

Effect of market development and macroeconomic policy on nature and scale of violence or atrocities

Market development and macroeconomic policies show **small effects** on reducing violence and instability, though they can sometimes exacerbate conflict by increasing inequalities or fostering dependency

Geographic region: Sub Saharan Africa, South Asia, Global, Latin America and Caribbean, Middle East and North Africa

Effect: Small effect (g=0.017)

Confidence in study findings: Medium (8 studies with 73 effect sizes)

Short Summary

Market development and macroeconomic interventions, such as foreign aid, economic liberalization, and structural reforms, have small impacts on the nature and scale of violence in conflict-prone areas. Evidence suggests that these policies can reduce violence by addressing economic grievances and promoting stability, but they may also worsen conflict by increasing competition for resources, fostering dependency, or becoming targets for insurgents. Effectiveness depends on factors such as aid allocation, governance capacity, timing, and complementary security measures. Overall, the cell has medium confidence due to mixed outcomes and inconsistency across studies.

Long summary

The intervention

Market development and macroeconomic policies include foreign aid programs, economic liberalization, and structural reforms designed to improve stability and reduce conflict. Interventions in the included studies consisted of targeted foreign aid to post-conflict regions, trade liberalization efforts to foster long-term economic growth, and local development programs aimed at reducing grievances and promoting resilience. These initiatives were implemented by governments, international financial institutions, and donor organizations across various countries, including Sierra Leone, Pakistan, Burundi

How the intervention is expected to work

Market and macroeconomic interventions influence violence and atrocities through multiple mechanisms. Economic aid can stabilize conflict-prone regions by improving opportunities and reducing grievances that drive violence. However, aid or reforms may also exacerbate conflict in the short term by increasing inequalities, creating economic dislocation, or intensifying competition for resources. The effectiveness of these interventions depends on governance and

institutional capacity, as well as the timing and alignment of policies with local needs. While trade liberalization and structural reforms may support long-term growth and stability, they can temporarily heighten tensions and contribute to conflict if not carefully managed.

The evidence base

This cell includes 8 impact evaluation studies, 1 systematic review, and 1 qualitative study. The study findings tend to vary widely.

The review examined how different kinds of interventions (including economic interventions) affect armed violence in developing and middle-income countries.

The primary studies are set in Sierra Leone (1), Pakistan (1), Burundi (1), Global (1), Africa (3), Peru (1), and Israel & Egypt (1)

Evidence findings

Economic interventions such as foreign aid and trade liberalization have **small effects** on violence and stability. While aid can reduce violence in the short term, it may foster dependency or exacerbate conflict if misaligned with local needs. Trade liberalization can support long-term growth but increase short-term inequalities and conflict risks. Effective interventions require coordination, appropriate timing, and alignment with local governance and security contexts to support sustainable peace.

The review evidence

Findings of the systematic review suggest that wage employment interventions can reduce armed violence in certain contexts. It also emphasized that effects of economic interventions are contingent on timing and how they relate to ongoing armed conflict or post-conflict settings.

The impact evaluation evidence

There are 8 impact evaluations. Eight study summaries are thus provided here:

Arena (2016) & Pechenkina (2016) examine the role of external subsidies, specifically U.S. foreign aid, in maintaining peace between Israel and Egypt following the Yom Kippur War. The intervention context is the Arab-Israeli conflict, where the United States provided substantial economic aid to both Israel and Egypt as a means to manage and stabilize the region post-1973. The research employs a quantitative case study approach, analyzing data from 1948 to 2001 for four dyads: Israel with Egypt, Jordan, Lebanon, and Syria. The study uses a Poisson regression model to assess the impact of U.S. economic aid on the incidence of violent militarized interstate disputes (MIDs) between these countries. The analysis includes variables such as economic aid, parity, and anticipated shifts in power, with data sourced from the Correlates of War data set and U.S. foreign aid records. The findings suggest that U.S. foreign aid significantly reduced the likelihood of violent conflicts between Israel and Egypt after the Camp David Accords. The study indicates that without these subsidies, the number of violent MIDs would have

been substantially higher. The study is rated as medium confidence as it is a non-experimental study.

Bussman et al. (2016) investigates the relationship between economic liberalization and civil conflict in Sub-Saharan Africa, particularly focusing on the effects of structural adjustment programs (SAPs) implemented by the International Monetary Fund (IMF). The authors argue that while long-term trade openness can lead to development and stability, it may also increase the risk of conflict in the short term due to the redistributive effects of liberalization. The context emphasizes the need for a nuanced understanding of how economic policies impact social tensions and political stability. The study employs a quantitative analysis using a dataset that encompasses 90 developing countries from 1978 to 2000, focusing on the effects of trade policies and institutional arrangements. The authors utilize a 7-point ordinal scale to measure exchange arrangements and restrictions. They also include various control variables, such as cultural diversity and historical conflict data, to avoid omitted variable bias. The sample specifically highlights the case of Guinea-Bissau, contrasting it with other cases of civil conflict in the region, such as Rwanda and Burundi, to illustrate the unique dynamics at play. The findings indicate that trade openness has a conflict-reducing impact in the long term, but the short-term effects of liberalization heighten the risk of civil war onset significantly by 170.6%. The study is rated low confidence because the results are robust across various model specifications, suggesting that the relationship between economic liberalization and conflict is complex and context dependent.

Fielding (2012) investigates the dynamics of violence against civilians during the Peruvian civil conflict (1980-2000), particularly focusing on the roles of the Peruvian government and insurgent groups, such as the Sendero Luminoso (SL) and the Movimiento Revolucionario Tupac Amaru (MRTA). It examines how different types of foreign aid and intervention influenced the levels of violence against civilians. The authors argue that while some forms of aid may reduce violence, others can exacerbate it, highlighting the complexity of foreign intervention in conflict settings. The research utilizes data from the Peruvian Truth and Reconciliation Commission (TRC), which documented nearly 70,000 deaths during the conflict, with a significant number of casualties being unarmed civilians. The sample consists of data collected from approximately 17,000 witnesses to violence, analysis focuses on monthly observations of violence, including the number of attacks initiated by government forces and insurgents, as well as civilian casualties resulting from these attacks. The study finds a strong cyclical relationship between government and insurgent violence, where increases in violence by one side often provoke retaliatory violence from the other. The analysis reveals that the type of foreign aid provided to the Peruvian government significantly influenced the levels of violence against civilians. For instance, military aid with high fungibility was associated with increased violence against civilians, while development aid with low fungibility tended to have a mitigating effect. The study is rated low confidence quantitative study as potential biases in reporting, particularly for rural events.

Gehring (2022) investigates the effects of Chinese and World Bank aid on stability across African regions. It explores the distinct approaches these donors take, with the World Bank promoting democracy, transparency, and human rights, while China emphasizes economic growth with fewer democratic conditions and a stronger tolerance for authoritarian regimes. The paper employs a quasi-experimental design using fixed effects and instrumental variable (IV) approaches, integrating geo-referenced data on aid projects from both donors with subnational measures of stability. The dataset matches the location of aid projects to conflict data to examine variations in stability outcomes across different African regions. The sample includes 728 first-order subnational regions across 45 African countries, analyzing aid data from 1995 to 2012 for

the World Bank and 2000 to 2012 for Chinese aid. Subnational stability measures include indicators for conflicts, government repression, and citizen protests. The study finds that neither Chinese nor World Bank aid significantly fuels conflict. Chinese aid is linked with higher levels of government repression and greater acceptance of authoritarian norms. The study is rated high and medium confidence quantitative study.

Ito (2020) examines how foreign aid impacts conflict dynamics in sub-Saharan Africa. It theorizes that aid can both escalate battle intensity in conflict zones (by motivating rebels to disrupt aid projects) and relocate combat activities from neighbouring areas due to resource constraints on rebel forces. The study uses a quasi-experimental design, analyzing geo-referenced data on aid distribution and conflict events. The sample consists of 22 sub-Saharan African states from 1989 to 2008, with 6,369 geo-coded aid project records and 17,846 battle events. Data is divided into grid cells of various sizes (30-100 km) to capture the local effects of aid on battle intensity. Aid provision in targeted regions was associated with a 111% increase in battle intensity showing heightened conflict where aid is directly provided. Aid given in nearby regions was associated with a 40% decrease in battle events suggesting that resources limit conflict escalation across regions. The study is rated low confidence quantitative study as potential measurement errors in data especially in conflict zones where data collection is challenging, insufficient control for spillover effects and oversimplified interpretation of complex social and economic conditions. In addition, unobserved variables—like local political alliances, specific donor priorities, or secret government arrangements with rebels—could still influence where aid is allocated. The study is rated low due to its little description of the intervention.

Magee (2011) examines the relationship between economic openness and internal conflict. The authors investigate whether openness reduces internal conflict and whether internal conflict reduces openness. The study uses an unbalanced panel dataset of 137 countries from 1950 to 2004. The authors use two measures of openness: (1) the natural log of a country's total exports plus imports as a share of GDP, and (2) the number of years the country has been classified as economically open based on the Sachs & Warner (1995) classification. Internal conflict is measured using both a civil war dummy variable and an events-based measure. The authors find a negative correlation between openness and conflict, but this is primarily because internal conflict causes a decline in openness rather than because higher levels of openness reduce conflict. When controlling for endogeneity, trade openness does not significantly reduce internal conflict. The study rated as high and medium confidence quantitative study.

McDougal (2014) examines the effects of agricultural cooperatives on land conflicts, inequality, violence, and community trust in three Burundian villages. Burundi has a history of ethnic tensions and violence, with the Tutsi minority controlling the government and military, and the Hutu majority facing exclusion and repression. The study uses a pseudo-difference-in-differences (DiD) analysis on a cross-sectional dataset of 95 community members in three different villages in which the cooperative has been, or is becoming, operational. In two communities, cooperatives have been operational for 3 years, while in the third, a cooperative membership had just formed, but no harvests had yet been made. The interaction between cooperative membership and being in a cooperative village is positive and significant indicating that cooperative members report more violence toward themselves or their acquaintances. The study is rated medium due to its partial description of the outcomes and intervention.

Tahir (2015) examines the relationship between foreign aid and conflict in Pakistan. It provides evidence that the incompatibility between the strategic objectives of aid donors and the

development needs of the recipient country can lead to perpetual and multidimensional domestic conflict. The study uses count data methods to analyze the impact of aid, social sector spending, regime changes, and demographic factors on conflict in Pakistan. At the aggregate level, social sector spending, regime changes, and youth bulge are positively and significantly related to conflict in Pakistan. The impact of aid per capita on conflict is mixed, being significant for terrorism data but insignificant for armed conflict data. At the project level, conflict is strongly related to aid commitment and purpose, indicating that discrepancies in aid allocation and commitment may exacerbate conflict. The study rated low confidence quantitative study as limitations in the data, potential confounding factors, inconsistent findings, and limitations in the study design.

Confidence Assessment

Overall confidence is medium, due to inconsistency in effect sizes across the included impact evaluation studies.

Link to review summaries

Cramer (2016)

All studies may be accessed via the EGM.

Other outcomes in this study:

Social cohesion / feelings of trust & acceptance of diversity