

# Effect of Political Instability on Economic Development

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April 2, 2014

## Puzzle

High variation in economic performance between countries in the midst of internal armed conflict

- Mexico
- India
- Nicaragua

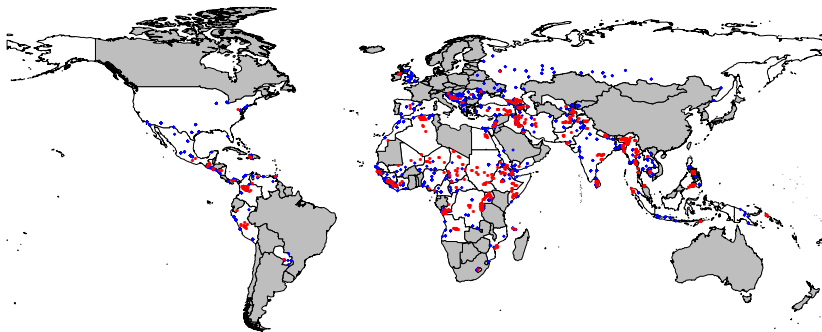
- Civil War → Economic Performance
- Economic Performance → Civil War
- Disaggregating Civil Wars

## Our argument

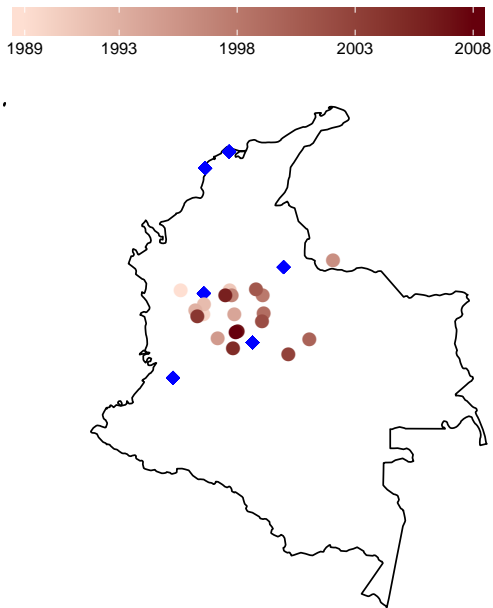
State economic performance in countries experiencing civil conflict is conditional on the proximity of conflict from major population, economic, and resource centers

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

# Conflict & City Data



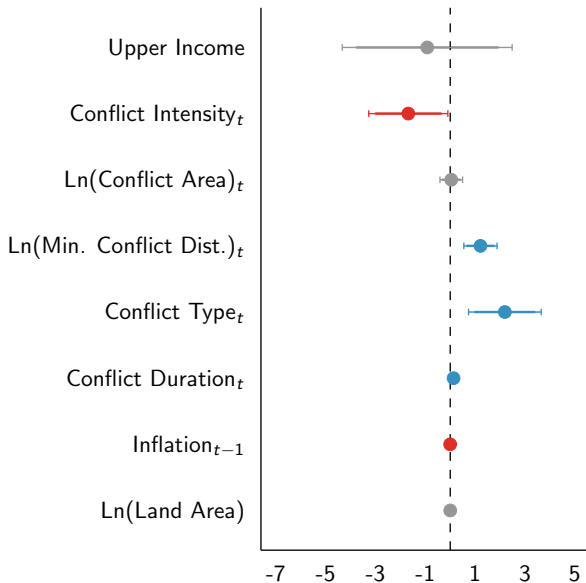
# Aggregating to Country-Year



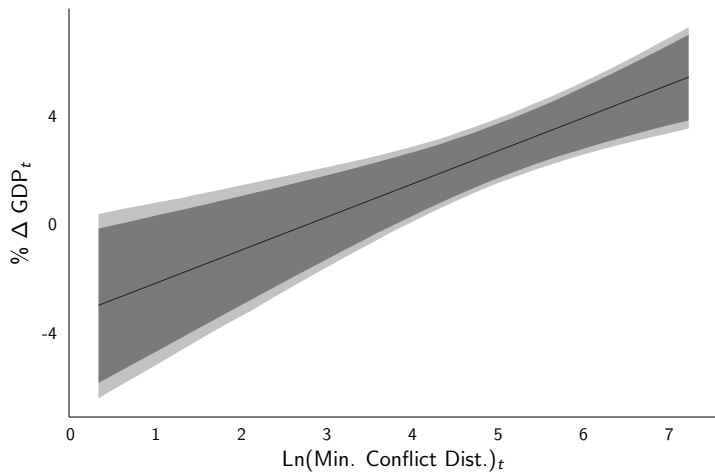
$$\begin{aligned}\% \Delta GDP_{i,t} = & \beta_1(\textit{Upper Income}_{i,t}) \\ & + \beta_2(\textit{Conflict Intensity}_{i,t}) + \beta_3(\textit{Ln}(\textit{Conflict Area})_{i,t}) \\ & + \beta_4(\textit{Ln}(\textit{Min. Conflict Dist.})_{i,t}) + \beta_5(\textit{Conflict Type}_{i,t}) \\ & + \beta_6(\textit{Conflict Duration}_{i,t}) + \beta_7(\textit{Inflation}_{i,t-1}) \\ & + \beta_8(\textit{Ln}(\textit{Land Area})_{i,t}) + \alpha_i + \gamma_t + \mu_{i,t}\end{aligned}$$



# Findings



# Substantive Effects



## Conclusions

- Novel approach in the study of civil conflict to distinguish between spatially dissimilar events
- Proximity of conflict to major cities explains disparate economic outcomes

## Next Steps

- Account for other economically important locations (e.g., oil fields)
- Alternative methods to address aggregation problem
- More refined analysis within a country using subnational economic data