economic and population centers and lay out our estimation approach. Finally, we discuss the findings of our analysis and end with next steps.

1.1. Extant Literature on Conflict and Growth.

1.1.1. *Civil War* \rightarrow *Economic Performance*. Collier, 1999 identifies five avenues through which civil conflict can impede economic performance: through the *destruction* of resources, through *disruption* of social and economic activity, through *diversion* of resources to the war effort, through *dissaving*, and through *portfolio substitution* or divestment. Of course, these mechanisms are related to one another; portfolio substitution may be exacerbated by the destruction of resources or the disruption of socioeconomic activity. Overall, Collier finds that civil wars correspond to a 2.2 percent decrease in annual economic growth. While he suspects that the impact will differ across economic sectors, reliable and disaggregated data was not available to test this hypothesis thoroughly. However, preliminary evidence for this is found in their analysis of the National Accounts data of Uganda before, during, and after its civil war.

Instead of disaggregating economic outcomes, Imai and Weinstein, 2000 instead disaggregate conflict itself. They distinguish between those conflicts that cover larger or smaller geographic areas and hypothesize that larger conflicts (in terms of geographical spread) will result in worse economic performance. Using a variety of regression techniques, they find that there is a negative correlation between the geographical spread of conflict and the decade average of economic growth for each country. Widespread conflicts, they argue, are more likely to result in damage to infrastructure, divestment from normal state spending, and capital flight. Their results suggest that widespread civil wars are five times more costly than those fought over a narrower geographic area and can reduce GDP growth by 1.25% annually.

That civil wars negatively impact economic performance, while in line with the “war ruin” hypothesis, runs counter to the “war renewal” hypothesis. Some scholars have argued that wars, international wars in particular, can spur economic development¹. The prevailing wisdom with regard to civil war, however, is that outcomes of this nature are the exception rather than the rule. In a test of economic and social determinants

¹For a review of this discussion, see Rasler and Thompson, 1985

of post-conflict recovery in the context of civil war, Kang and Meernik, 2005 find that these conflicts can lead, under different conditions, to either rapid or stagnant economic recovery. They conclude that the long-term economic impacts of civil war are largely dependent on post-war governance and foreign assistance. They also find that aggregate estimates of conflict destructiveness are negatively correlated with long-term growth.

Not only do several studies link civil war to domestic economic performance, there is also evidence that civil wars have regional economic consequences. Murdoch and Sandler, 2002b find some evidence that states neighboring civil war states are more likely to experience poor short-term economic performance. They attribute this effect to the disruption of trade and uncertainty about the potential for conflict to spread across the border. In a follow up study, Murdoch and Sandler, 2002a suggest that the spatial dispersion of economic effects from civil conflict differ from region to region.

1.1.2. *Economic Performance* \rightarrow *Civil War*. Much work has been done on the causal effects of economic performance on civil war. Indeed, there is likely an endogenous relationship between economic performance and civil war; each exacerbates the other. While our work here sidesteps this argument by focusing exclusively on observations of civil war, we will briefly review the relevant literature. In a report for the World Bank by Collier et al., 2005, the authors describe what they term the *conflict trap*. States that find themselves in the *conflict trap* are those that have experienced civil war with, are subsequently affected by its economic and social consequences, and are therefore more likely to experience further civil conflict. During civil wars, resources are diverted from productive economic activity to destructive activity. These diverted resources act to stall progress during the conflict and are often used to destroy the infrastructure necessary for growth afterwards. These changes to economic performance, as well as structural changes to the economy itself, make the resurgence of war more likely.

In accordance with this theory, Fearon and Laitin, 2003 argue that poor economic growth is the primary condition conducive for civil war. More specifically, they believe that strong economic growth proxies for robust governance and that states with low GDP growth likely have infrastructures that are unable to implement counter-insurgent policies. In an effort to parse out the causal effect of economic growth shocks on civil war, Miguel, Satyanath, and Sergenti, 2004 instrument income growth with rainfall. They find that rainfall is strongly correlated with income in sub-Saharan Africa, a region also prone to civil conflict in recent decades. Using a two-stage estimation approach, they find that rainfall, their exogenous instrument for income, is positively correlated with the likelihood of civil war.

1.1.3. *Disaggregating Civil Wars.* Recently, scholars have begun to spatially disaggregate civil conflicts. New data allows researchers to focus on how the geography of internal conflict varies. Pierskalla and Hollenbach, 2013 use subnational data on African states to assess the role cell phone coverage plays in facilitating violent conflict. They theorize that cell phone coverage will enhance the collective action capabilities of rebel groups by improving coordination, communication, and in-group monitoring. A series of empirical tests confirm this hypothesis and indicate that cell phone coverage corresponds to a 50%-300% increase in conflict likelihood for a given area (depending on the estimation strategy used).

Berman and Couttenier, 2013 explore another sub-state determinant of civil conflict. Recognizing that economic shocks are associated with changes to the probability of civil conflict,² they seek to determine where conflict will emerge when these shocks occur. Given an external economic shock in a trading partner, Berman and Couttenier expect that states should be at an increased risk of experiencing conflict. However, not all locations within a state will feel the effects equally. Those areas most directly connected

²For more, see Miguel, Satyanath, and Sergenti, 2004 and Vargas and Dube, 2013.

to the trading partner will be more likely to experience violent conflict than those areas that are less dependent on the trading partner. They operationalize this measure of dependence, or “remoteness,” as distance from a seaport. Indeed, they find that conflicts are more likely to arise near seaports following an economic shock than they are further away.

Buhaug, 2010 argues that the geography of conflict is a function of rebel strength. In particular, strong rebel groups are able to conduct military operations near capital cities while weak ones are not. These weaker groups are only able to survive in areas more distant from capitals. In our analysis, we control for the intensity and duration of conflict to account for this confound.

2. SPATIAL DISTRIBUTION OF CITIES AND VIOLENCE

The extant literature has made important strides in explaining the relationship between economic growth and civil conflict. Yet, none to our knowledge have explored the effects of subnational overlaps in the spatial distribution of cities and conflicts. We argue that this overlap is key to explaining variation in macroeconomic performance during civil conflict.

Our argument on the proximity of conflict to cities should not be confused with arguments focusing on simply the area covered by a conflict. Our argument explicitly differs in the hypothesized mechanism through which conflict affects economic performance. We do not disagree that the spread of a conflict could impact state economic prospects, but we argue that a large conflict area is not a necessary condition for poor economic performance. Conflict area is only one possible proxy for overall destructiveness. However, conflicts with smaller spatial areas can be similarly disruptive if they are centered near urban centers. In fact, we anticipate measures of conflict proximity relative to cities rather than spread to be more appropriate to test the macroeconomic effects of conflict.

2.1. Cities and Economic Growth. That cities are central to the development of national economic performance is well supported in literature on the role urban centers play in national economies. Myrdal and Sitohang (1957) were among the first to argue that once cities reach a certain size through the process of urbanization, they tend to become self-reinforcing growth centers through a process Myrdal termed as “cumulative causation”. Chenery and Syrquin (1975) provided support for this idea by showing that sharp declines in fertility and substantial increases in growth per capita typically follow cases of urbanization. Jane Jacobs, a progenitor of the move towards focusing on urban centers, went farther than most in her time by arguing that cities are the primary motivators of state economies and should be given primacy over the nation state in economic analysis (Jacobs, 1969; Jacobs, 1984).

In the past three decades, as the pace of urbanization has accelerated, economists have devoted even more energy to investigating the role of city-level economic drivers (Lucas, 1988; Ciccone and Hall, 1996; Begg, 1999; Henderson and Wang, 2007). Most notably, Krugman in his seminal 1991 article, “Increasing Returns and Economic Geography”, convincingly showed the importance of studying economic outcomes within a spatial context. A key finding of Krugman’s work into economic geography has been the importance of agglomeration effects, the idea that “activities tend to cluster where markets are large and markets become larger there where activities cluster” (Krugman, 1997). Henderson (2000) provides empirical evidence for why these agglomeration effects would manifest by showing that spatial clustering promotes economic efficiency in a variety of ways from simply enabling savings in transport costs to more efficiently functioning labor markets.

In addition to agglomeration effects, there is an even simpler story, which can be traced back to Marshall (1920), that states geographic clustering of firms promotes valuable learning and exchange between actors. Lucas (1988) provides a formal treatment of this argument and shows that the accumulation of human capital generates positive spillovers, where if even one worker acquires a new skill then spatially proximate workers would

all become more productive. Empirical estimates of agglomeration effects indicate that a doubling of employment density correspond to a 5% increase in labor productivity (Ciccone and Hall, 1996; Ciccone, 2002). Edward Glaeser and Shleifer (1992) examine this problem empirically and show that cities are important for economic growth precisely because they lead to the knowledge spillovers that are important for innovation. Similar empirical results have been found by many others, which has led to a growing consensus on how cities can serve as important knowledge hubs for a national economy (Jaffe, Trajtenberg, and Henderson, 1993; Glaeser, 1994; Firestone, 2010).

2.2. Cities and Conflict. The econometric evidence on the importance of cities has crucial implications for our understanding of the spatial structure of subnational economies. Namely, at the subnational level the economy can be thought of as consisting of “lumps” of productivity and swaths of areas that contribute little to macroeconomic growth (Venables, 2005). This implies that subnational conflicts will have heterogeneous effects on economic growth given their spatial proximity to economically relevant centers such as cities.

Glaeser and Shapiro, 2002 discuss the historic role of cities in warfare and their current role with respect to terrorism. Cities, they argue, once provided safe haven in the midst of conflict; defense of a concentrated population is easier than defense of a dispersed population. However, as the tactics of warfare have shifted over the centuries, the relationship between violent conflict and cities has become more complex. Their dense populations also tempt belligerents and maximize the impact to cost ratio of a given violent action.

Additionally, warfare destroys transportation infrastructure, which can interfere both with commerce and with rebuilding during a conflict. In particular, conflict affects citizens ability and willingness to participate in commerce. When major population centers are threatened by violence, residents will be less likely to engage in economically productive activities. Violence near major population centers not only threatens residents directly,

but impedes business by threatening trade between the population center and other cities or rural areas.

We extend this line of research by conceptualizing civil war not as a homogeneous national phenomenon, but as a diverse class of violent conflict with properties that distinguish the effects of one conflict from another. Since urban economies are responsible for a disproportionate share of national economic performance, civil conflicts in or near these engines of commerce should likewise exert a disproportionate influence on state performance.

2.3. Descriptive Cases. This hypothesis does not seem unknown to armed actors. The guerilla group Fuerzas Armadas Revolucionarios de Colombia (FARC) appears to have internalized these mechanisms. In 1998 and 1999, the organization moved its violent operations from mostly rural areas of Colombia into major cities and near to the capital (Petras and Brescia 2000). This coincided with economic strain caused by the implementation of an IMF/World Bank structural readjustment program. However, the timing was likely not coincidental. FARC advocates a number of political and economic reforms and chooses targets strategically related to these objectives. Figure 1 shows the spatial distribution of violence in Colombia from 1989 to 2008, where Bogotá is designated by a black diamond and major cities by black triangles. To determine the centroid locations of conflict we use the PRIO conflict site database developed by Hallberg (2012).

Forbes magazine, reporting on peace talks between FARC guerillas and the Colombian government in 2012, wrote:

FARC's strategy and [beliefs have] always been to make economic pressure on both, multinational companies and the Colombian government. This has been done by attacking oil and natural gas infrastructure affecting companies such as Pacific Rubiales Energy, Oxy and Ecopetrol. For non-fuel related international companies with subsidiaries in Colombia,

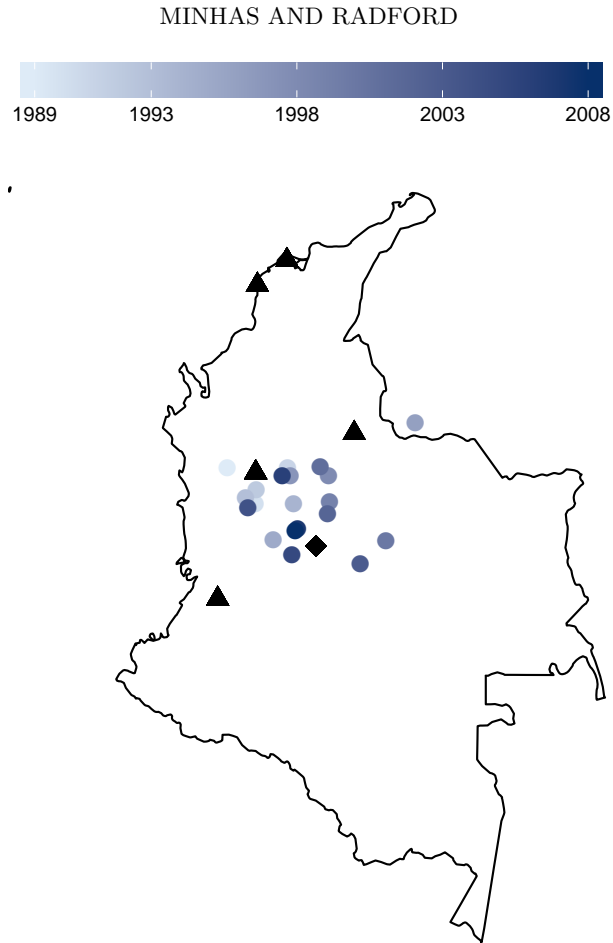


Figure 1. This map illustrates the geographic distribution of all conflicts in Colombia, according to the PRIO Conflict Site Dataset, and major cities from 1989 to 2008.

such as Goodyear, Nestle, Microsoft, Toyota, among others, FARC's modus operandi was mainly racketeering, kidnappings and extortion. (Flannery 2012)

By targeting economic centers and resource infrastructure, FARC can strain Colombia's economy, frighten investors, and bolster support from poor and rural workers sensitive to wealth disparity in the country. Rabasa and Chalk, 2001 identify a three-pronged strategy pursued by FARC in the 1990s: to consolidate power in coca-growing regions, to conduct military operations in economically valuable areas, and to isolate major cities from the rest of the country by limiting communication and travel between them.

While FARC seems to exploit its ability to target areas of economic importance including cities, other insurgencies tend to be more peripheral. India, for instance, has faced challenges by armed groups in its north-east for half a century. However, this area of India is remote, primarily agrarian, and relatively less populous than other parts of India. Indeed, for much of this period, India has experienced relatively robust economic growth. In figure 2, we show the geographic distribution of conflict in India from 1989 to 2007 again using the PRIO conflict site database. The story from this map is clearly quite stark from that of Colombia. Whereas in Colombia conflict had come right to the gates of major cities, in India conflict clearly has been centered in the peripheries.

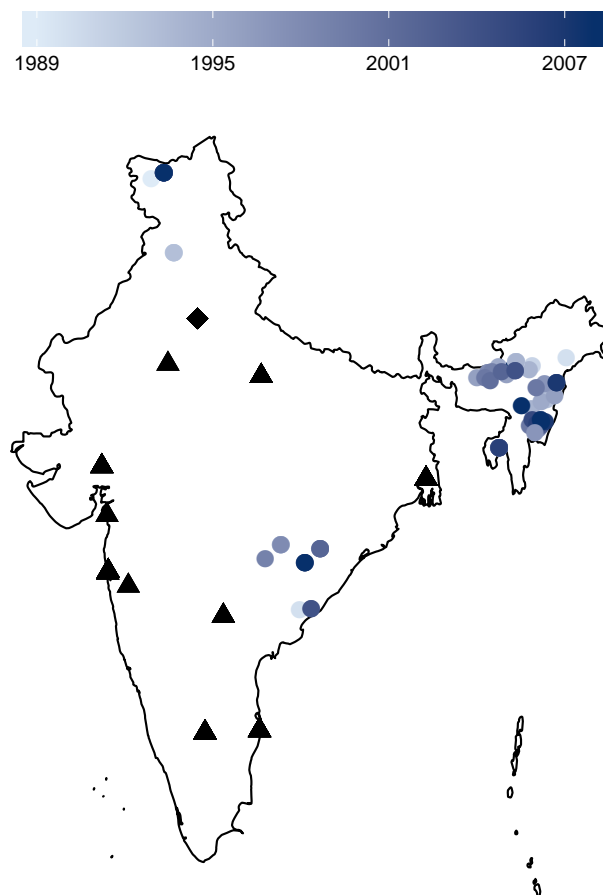


Figure 2. This map illustrates the geographic distribution of all conflicts in India, according to the PRIO Conflict Site Dataset, and major cities from 1989 to 2007.

Mexico, now nearly a decade into a violent and complicated conflict between several organized criminal enterprises and the federal government, has maintained healthy economic performance. For much of this time, the cartel violence generally occurred in rural areas along drug trafficking routes and not within major cities. Beittel, 2011 writes in 2011 that “drug trafficking-related killings remain concentrated in a relatively few cities.”

3. DATA AND SAMPLE

3.1. Measuring Spatial Proximity. Our theoretical framework centers around the argument that variation in macroeconomic growth amongst countries in the midst of civil war can be explained by the spatial proximity between civil conflicts and urban centers. In constructing our dataset, we thus restrict the cases we include to only those country-years in which there was an internal armed conflict. Additionally, the unit of observation for this analysis is the country-year. This enables us to directly explore whether variation in growth amongst countries experiencing internal conflict can be explained by the proximity of conflict to cities.

To measure macroeconomic performance, we focus on annual percent change in GDP from the World Development Indicators. We adopt this parameterization of our dependent variable because we expect that conflicts proximate to urban centers will generate abrupt changes in macroeconomic growth. Much of the extant literature linking internal armed conflict and economic growth has approached this instead using five or ten year averages of GDP growth. However, averaging over an arbitrary set of years may obfuscate meaningful variation in GDP growth over short temporal spans.

We collect information on the location of conflicts from the PRIO Conflict Site Dataset (Hallberg, 2012). This dataset contains information on the geographical centers of armed conflict events and the area covered by each conflict at a yearly level from 1989 to 2008. In recent years, other geo-referenced datasets have been developed that go beyond just providing information on conflict centroids and area to providing an actual spatial grid

structure through which to conduct analysis (e.g., Tollefsen, Strand, and Buhaug 2012). For the purpose of this analysis, however, we deliberately avoid using these datasets since our primary interest is in examining variation in changes to GDP growth due to the proximity of conflict to urban centers.

To construct a time-series cross-sectional database of urban centers, we turn to yearly editions of The World Almanac from 1989 to 2008. More refined subnational data listing urban centers by their contribution to economic output would be the most direct way to test our hypothesis, however, cross-national data such as this over the time period of our analysis, especially for developing countries, is simply not available. The World Almanac lists the major cities in a country by population, thus providing us with a second best approximation of the urban centers that are most relevant for a particular national economy. Typically, the Almanacs list at least three major cities, including the capital, for each country and year from 1989 to 2008. We use the top five major cities listed for each country and then determine their geographical centers.

In figure 3, we show the geographic distribution of conflicts and cities. The centroid locations of conflicts are shown by red dots. Not surprisingly, in many cases conflict locations are clustered within specific parts of a country. In most cases, this clustering is indicative of the same conflict moving within the geographic boundaries of a country over time. The blue diamonds in 3 denote the locations of major cities from 1989 to 2008. Countries shaded in grey are those for which no armed conflict took place in this period according to the PRIO dataset.

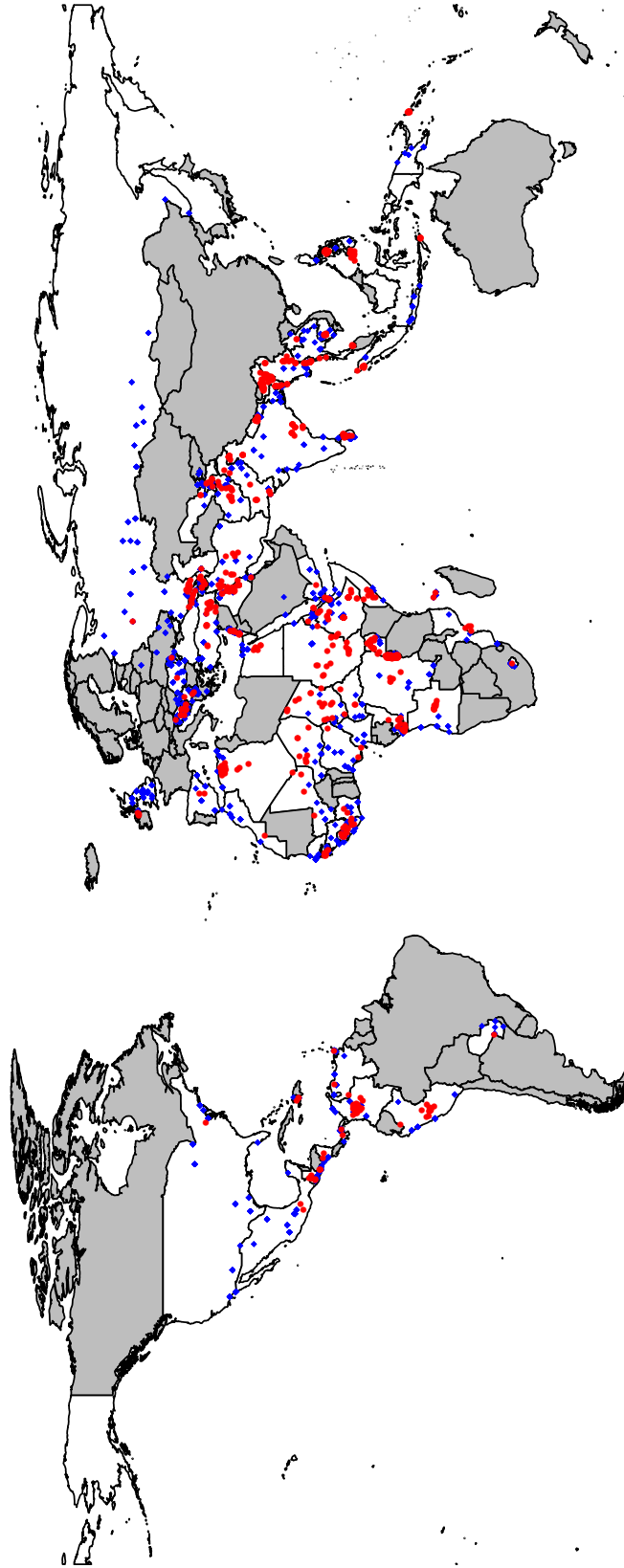


Figure 3. This map illustrates the geographic distribution of all internal armed conflicts and major cities from 1989 to 2008. Countries for which no armed conflicts are recorded are shaded in grey.

Using our geo-referenced conflict and urban center data, we proceed to compute the proximity of every civil armed conflict in a country-year from every urban center listed in that year.³ Since our unit of analysis is the country-year, we aggregate the distance between conflicts and major cities by calculating the minimum logged distance any conflict is from a major city. For example, if a country faces, four conflicts in a year, the datapoint for that country-year would be the minimum distance any conflict centroid is from any city centroid. In addition, to identifying the minimum distance a conflict is from any city, we also create a variable measures that measures minimum distance of any conflict from the capital of the country. Given the importance of cities as drivers of macroeconomic growth the proximity of conflict to even one city should have at least a noticeable short-term impact on growth. Thus this choice of aggregation conforms closest to our theoretical claims about how macroeconomic growth can be severely disrupted in cases where conflicts are proximate to major cities.

Figure 4 provides a cursory illustration of the relationship between GDP growth and our spatial proximity variables. Each bar on the rightmost panel represents the average GDP growth rate across country-years for which the minimum distance between the centroid of the conflict and capital city fell within a certain quartile range across our full sample. Clearly, as the minimum distance from a conflict to capital city declines, there is a sharp decline in average growth rates for the following year. On the rightmost panel of this figure, the same relationship holds when we test the effect of the minimum distance of conflict from any major urban center.

3.2. Empirical Model. Next, we move beyond this cursory illustration and explicate our full modeling strategy. Given how we constructed our spatial proximity of conflict variables, it would make little sense to include both within one model. The obvious problem we would run into is that there would be cases for which the minimum distance

³Distances between centroid locations were computed using an iterative method of distance calculation proposed by Vincenty (1975).

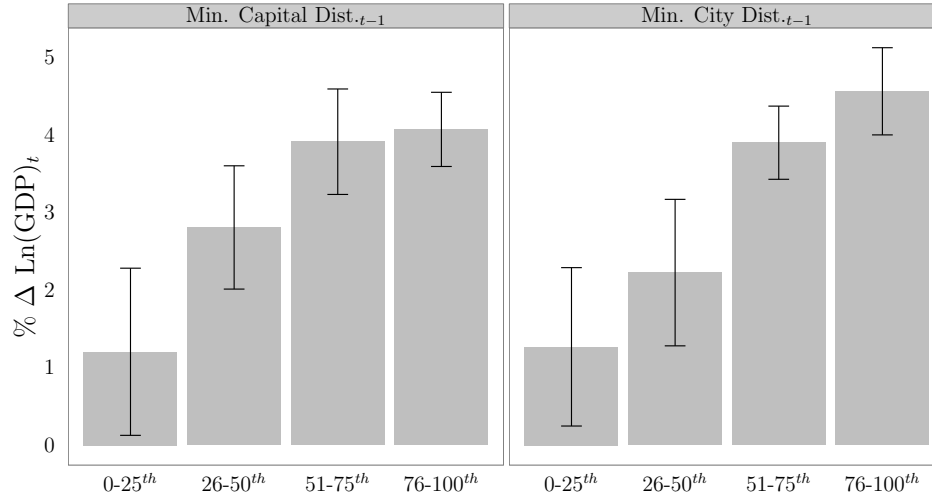


Figure 4. Average percent change in GDP growth at time t by distance from conflict to capital city on rightmost panel at time $t - 1$, and from conflict to any city on the leftmost. The error bars represent the 95% confidence interval around the mean.

of a conflict to any city would be the same as the minimum distance to the capital. Thus we estimate two separate models, one where we include the minimum distance from a conflict to the capital and the other where we include the minimum distance to any urban center. In addition, to the inclusion of our spatial proximity covariates we include a number of control measures to account for extant explanations of how civil war dynamics affect GDP growth and to mitigate against omitted variable bias.

From the PRIO Armed Conflict dataset we bring in additional information about conflict intensity, duration, the area covered by the conflict, and the number of conflicts (Themnér and Wallenstein, 2014). Conflict intensity is a binary that distinguishes between minor armed conflicts and wars, and we set this equal to one if any of the conflicts in a country year were classified as a war and zero if not. In aggregating conflict duration to the country year level, we bring in the duration (measured in years) of the longest lasting conflict by a certain country-year. Conflict area measures the conflict zone in square kilometers. To include this in our country-year model, we sum up the area covered by

each conflict being fought and divide by the total land area of the country. From this we then create a binary measure that is one if greater than 50% of a country's total land area is immersed in conflict and zero otherwise. Finally, the number of conflicts is simply a count of the number of ongoing internal armed conflicts in a country-year according to the PRIO dataset.

Aggregating each of the PRIO conflict descriptive measures in this way is to help account for those countries in which conflicts are especially intense, cover large areas, have been long-lasting, and multiple conflicts are occurring. Given the findings in the extant literature, our expectation is that each of these measures should have a negative effect on economic growth. Though we also expect that the substantive implications of any one of these measures will matter less than the adverse effect to economic growth by the spatial proximity of conflict to urban centers.

We also include a number of variables that help to capture structural and institutional aspects of the country itself. First, we include a binary for whether the country is classified as upper income by the World Bank and for the level of inflation in the country. Second, we also control for the level of democracy in the country using the polity index (Marshall, Gurr, and Jaggers, 2013). We also control for the proportion of a country's GDP that is made up of natural resource rents. This is a particularly important variable to control for as countries that draw a large share of their GDP from natural resource rents likely rely less on urban centers to serve as drivers of growth. Finally, given that the timeframe of our sample overlaps with the occurrence of two major global crises, we add a control for the average GDP growth across all countries in the world.

To estimate variation in growth rates, we use a random effects model clustered on countries. A random effects specification is preferred to using fixed effects here as we are not interested in estimating the change in GDP within units over time, rather our purpose is to explain variation between units. The total number of observations we have for this analysis are 497 country-year cases of civil war from 68 different countries during the period of

1989 to 2008. The estimation model is shown below, where $Ln(\text{Min. Conflict Dist.})_{i,t-1}$ is a placeholder for $Ln(\text{Min. Capital Dist.})_{i,t-1}$ and $Ln(\text{Min. City Dist.})_{i,t-1}$:

$$\begin{aligned}
\% \Delta GDP_{i,t} = & \beta_1(Ln(\text{Min. Conflict Dist.})_{i,t-1}) \\
& + \beta_2(\text{Conflict Intensity}_{i,t-1}) + \beta_3(\text{Conflict Duration}_{i,t-1}) \\
& + \beta_4(Ln(\text{Conflict Area})_{i,t-1}) + \beta_5(\text{Upper Income}_{i,t}) \\
& + \beta_6(\text{Inflation}_{i,t-1}) + \beta_7(\text{Democracy}_{i,t-1}) \\
& + \beta_8(\text{Resource Rents/GDP}_{t-1}) + \beta_9(\text{World GDP Growth}_t) \\
& + \mu_{i,t} + \epsilon_{i,t}
\end{aligned}$$

4. RESULTS

We depict the results of our models in figures 5a and 5b. The results across the two models are broadly consistent, so we will discuss them in tandem. The intensity of a conflict aligns in the direction that we would expect though its effect is marginal. Additionally, the effect of having a high proportion of a country's land area immersed in conflict is sharply negative and aligns with the findings in the extant literature. Surprisingly, conflict duration and the number of conflicts a country is facing do not relate to GDP growth in the direction that we expected. As expected, inflation has a sharp negative effect on GDP growth. Countries deriving greater shares of their GDP from natural resource rents see slightly higher levels of growth, and, not surprisingly, the average of world GDP growth is positively related to our dependent variable.

Turning to our hypothesis, we find strong support for the argument that spatial proximity of conflict to either a capital city or any major urban center is associated with lower levels of GDP growth. The positive coefficient on the logged, minimum conflict distance

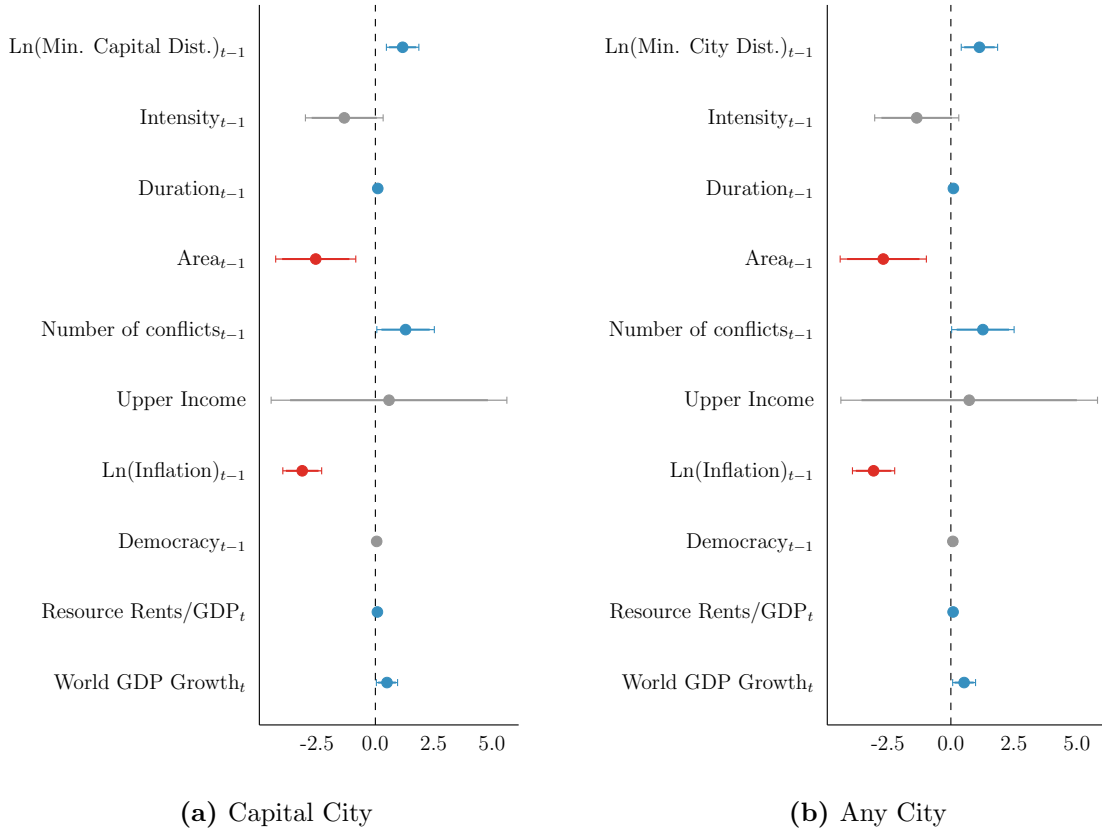


Figure 5. Regression results using conflict distance from capital city on the left, and the chart on the right shows regression results using minimum conflict distance from any major city. Darker colors indicates that the coefficient estimate is significantly different from zero at a 95% CI, while lighter the same for a 90% CI. Grey indicates that the estimate is not significantly different from zero at either of those intervals.

variables indicates that conflicts closer to major cities has an adverse effect on economic growth.

To ensure that our parameter estimates are robust to changes in our sample, we run a six-fold cross-validation. This analysis helps us to understand whether some of the subsets in our dataset follow a different pattern than what is in the broader set (Beck, 2008). To conduct the cross-validation, we randomly split the 68 country observations in our dataset into six approximately equal subsets. Each subset ends up containing a minimum of approximately 65 cases. We then run each model shown in figure 5 seven

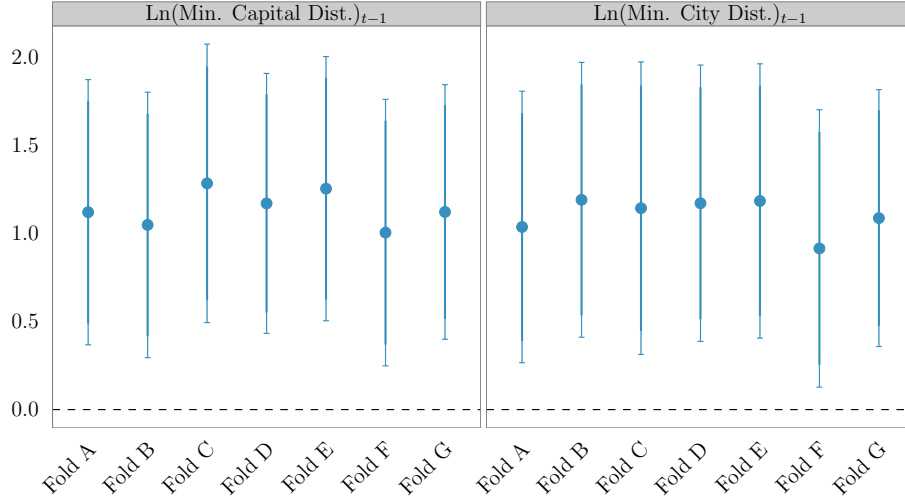


Figure 6. Each line here in the left panel shows the coefficient estimate of $Ln(\text{Min. Capital Dist.})_{i,t-1}$ from rerunning the model on six random subsamples within the dataset. The panel on the right shows the same for $Ln(\text{Min. City Dist.})_{i,t-1}$. All the covariates used in the initial model shown in figure 5 were included as well.

times, where in each iteration we left out one subsample. The results of this analysis are depicted in 6, and we can clearly see that the parameter estimates for our two spatial proximity variables remain consistent across the exclusion of any of the folds.

To assess the substantive effect of these results, we conduct a number of simulations. We set up scenarios where we hold all variables to their median except for logged, minimum conflict distance, which we range from its minimum to maximum value. Next, we conduct 1,000 random draws from a multivariate normal to obtain distributions for the point estimates of each of the regression coefficients. After obtaining these distributions, we calculate the predicted value of GDP growth based on the conditions set by the scenarios. We plot the results of this analysis in figures 7a and 7b.

The simulation results for both $Ln(\text{Min. Capital Dist.})_{i,t-1}$ and $Ln(\text{Min. City Dist.})_{i,t-1}$ are quite similar. In both cases, conflicts located farther away from major cities have almost no adverse impact on economic growth, and, in fact, are likely to still see positive growth. As the proximity of conflicts to urban centers increases, however, we can clearly

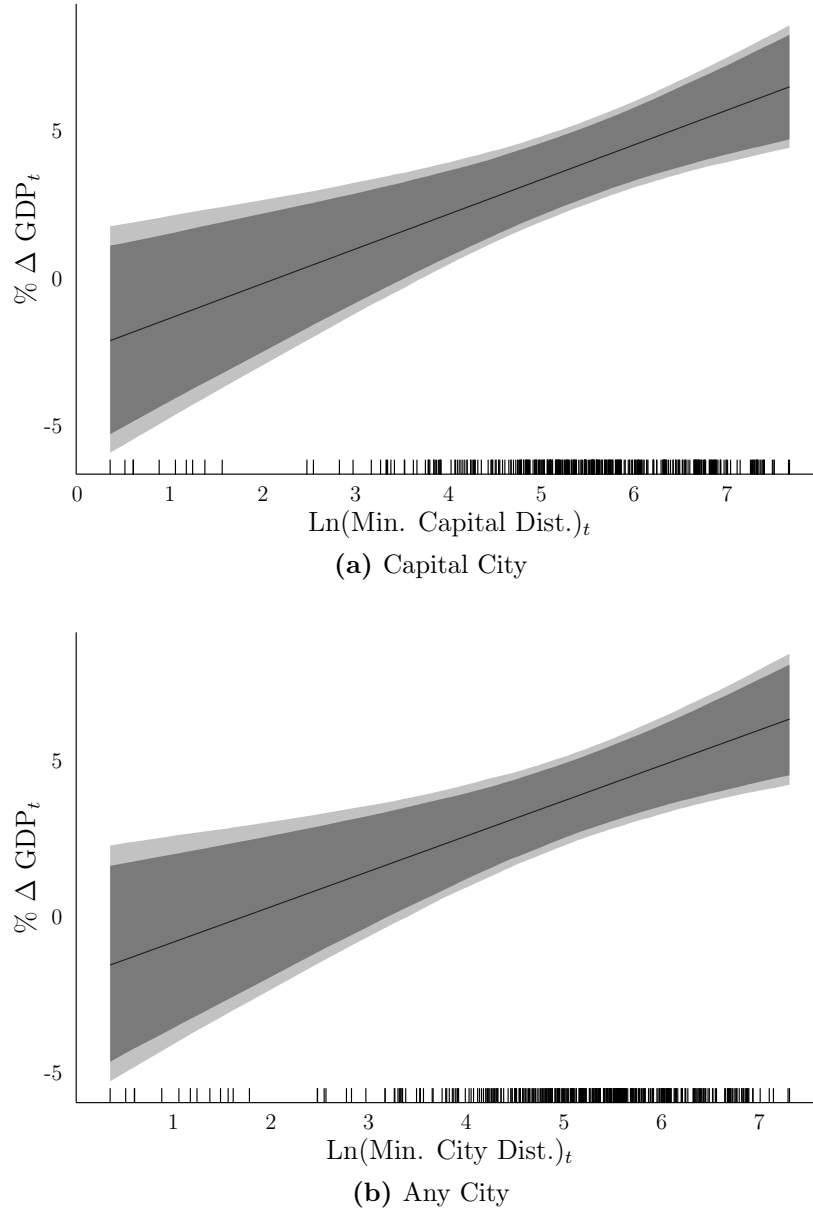


Figure 7. Expected values for GDP growth based on scenarios where all variables are held to their constants but $\text{Ln}(\text{Min. Conflict Dist.})$ varies from its minimum to maximum. The 90% interval of each distribution is shaded in dark grey and the 95% in a lighter color.

see substantive declines in growth rates start to emerge. Thus, through utilizing these spatial proximity measures we can start to explain why there is such meaningful variation in economic performance amongst countries facing internal armed conflict.

5. CONCLUSION

This piece of research has sought to explain observed discrepancies in the economic impact of civil conflict. Violent intrastate conflicts have occurred in one third of countries in just the past several decades. While civil wars seem to primarily afflict developing states, their actual economic impacts are still subject to debate. Some states weather civil conflict for years or even decades while simultaneously prospering economically. Other states see their economies stall and suffer substantial declines in growth. Despite this heterogeneity observed among civil war states, the individual characteristics of civil conflict that lead to disparate outcomes have only recently been subject to academic scrutiny. In this first step of a larger project to distinguish the geography of civil conflict, we hope to have contributed to our understanding of why some civil conflicts impact economic performance more severely than others. We have used a novel approach in the study of civil conflict to distinguish between spatially dissimilar events and shown that this new measure of interest, the minimum distance between conflict epicenters and major population centers, is a substantive determinant of economic growth. While the proximity of conflict to major cities helps us to better understand how domestic armed conflict produces disparate economic outcomes across countries, one can imagine a number of other hypotheses that derive from this research.

Population centers are critical to economic performance, but still tell only a part of the story. States rely on various natural resources as well as critical infrastructure to prosper. Trade depends on safe and reliable access to ports, airports, and railways. Businesses rely on safe and reliable access to natural resources. And foreign direct investment relies on the investor's perception of state stability. While there is a large literature on natural resources and conflict at the state level, little work has disaggregated this data and explored the micro-relationship between conflict and resources. Future iterations of this

paper will explore each of these hypotheses using geospatial data on the economic assets of interest.

Looking beyond aggregate measures of state economic performance, we hope to further explore how the geography of conflict impacts the surrounding region. A growing body of work suggests that civil conflict is, in and of itself, contagious. However, the precise mechanisms that determine contagion risk are still unclear. We propose that looking at the location of conflict within a state will shed light on how conflicts and their economic effects spread across borders. The same logic that applies to the hypotheses presented in this paper applies to neighboring states as well. Resources and population centers that are near the border between a peaceful state and a civil war state may be impacted in the same way that resources and cities within the conflict state are. This may help to explain the disparate regional economic effects of civil war observed by Murdoch and Sandler, 2002a.

REFERENCES

- Barro, Robert J. and Xavier Sala-i-Martin (2004). *Economic Growth*. MIT Press.
- Beck, Nathaniel (2008). “Time-Series-Cross-Section Methods”. In: *Oxford Handbook of Political Methodology*, pp. 475–93.
- Begg, Iain (1999). “Cities and Competitiveness”. In: *Urban Studies* 36.5-6, pp. 795–809.
- Beittel, J.S. (2011). *Mexicos Drug Trafficking Organizations: Source and Scope of the Rising Violence*. DIANE Publishing. ISBN: 9781437980875. URL: <http://books.google.com/books?id=Z38r6HDRDPsC>.
- Berman, Nicolas and Mathieu Couttenier (2013). “External shocks, internal shots: the geography of civil conflicts”. In: *Working Paper*.
- Buhaug, Halvard (2010). “Dude, Where’s My Conflict?: LSG, Relative Strength, and the Location of Civil War”. In: *Conflict Management and Peace Science* 27, p. 107.
- Chenery, Hollis B. and Moises Syrquin (1975). *Patterns of Development, 1950-1970*.
- Ciccone, Antonio (2002). “Agglomeration effects in Europe”. In: *European Economic Review* 46, pp. 213–227.
- Ciccone, Antonio and Robert E. Hall (1996). “Productivity and the Density of Economic Activity”. In: *The American Economic Review* 86.1, pp. 54–70.
- Collier, Paul (1999). “On the Economic Consequences of Civil War”. In: *Oxford Economic Papers* 51, pp. 168–183.
- Collier, Paul et al. (2003). *Breaking the Conflict Trap: Civil War and Development Policy*. Washington, D.C.: World Bank and Oxford University Press.
- Collier, Paul et al. (2005). *Breaking the Conflict Trap: Civil War and Development Policy*. Oxford University Press.
- Edward Glaeser Hedi Kallal, José Scheinkman and Andrei Shleifer (1992). “Growth in Cities”. In: *Journal of Political Economy* 100.6, pp. 1126–1152.

- Fearon, James D. and David D. Laitin (2003). “Ethnicity, Insurgency, and Civil War”. In: *The American Political Science Review* 97.1, pp. 75–90. ISSN: 00030554.
- Firestone, Simon (2010). “Diverse cities and knowledge spillovers”. In: *The Annals of Regional Science* 44.1, pp. 1–20.
- Glaeser, Edward (1994). “Cities, Information, and Economic Growth”. In: *Cityscape*, pp. 9–47.
- Glaeser, Edward and Jesse M. Shapiro (2002). “Cities and Warfare: The Impact of Terrorism on Urban Form”. In: *Journal of Urban Economics* 51, pp. 205–224.
- Hallberg, Johan D. (2012). “PRIO Conflict Site 1989-2008: A Geo-Referenced Dataset on Armed Conflicts”. In: *Conflict Management and Peace Science* 29, pp. 219–232.
- Hanson, Gordon H. (2005). “Market Potential, Increasing Returns and Geographic Concentration”. In: *Journal of International Economics* 67.1, pp. 1–24.
- Henderson, Vernon (2000). *How Urban Concentration Affects Economic Growth*. Vol. 2326. World Bank Publications.
- Henderson, Vernon and Hyoungh G. Wang (2007). “Urbanization and City Growth: The Role of Institutions”. In: *Regional Science and Urban Economics* 37.3, pp. 283–313.
- Imai, Kosuke and Jeremy M. Weinstein (2000). “Measuring the Economic Impact of Civil War”. In: *Working Paper*.
- Jacobs, Jane (1969). *The Economy of Cities*. Random House.
- (1984). *Cities and the Wealth of Nations: Principles of Economic Life*. Random House.
- Jaffe, Adam B., Manuel Trajtenberg, and Rebecca Henderson (1993). “Geographic Localization of Knowledge Spillovers as Evidenced by Patent Citations”. In: *The Quarterly Journal of Economics* 108.3, pp. 577–598.
- Kang, Seonjou and James Meernik (2005). “Civil War Destruction and the Prospects for Economic Growth”. In: *The Journal of Politics* 67.1, pp. 88–109.
- Kapadia, Reshma (2012). “Is Mexico the New China?” In: *Barron’s*.
- Krugman, Paul R. (1991a). *Geography and Trade*. MIT press.

- Krugman, Paul R. (1991b). “Increasing Returns and Economic Geography”. In: *Journal of Political Economy* 99.31, pp. 483–499.
- (1997). *Development, Geography, and Economic Theory*. Vol. 6. MIT press.
- Lucas, Robert E. (1988). “On the Mechanics of Economic Development”. In: *Journal of Monetary Economics* 22, pp. 2–42.
- Marshall, Alfred (1920). *Principles of Economics*. New York: Macmillan.
- Marshall, Monty G., T. Gurr, and Keith Jagers (2013). *Polity IV Project*. URL: <http://www.systemicpeace.org/inscr/inscr.htm>.
- Miguel, Edward, Shanker Satyanath, and Ernest Sergenti (2004). “Economic Shocks and Civil Conflict: An Instrumental Variables Approach”. In: *Journal of Political Economy* 112.4, pp. 725–753.
- Murdoch, James C. and Todd Sandler (2002a). “Civil wars and economic growth: A regional comparison”. In: *Defence and Peace Economics* 13.6, pp. 451–464.
- (2002b). “Economic Growth, Civil Wars, and Spatial Spillovers”. In: *Journal of Conflict Resolution* 46.1, pp. 91–110.
- Myrdal, Gunnar and Paul Sitohang (1957). “Economic Theory and Under-Developed Regions”. In:
- Pierskalla, Jan H. and Florian M. Hollenbach (2013). “Technology and Collective Action: The Effect of Cell Phone Coverage on Political Violence in Africa”. In: *American Political Science Review* 107.2, pp. 207–224.
- Rabasa, Angel and Peter Chalk (2001). *Colombia Labyrinth: The Synergy of Drugs and Insurgency and Its Implications for Regional Stability*. Monograph Reports. RAND Corporation.
- Rasler, Karen and William R. Thompson (1985). “War and the Economic Growth of Major Powers”. In: *American Journal of Political Science* 29.3, pp. 513–538.
- Sachs, Jeffrey (2006). *The End of Poverty: Economic Possibilities for Our Time*. Penguin.

- Serneels, Pieter and Marijke Verpoorten (2013). “The Impact of Armed Conflict on Economic Performance Evidence from Rwanda”. In: *Journal of Conflict Resolution*, p. 0022002713515409.
- Themnér, Lotta and Peter Wallensteen (2014). “Armed Conflicts, 1946–2013”. In: *Journal of Peace Research* 51.4, pp. 541–554.
- Tollefsen, Andreas Forø, Håvard Strand, and Halvard Buhaug (2012). “PRIO-GRID: A Unified Spatial Data Structures”. In: *Journal of Peace Research* 49.2, pp. 363–374.
- Vardi, Nathan (2012). “The Mexican Miracle: Despite Drug War, Economy Is Booming”. In: *Forbes*.
- Vargas, Juan and Oeindrilla Dube (2013). “Commodity price shocks and civil conflict: evidence from Colombia”. In: *The review of economic studies* 80.4, pp. 1384–1421.
- Venables, Anthony J. (2005). “Spatial Disparities in Developing Countries: Cities, Regions, and International Trade”. In: *Journal of Economic Geography* 5.1, pp. 3–21.
- Vincenty, Thaddeus (1975). “Direct and Inverse Solutions of Geodesics on the Ellipsoid with Application of Nested Equations”. In: *Survey Review* 23.176, pp. 88–93.

SHAHRYAR MINHAS: DEPARTMENT OF POLITICAL SCIENCE

Current address: Duke University, Durham, NC, 27708, USA

E-mail address: shahryar.minhas@duke.edu

BENJAMIN RADFORD: DEPARTMENT OF POLITICAL SCIENCE

Current address: Duke University, Durham, NC, 27708, USA

E-mail address: benjamin.radford@duke.edu