

Effect of market development and macroeconomic policy on diplomatic relations and peaceful dispute resolution

Market development and macroeconomic policies show large effects on improving diplomatic relations and supporting peaceful dispute resolution.

Geographical region: Sub Saharan Africa

Effect: Large effect (g=0.372)

Confidence in study findings: Low (2 studies with 2 effect sizes)

Short Summary

Market development and macroeconomic policies, including economic reforms and aid from institutions show large effects in improving diplomatic relations and reducing ethnic tensions in fractionalized societies. Evidence from two impact evaluations and one qualitative study indicates that these interventions can support peaceful dispute resolution. However, in highly polarized or exclusionary contexts, such measures may worsen social inequalities and tensions, showing that outcomes are context-dependent.

Long summary

The intervention

The interventions include economic reforms and aid programs introduced by international financial institutions, such as fiscal discipline, market liberalization, and structural adjustment measures. These policies are designed to stabilize economies, correct fiscal imbalances, enhance market functioning, and promote economic resilience in financially fragile or post-conflict countries.

How the intervention is expected to work

These interventions aim to restore macroeconomic stability by strengthening fiscal management, optimizing resource allocation, and attracting investment. By stabilizing economic conditions, the measures can mitigate social and ethnic tensions and foster diplomatic engagement. However, they may also increase socio-economic disparities, particularly affecting disadvantaged or excluded groups. The effectiveness of these policies depends on institutional capacity, inclusive implementation, and the pre-existing social and ethnic context, which shape their broader impact on social cohesion and peace.

The evidence base

The cell contains 2 impact evaluations and 1 qualitative study.

The first impact evaluation utilizes data from 70 developing countries between 1985 and 2006. Meanwhile, the second impact evaluation study analyzes data from 53 African countries. The qualitative study is set in Sudan.

Evidence findings

Economic aid and macroeconomic reforms show large effects in improving diplomatic relations and reducing ethnic tensions in post-conflict settings. However, structural reforms may deepen inequalities and exacerbate tensions in polarized or exclusionary contexts, highlighting the importance of implementation context.

Included studies

Emmanuel (2015) investigates the role of economic aid as a peace incentive in post-conflict African countries. It examines how changes in donor aid patterns, particularly increases in economic assistance following peace agreements, can influence the success and longevity of peace processes. The context of the study spans across 53 African countries, focusing on peace processes from 1989 to 2006. The research utilizes a longitudinal dataset comprising 1,166 observations from 53 African countries over 22 years (1989–2010). The study employs various statistical techniques, including Generalized Least Squares (GLS) random-effects regression, to analyze the data. The analysis considers six explanatory variables: aid change, conflict intensity, state capacity, level of democracy, peacekeeping, and military victory. The dependent variable is the success of peace processes, defined as maintaining peace for at least five years post-agreement. The study finds that economic aid plays a significant role in supporting peace processes. The aid change variable is positive and highly significant, indicating that increased economic assistance after a peace agreement enhances the likelihood of sustaining peace. The presence of peacekeeping troops also positively impacts peace maintenance, although peacekeeping shows a negative relationship. The study concludes that donor economic aid is a critical element in achieving lasting peace, suggesting that substantial development assistance can provide strong incentives for peace. The study is rated low due to its little description of the evaluation questions.

Vadlamannati (2014) examines the relationship between IMF interventions and ethnic tensions in developing countries from 1985 to 2006. The authors investigate whether IMF programs disrupt ethnic peace or have a pacifying effect on ethnic relations. The authors use unique data from the International Country Risk Guide (ICRG) that measures the degree of ethnic tension in a country. They analyze a sample of developing countries over two decades (1985-2006). The key independent variable is IMF intervention, measured as countries being under an IMF loan program for more than five months in a particular year. The results show that contrary to common perceptions, IMF interventions reduce ethnic tensions rather than exacerbating them. The pacifying effect of IMF programs is stronger in highly fractionalized societies. However, IMF interventions can increase ethnic tensions when there is a large ethnic minority group (20% or more of the total population) that is excluded from political power. The authors find no evidence to suggest that IMF programs increase ethnic tensions overall. The study rated high and medium confidence quantitative study as the authors have taken appropriate steps to ensure the credibility and confidence in their study findings. The study is rated low due to its little description of the intervention.

Confidence Assessment

Overall low: The study is rated as low confidence due to limited number of studies.