Effect of Political Instability on Economic Development

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Motivating Question

Puzzle

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

- Mexico
- India
- Nicaragua

Literature Review

- Civil War $\rightarrow$ Economic Performance
  - Collier (1999) - *destruction, disruption, diversion, dissaving, portfolio substitution*
  - Kang & Meernik (2005) - seek to explain rapid or stagnant post-war recovery
- Economic Performance $\rightarrow$ Civil War
  - Collier et al. (2003) - the conflict trap
  - Miguel et al (2004) - rainfall IV for economic shocks
- Disaggregating Civil Wars
  - Pierskalla & Hollenbach (2013) - cell phone coverage $\rightarrow$ rebel mobilization

Disaggregating Conflict and Growth

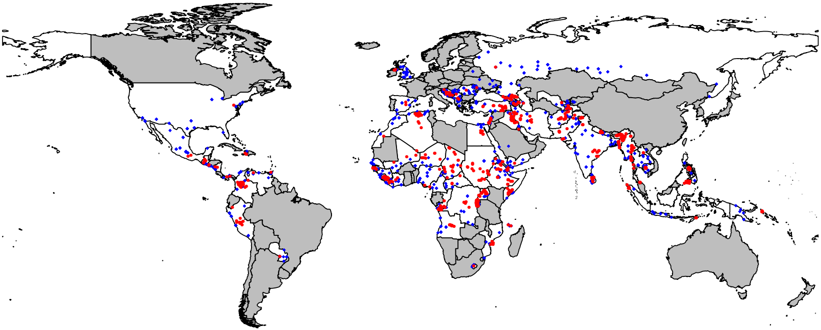
Our argument

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

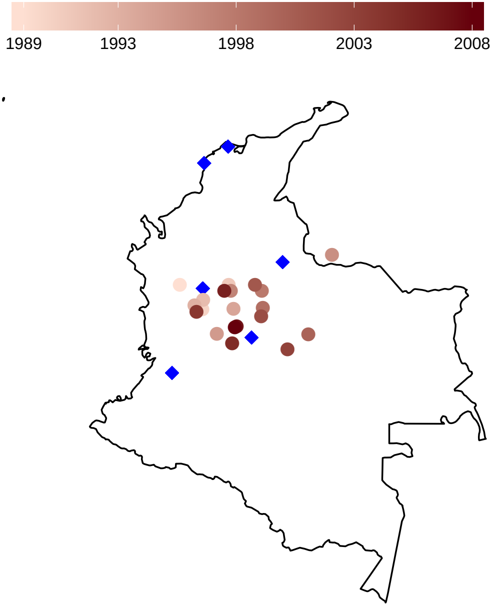
FARC guerillas & the Colombian government

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, FARCs modus operandi was mainly racketeering, kidnappings and extortion. (Flannery 2012)

Conflict & City Data



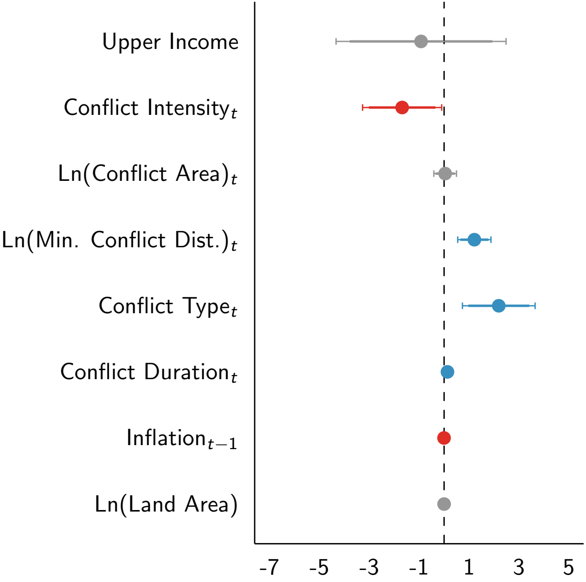
Aggregating to Country-Year



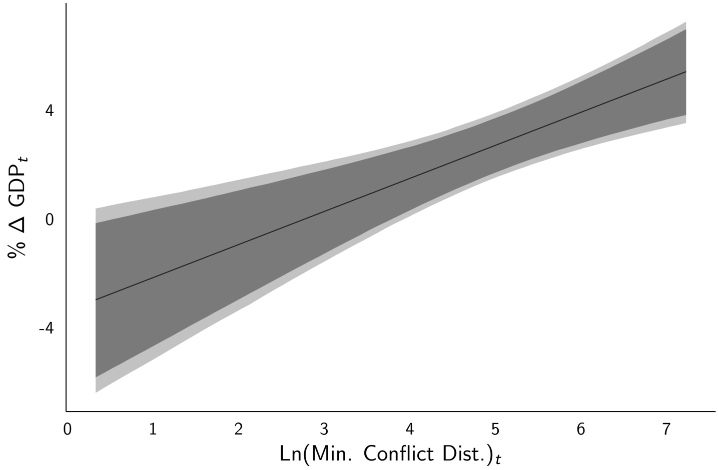
Estimation Approach

$$
\begin{aligned}
\%\Delta GDP_{i,t} = {} & \beta_1(Upper\ Income_{i,t}) \\
& +\ \beta_2(Conflict\ Intensity_{i,t})\ +\ \beta_3(Ln(Conflict\ Area)_{i,t}) \\
& +\ \beta_4(Ln(Min.\ Conflict\ Dist.)_{i,t})\ +\ \beta_5(Conflict\ Type_{i,t}) \\
& +\ \beta_6(Conflict\ Duration_{i,t})\ +\ \beta_7(Inflation_{i,t-1}) \\
& +\ \beta_8(Ln(Land\ Area)_{i,t})\ +\ \alpha_i + \gamma_t + \mu_{i,t}
\end{aligned}
$$

Findings


Upper Income
Conflict Intensity$_t$
Ln(Conflict Area)$_t$
Ln(Min. Conflict Dist.)$_t$
Conflict Type$_t$
Conflict Duration$_t$
Inflation$_{t-1}$
Ln(Land Area)
-7
-5
-3
-1
1
3
5

Substantive Effects



Conclusions & Next Steps

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